

QUARTERLY REPORT '10



CEO Message to Investors

On behalf of our board of directors and management I welcome shareholders and prospective shareholders to our second quarter 2010 financial report. We are pleased to announce a very strong quarter despite current headwinds in the agricultural sector. Revenues and EBITDA for the three months ended June 30, 2010 were \$72.4 million and \$19.6 million respectively. In the corresponding quarter in 2009 we reported revenues of \$66.8 million with EBITDA of \$20.0 million.

For the first six months of 2010 we had revenues of \$124.0 million compared to \$122.1 million in the same period of 2009. EBITDA for the equivalent periods were \$32.0 million and \$31.0 million, respectively.

We are facing significant foreign exchange headwinds given the pronounced appreciation of the Canadian dollar relative to the US dollar in the first six months of 2010 in comparison to the first half of 2009. If six months revenues had been realized at the same exchange rate as 2009, the revenue line would have actually reflected 10% growth. We cannot set back the clock on the currency, but this demonstrated the true strength of the first half of 2010 measured on a unit volume basis.

We are particularly pleased that we were able to maintain margins at 40% versus 42% in the same period of 2009 in light of a strongly disadvantageous exchange rate. Barring a continued aggressive appreciation of the dollar, the currency impact in the second half of 2010 should be less pronounced when compared to the second half of 2009.

The first half of 2010 had several negative fundamentals affecting performance compared to 2009. I have always said to investors that our biggest risk factor was drought given its effect on grain volumes, our primary driver. I have been quick to discount excessive moisture as rarely having a material impact on volumes given our geographic diversification. However, I was proved wrong this spring with unprecedented rainfall and flooding in Western Canada.

Many areas experienced precipitation that was 400% of the long term average during seeding season. This resulted in significant reductions in seeded acreage particularly in Saskatchewan, the largest grain producing province in Canada. Up to 20% of the Saskatchewan acreage did not get planted. To exacerbate the problem, large tracts of seeded acreage were flooded and will be negatively impacted. This has affected order volumes for portable handling and grain storage in Western Canada. If history is a lesson, we would expect inventory carryover as we enter preseason ordering for next year. However, continued strong sales for aeration and fans are being supported by the wet and late conditions faced by farmers for this year's harvest.

On the flip side of the coin, the US (our dominant market) experienced ideal seeding conditions. This establishes a platform for another record corn and soybean crop, compounding the problem of huge grain stockpiles in the Midwest. The most recent

USDA crop report indicates 72% of corn and 67% of soybeans are in the coveted “good” to “excellent” category. This is slightly ahead of last year which also experienced positive growing conditions and well ahead of the long term average. Coupled with increased seeded acreage for these crops, the conditions are set for the possibility of another record harvest.

Some softness was experienced in dealer ordering of our core grain auger product line in the first half of the year. However, given the fundamental outlook, we maintained an aggressive build rate in anticipation of strong third quarter demand in the event of a large crop. That decision appears to be paying off as we are experiencing a strong rebound in dealer ordering as we approach the harvest season.

Our commercial equipment divisions are experiencing a very strong year compared to 2009. Order backlogs are substantially up from last year as a result of a rebound in credit markets. Tight credit negatively impacted the capital expenditure programs of grain handling facilities in the US over the last couple of years. With a return to more normal credit conditions, spending on upgrading handling infrastructure has resumed. We feel that with ever increasing grain volumes in the domestic market to be handled, there is a grain handling infrastructure deficit to be addressed in the years ahead. This bodes well for our commercial divisions and validates our diversification into this space in the last several years.

In summary, weakness in the Canadian market as a result of disastrous moisture conditions are being offset by solid demand in the US farm market and a resurgence of activity in the US commercial space. This is a testament to the benefits of our long term strategy to manage risk through geographic diversification and product line expansion. Our strategy is not complex. The challenge has been to maintain the discipline to stay true to it. I am proud that we have maintained that discipline over the years. Coupled with our focus on the grain handling, storage and conditioning sector, which we identified early in our development as a sector with strong long term growth fundamentals, we have been able to return significant value to shareholders who have taken a long term view of our company and our market.

We are experiencing solid growth in our international orders. We believe our international capabilities will be a key growth driver for AGI in the years ahead and we are committed to our strategy of developing these capabilities. Recent turmoil in European credit markets and droughts in Russia continue to provide headwinds in this strategy, but despite this we have been effective in growing revenues in these regions. We recognize that by entering emerging markets we will be faced with geopolitical and economic risks that are greater than in our domestic market. However, the opportunity is tremendous and we are committed to success in these markets. The challenge is to manage risk effectively and have patience. We are convinced that shareholders will ultimately be well rewarded for supporting this new element to our geographic diversification strategy.

We are making headway on our substantial expansion to our Twister division in Nobleford, Alberta. Construction is making strong progress despite delays resulting from excessive rains in the spring. We still anticipate having a greatly expanded and state of the art bin line in place for shipment of product in early 2011. The expansion at our Westfield facility was also affected by adverse weather in the spring but is now tracking to completion in early October. We are excited about increased productivity that will be achieved by consolidation of our Winnipeg production facility into the flow of the main Westfield plant. Also, the addition of a new research and development facility will accelerate our ability to meet demand for larger, higher capacity grain handling solutions as farmers continue to grow their operations and grain volumes continue to increase.

Over the last number of years we have taken substantial steps to address manufacturing capacity constraints that were negatively impacting our growth objectives. These current expansions are a positive continuation of these efforts. We are now scrutinizing our capacity to assure that it is sufficient at our commercial divisions if anticipated growth continues.

We continue to pursue accretive acquisition and capital expenditure opportunities to create value consistent with our business plan. We have the benefit of strong free cash flow and a strong balance sheet to effectively capitalize on opportunities as they arise.

Again, we thank our investors for their support since becoming a public company and assure you that management, employees and the board of directors continues to work hard to create value for our stakeholders. We look forward to a solid second half finish and we are excited about the prospects as we prepare for 2011 and the many continued growth opportunities in the years ahead.

Yours truly,

Signed
Rob Stenson
CEO, AGI

**AG GROWTH INTERNATIONAL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 11, 2010**

Ag Growth International Inc. ("Ag Growth" or the "Company") acquired its predecessor, Ag Growth Income Fund (the "Fund"), on June 3, 2009 pursuant to a statutory plan of arrangement under the Canada Business Corporations Act. Pursuant to the arrangement, Ag Growth acquired all of the trust units of the Fund in exchange for common shares of Ag Growth, and the Fund was "converted" from an open-ended limited purpose trust to a publicly listed corporation (the "Conversion"). See "Conversion to a Corporation". Ag Growth conducts business in the grain handling, storage and conditioning market.

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 for the year ended December 31, 2009 and the unaudited interim consolidated financial statements of the Company for the three and six month periods ended June 30, 2010. Results are reported in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles. Throughout this MD&A references are made to "EBITDA", "adjusted EBITDA", "gross margin", "funds from operations" and "payout ratio". A description of these measures and their limitations are discussed below under "Non-GAAP Measures". See also "Risks and Uncertainties" in this MD&A and in our most recently filed Annual Information Form, and "Forward-Looking Statements" below.

Information in this MD&A reflects Ag Growth as a corporation on and subsequent to June 3, 2009 and as the Fund prior thereto. All references to "common shares" refer collectively to Ag Growth's common shares on and subsequent to June 3, 2009 and to the Fund's trust units prior to the Conversion. All references to "dividends" refer to dividends paid or payable to holders of Ag Growth common shares on and subsequent to June 3, 2009 and to distributions paid or payable to Fund unitholders prior to Conversion. All references to "shareholders" or "security holders" refer collectively to holders of Ag Growth's common shares on and subsequent to June 3, 2009 and to Fund unitholders prior to the Conversion. References to the "Share Award Incentive Plan" should be read as references to the "Unit Award Incentive Plan" for all periods prior to the Conversion.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements that reflect our expectations regarding the future growth, results of operations, performance, business prospects, and opportunities of the Company. Forward-looking statements may contain such words as "anticipate", "believe", "continue", "could", "expects", "intend", "plans", "will" or similar expressions suggesting future conditions or events. In particular, the forward looking statements in this MD&A include statements relating to the benefits of the Conversion, the benefits of the acquisition of Mepu Oy (see "Acquisitions"), our business and strategy, including 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, our working capital and capital expenditure requirements, capital resources and the payment of dividends. Such forward-looking statements reflect our current beliefs and are based on information currently available to us, including certain key expectations and assumptions concerning anticipated financial performance, business prospects, strategies, product pricing, regulatory developments, tax laws, the sufficiency of budgeted capital

expenditures in carrying out planned activities, foreign exchange rates and the cost of materials, labour and services. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from results discussed in the forward-looking statements, including changes in international, national and local business conditions, crop yields, crop conditions, seasonality, industry cyclicality, volatility of production costs, commodity prices, foreign exchange rates, and competition. In addition, actual results may be materially impacted by the pace of recovery from the recent global economic crisis, including the cost and availability of capital and the possibility of deterioration in the Company's working capital position. These risks and uncertainties are described under "Risks and Uncertainties" in this MD&A and in our most recently filed Annual Information Form. Although the forward-looking statements contained in this MD&A are based on what we believe to be reasonable assumptions, 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.

OPERATING RESULTS

Sales and EBITDA for the three and six month periods ended June 30, 2010 approximated the record levels established in 2009 despite significant foreign exchange headwinds. Positive agricultural fundamentals in the U.S. have resulted in strong demand for portable grain handling equipment and a significant increase in sales of commercial equipment. Demand for commercial grain handling equipment has increased significantly in both the domestic and international markets largely due to an improvement in macro-economic conditions. Sales in Canada have decreased compared to the prior year, largely due to poor crop conditions that resulted from excessive moisture during the seeding period.

Sales for the three and six month periods ended June 30, 2010, excluding the results of recently acquired Mepu (see "Acquisitions"), were \$69.0 million and \$120.6 million, respectively (2009 - \$66.8 million and \$122.1 million). Reported sales in 2010 were negatively impacted by the stronger Canadian dollar. Had the foreign exchange rates experienced in 2009 been in effect in 2010, reported sales for the three and six month periods ended June 30, 2010, excluding Mepu, would have been approximately \$76.3 million and \$134.1 million, representing increases of 14% and 10% over the same periods in 2009.

Gross margin as a percentage of sales for the three and six months ended June 30, 2010 was 40% in both periods (2009 - 42% in both periods). Gross margin percentages in 2010 continued to benefit from the operating efficiencies and high throughput experienced in 2009, and also benefited from a decrease in material costs compared to the prior year. Gross margin was negatively impacted by the stronger Canadian dollar and the Company's consolidated gross margin percentage decreased in part due to the sales mix amongst Ag Growth's divisions compared to the prior year.

Adjusted EBITDA (see "non-GAAP measures") for the three months ended June 30, 2010 was \$18.8 million (2009 - \$18.2 million). EBITDA at Ag Growth's existing divisions approximated the record-setting levels established in 2009, and with the addition of the EBITDA from Mepu the Company's consolidated EBITDA exceeded the prior year. Adjusted EBITDA for the six months ended June 30, 2010 decreased to \$29.1 million from \$31.3 million in the prior year, as continued strong demand and operating efficiencies were negatively impacted by the rate of foreign exchange.

NORTH AMERICAN CROP CONDITIONS

United States

Crop conditions in the U.S. continue to be very favourable. Per the USDA Weekly Weather and Crop Bulletin, as at July 27, 2010, 72% of corn and 67% of soybean was classified as “Good” or “Excellent”. In 2009, a record year for production of both corn and soybean, the classifications at this point were 70% for corn and 67% for soybean. In addition to favourable crop development, the USDA estimates that total acres seeded to corn and soybean have increased by approximately 2% compared to the prior year.

Current conditions point towards another very strong harvest in the U.S. which should be supportive of demand for Ag Growth products. In 2009, sales to the U.S. market accounted for approximately 67% of the Company’s total sales.

Western Canada

Due to unprecedented moisture many farmers in western Canada were unable to seed their crop in 2010. In addition, a large area of seeded crop was subsequently damaged by the excessive moisture. Estimates of the ultimate impact on crop production vary widely and a more accurate picture of the situation will likely not be known until Statistics Canada releases updated acreage and yield estimates on August 20th. The Canadian Wheat Board recently forecast a 17% decrease in wheat production compared to the prior year.

A decrease in crop production will negatively impact Ag Growth’s sales of farm level equipment in western Canada, which in 2009 accounted for approximately 25% of the Company’s total sales.

ACQUISITIONS

Ag Growth acquired 100% of the outstanding shares of Mepu Oy (“Mepu”), on April 29, 2010, for cash consideration of \$11.3 million, plus costs related to the acquisition estimated to be \$0.6 million and the assumption of a \$1.1 million operating line. The acquisition was funded from cash on hand. Mepu is a Finland based manufacturer of grain drying systems and other agricultural equipment. The inclusion of the assets, liabilities and operating results of Mepu Oy impacts comparisons to 2009.

OPERATING RESULTS (thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Sales	\$72,358	\$66,840	\$123,997	\$122,129
Cost of goods sold (2)	<u>43,637</u>	<u>38,466</u>	<u>74,984</u>	<u>70,971</u>
Gross margin	<u>28,721</u>	<u>28,374</u>	<u>49,013</u>	<u>51,158</u>
General and administration	8,674	8,366	17,106	16,686
Other expenses (1)	129	226	241	353
Stock based compensation	1,115	1,541	2,611	2,859
Corporate conversion (2)	0	1,745	0	1,745
Loss (gain) on foreign exchange	(779)	(1,722)	(2,959)	306
Interest expense	3,105	565	6,234	1,277
Amortization	<u>2,175</u>	<u>2,084</u>	<u>4,004</u>	<u>4,092</u>
Earnings before tax	14,302	15,569	21,776	23,840
Current income taxes	1,625	931	1,720	164
Future income taxes	<u>234</u>	<u>(1,793)</u>	<u>1,188</u>	<u>(2,882)</u>
Net earnings for the period	<u>\$12,443</u>	<u>\$16,431</u>	<u>\$18,868</u>	<u>\$26,558</u>
Net earnings per share				
Basic	<u>\$0.97</u>	<u>\$1.29</u>	<u>\$1.45</u>	<u>\$2.08</u>
Fully diluted	<u>\$0.90</u>	<u>\$1.27</u>	<u>\$1.42</u>	<u>\$2.05</u>
EBITDA (2)(4)	<u>\$19,582</u>	<u>\$19,963</u>	<u>\$32,014</u>	<u>\$30,954</u>
Adjusted EBITDA (2)(3)(4)	<u>\$18,803</u>	<u>\$18,241</u>	<u>\$29,055</u>	<u>\$31,260</u>

(1) Research and development, capital taxes and other expense (income).

(2) See “non-GAAP Measures”.

(3) Excludes the loss (gain) on foreign exchange.

(4) Excludes Conversion costs.

ASSETS AND LIABILITIES (thousands of dollars)	June 30 2010	June 30 2009
Total assets	\$379,845	\$301,636
Total liabilities	\$211,886	\$149,705

Dividends Declared

The table below summarizes dividends and distributions declared to security holders of Ag Growth and the Fund for the three and six months ended June 30, 2010 and 2009. The Company's dividend policy is described in the "Dividends" section of this MD&A.

DIVIDENDS (thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Trust units	\$0	\$4,289	\$0	\$10,724
Class B units (1)	0	46	0	116
Common shares	<u>6,631</u>	<u>2,199</u>	<u>13,332</u>	<u>2,199</u>
Total	<u>\$6,631</u>	<u>\$6,534</u>	<u>\$13,332</u>	<u>\$13,039</u>

- (1) Prior to Conversion, there were 136,085 Class B Exchangeable units outstanding in a subsidiary of the Fund that were exchangeable for Fund Trust units at the option of the holder on a one-for-one basis at any time.

Sales

Sales for the three and six months ended June 30, 2010 were \$72.4 million and \$124.0 million, respectively. Excluding Mepu, sales were \$69.0 million and \$120.6 million, compared to \$66.8 million and \$122.1 million in the same periods in 2009:

- The favourable comparison to record-setting 2009 sales was achieved despite a significant negative impact from the rate of foreign exchange. Had the foreign exchange rates experienced in 2009 been in effect in 2010, reported sales for the three and six months ended June 30, 2010 would have been approximately \$76.3 million and \$134.1 million, respectively, representing increases of 14% and 10% over the same periods in 2009.
- Sales to the U.S. market are denominated in U.S. dollars. In the three and six months ended June 30, 2010, sales in the U.S. in U.S. dollars were \$45.7 million and \$76.4 million, representing increases of 28% and 20% compared to the same periods in the prior year. The increases were primarily the result of strong demand for commercial equipment.
- Canadian sales in the three and six months ended June 30, 2010 were \$19.1 million and \$33.3 million respectively, compared to \$19.7 million and \$38.7 million in 2009. The decrease in sales, particularly in the second quarter, is primarily related to poor agricultural conditions in western Canada.
- Total international sales in the three and six months ended June 30, 2010, excluding Mepu, were \$3.2 million (2009 - \$3.2 million) and \$8.1 million (2009 - \$6.6 million), respectively. Sales to developing markets in the six month period were \$4.6 million (2009 - \$2.4 million). Although sales to developing markets continue to be constrained by tight credit conditions, marketing and quoting activity remains very strong and the outlook for these markets remains favourable.

Gross Margin

Gross margin as a percentage of sales for the three and six months ended June 30, 2010 was 39.7% and 39.5%, respectively (2009 – 42.5% and 41.9%). The inclusion of Mepu did not materially impact the consolidated gross margin. The decrease in gross margin percentages compared to 2009 was largely due to the following:

- Gross margin was negatively impacted by the rate of foreign exchange between the Canadian and U.S. dollars. All other factors remaining constant, the gross margin percentages in the three and six month periods in 2010 would have increased to approximately 41% had the effective foreign exchange rates been the same.
- Gross margin percentages in 2010 continued to benefit from the operating efficiencies and high throughput experienced in 2009, and also benefited from a decrease in material costs compared to 2009.
- The Company's consolidated gross margin percentage decreased from 2009 in part due to the sales mix amongst Ag Growth's divisions compared to the prior year.

Rate of Foreign Exchange

The rate of exchange between the Canadian and U.S. dollars may be a significant factor when comparing financial results to prior periods. A stronger Canadian dollar will result in lower sales and lower expenses as transactions denominated in U.S. dollars are translated to Canadian dollars at a lower rate. For the three and six months ended June 30, 2010, sales denominated in U.S. dollars accounted for 69% and 67% , respectively, of total sales (2009 – 68% and 67%) and U.S. dollar denominated expenses equated to 37% and 34% of sales (2009 – 33% and 31%).

Ag Growth's sales denominated in U.S. dollars significantly exceed its purchases denominated in U.S. dollars and as a result a stronger Canadian dollar adversely impacts the Company's financial results. Ag Growth's average rate of exchange per U.S. dollar for the three and six months ended June 30, 2010 was \$1.03 and \$1.04, respectively, compared to \$1.18 and \$1.21 in 2009. Accordingly, the stronger Canadian dollar in 2010 negatively impacted Ag Growth's financial results compared to 2009.

The Canadian dollar strengthened throughout 2009. Ag Growth's average rates of exchange in the third and fourth quarters of 2009 were \$1.11 and \$1.07, respectively. Accordingly, based on prevailing exchange rates, the negative impact of foreign exchange when comparing to 2009 may lessen in the second half of 2010.

For financial statement reporting purposes, Ag Growth translates its U.S. dollar denominated debt to Canadian dollars at the rate of exchange in effect on the balance sheet date. The loss on translating U.S. dollar debt into Canadian dollars for the three and six months ended June 30, 2010 was \$1.1 million and \$0.4 million, respectively (2009 – gains of \$3.7 million and \$2.3 million).

Expenses

Selling, general and administrative expenses for the three months ended June 30, 2010 were \$8.7 million or 12.0% of sales (2009 - \$8.4 million or 12.5%). Excluding Mepu, selling, general and administrative expenses were \$8.3 million, a decrease of \$0.1 million. The decrease was the result of \$0.3 million decrease in commission expense that resulted from a change in sales mix compared to the prior year. A number of miscellaneous items with variances of \$0.1 million or less accounted for the remaining change.

Selling, general and administrative expenses for the six months ended June 30, 2010 were \$17.1 million or 13.8% of sales (2009 - \$16.7 million or 13.7%). Excluding Mepu, selling, general and administrative expenses were \$16.7 million in both 2009 and 2010. Salary expenses increased \$0.5 million compared to 2009 as a result of personnel additions and wage adjustments. This increase was offset by a \$0.5 million decrease in commission expense that resulted from a change in sales mix compared to the prior year. A number of miscellaneous items with variances of \$0.2 million or less accounted for the remaining change.

Other significant items include the following:

- Calculation of the share award incentive plan (“SAIP”) expense is based on the trading price of the Company’s common shares at the balance sheet date and the vesting provisions of the SAIP. For the three and six months ended June 30, 2010, Ag Growth recorded an expense related to the SAIP of \$0.1 million and \$0.7 million, respectively (2009 –\$0.8 million and \$1.7 million).
- Ag Growth’s long-term incentive plan (“LTIP”) provides for annual awards based on a predetermined formula. The awards are expensed over the term of the participant’s vesting period and as a result the expense in 2010 includes a component related to the LTIPs from fiscal years 2007 – 2010. For the three and six months ended June 30, 2010, Ag Growth recorded an expense related to the LTIP of \$1.0 million and \$1.9 million, respectively (2009 - \$0.7 million and \$1.2 million).
- In the three months ended June 30, 2010, the Company recorded a gain on foreign exchange of \$0.8 million (2009 – \$1.7 million) and in the six months then ended recorded a gain of \$3.0 million (2009 – loss of \$0.3 million). The gains in 2010 are primarily comprised of realized gains on foreign exchange contracts, offset by unrealized losses in the three and six months ended June 30, 2010 of \$1.1 million and a \$0.4 million, respectively, on the translation of U.S. dollar denominated debt into Canadian dollars.
- Interest expense for the three and six months ended June 30, 2010 was \$3.1 million and \$6.2 million, respectively (2009 - \$0.6 million and \$1.3 million). Interest expense has increased as the Company raised \$115 million pursuant to a debenture offering in October 2009 to fund future organic growth and acquisition opportunities.

EBITDA and Net Earnings (see discussion of non-GAAP measures)

Adjusted EBITDA for the three and six months ended June 30, 2010 was \$18.8 million and \$29.1 million, respectively (2009 - \$18.2 million and \$31.3 million). EBITDA for the three and six months ended June 30, 2010 was \$19.6 million and \$32.0 million, respectively (2009 - \$20.0 million and \$31.0 million).

The Company’s bank indebtedness as at June 30, 2010 was \$nil (2009 - \$7.3 million) and its outstanding long-term debt was CAD \$26.2 million (2009 - \$55.6 million), comprised of USD \$25.0 million aggregate principal amount of non-amortizing secured notes that bear interest at 6.80% and mature October 29, 2016, net of deferred financing costs of \$0.7 million, a \$0.4 million equipment loan inherited from the Mepu transaction, and \$0.1 million of 0% GMAC financing. The Company is also party to a credit facility with three Canadian chartered banks that includes CAD \$10.0 million and USD \$2.0 million available for working capital purposes, and provides for non-amortizing long-term debt of up to CAD \$38.0 million and USD \$20.5 million. The facilities bear interest at rates of prime plus 0.50 % to prime plus 1.50% based on performance calculations and matures on October 29, 2012. See “Financial Instruments”.

At June 30, 2010 the Company has outstanding \$115 million aggregate principal amount of convertible unsecured subordinated debentures (2009 - \$nil). The Debentures bear interest at an annual rate of 7.0% and mature December 31, 2014. See “Capital Resources”. The Debentures were issued in October 2009 and accordingly there is no similar expense in the three and six months ended June 30, 2009.

Amortization of capital assets for the three and six months ended June 30, 2010 was \$1.3 million and \$2.4 million, respectively (2009 - \$1.3 million and \$2.6 million) and the amortization of intangibles in the three and six months ended June 30, 2010 was \$0.9 million and \$1.6 million, respectively (2009 - \$0.7 million and \$1.5 million).

For the three months and six months ended June 30, 2010, the Company recorded current tax expense of \$1.6 million and \$1.7 million, respectively (2009 – \$0.9 million and \$0.2 million). Current tax expense relates to certain subsidiary corporations of Ag Growth, including its U.S. based divisions. Ag Growth converted from an income trust to a taxable corporation on June 3, 2009 (see “Conversion to a Corporation”). As at June 30, 2010, Ag Growth had net Canadian future tax assets of approximately \$47.8 million, comprised of \$55.4 million of future tax assets available to offset the impact of Canadian taxable income on a go-forward basis less \$7.6 million of future tax liabilities related to temporary differences between accounting and tax values. The Company also has a future tax liability of approximately \$1.2 million related to timing differences with its foreign subsidiaries. For the three and six months ended June 30, 2010, the Company reduced its Canadian tax liability to zero through the utilization of approximately \$1.3 million and \$4.7 million of its future tax assets.

For the three and six months ended June 30, 2010, the Company recorded future tax expense of \$0.2 million and \$1.2 million, respectively (2009 – recoveries of \$1.8 million and \$2.9 million). The future tax expense in 2010 relates to the utilization of future tax assets, net of future tax recoveries related to the decrease in the deferred credit, plus a decrease in future tax liabilities that related to the application of corporate tax rates to reversals of temporary differences between the accounting and tax treatment of depreciable assets, intangibles, reserves, deferred compensation plans and deferred financing fees. The future tax recoveries in 2009 related to a decrease in the provincial SIFT tax factor as was enacted in the first quarter of 2009, the Fund’s conversion to a corporation, the treatment of the Fund’s long-term incentive plan and unit award incentive plan, net of an expense derived primarily from the utilization of future tax assets.

For the three and six months ended June 30, 2010, the Company reported net earnings of \$12.4 million and \$18.9 million, respectively (2009 - \$16.4 million and 26.6 million), basic net earnings per share of \$0.97 and \$1.45 (2009 - \$1.29 and \$2.08), and fully diluted net earnings per share of \$0.90 and \$1.42 (2009 - \$1.27 and \$2.05). The decrease in net earnings and earnings per share compared to the prior year is primarily due to the impact of interest expense in 2010 and an income tax recovery in 2009. Ag Growth’s interest expense increased in 2010 as it raised \$115 million pursuant to a debenture offering in October 2009 to fund future organic growth and acquisition opportunities. In 2009, the company recorded non-cash future tax recoveries related to its conversion to a corporation and to a change in effective tax rates. These tax recoveries were not expected to reoccur in 2010.

Quarterly Financial Information (thousands of dollars):

2010					
	Average Rate of FX	Sales	Gain (Loss) on FX	Net Earnings (Loss)	Diluted earnings per Share
Q1	\$1.05	\$51,639	\$ 2,180	\$6,425	\$0.48
Q2	\$1.03	72,358	779	12,443	\$0.90
Q3					
Q4					
YTD 2010	\$1.04	\$123,997	\$2,959	\$18,868	\$1.42

2009					
	Average Rate of FX	Sales	Gain (Loss) on FX	Net Earnings (Loss)	Diluted earnings per Share
Q1	\$1.25	\$55,289	\$ (2,028)	\$10,127	\$0.79
Q2	\$1.18	66,840	1,722	16,431	1.27
Q3	\$1.11	68,316	2,228	15,126	1.16
Q4	\$1.07	46,849	(519)	3,619	0.27
Fiscal 2009	\$1.15	\$237,294	\$1,403	\$45,303	\$3.45

2008					
	Average Rate of FX	Sales	Gain (Loss) on FX	Net Earnings (Loss)	Diluted Earnings per Share
Q1	\$0.99	\$ 35,138	\$ (586)	\$ 1,889	\$0.14
Q2	\$1.01	55,950	291	7,460	0.58
Q3	\$1.03	60,012	(1,242)	9,753	0.75
Q4	\$1.15	48,241	(4,852)	2,110	0.17
Fiscal 2008	\$1.04	\$199,341	\$(6,389)	\$21,212	\$1.64

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

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

- Sales, gain (loss) on foreign exchange, net earnings, and net earnings per share in all periods are significantly impacted by the rate of exchange between the Canadian and U.S. dollars.
- Net earnings in the first and second quarters of 2009 benefited from non-recurring future income tax recoveries related to Ag Growth's conversion to a corporation and a change in effective tax rates.
- The addition of Mepu will have a minor effect on seasonality as Mepu sales and EBITDA have historically been heavily weighted to the second and third quarters.

CASH FLOW AND LIQUIDITY

The table below reconciles net earnings to cash provided by operations for the three and six months ended June 30, 2010 and 2009:

(thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net earnings for the period	\$12,443	\$16,431	\$18,868	\$26,558
Add charges (deduct credits) to operations not requiring a current cash payment:				
Amortization	2,175	2,084	4,004	4,092
Future income taxes	234	(1,793)	1,188	(2,882)
Translation loss (gain) on foreign exchange	3,082	(3,959)	1,187	(2,621)
Non-cash interest expense	558	113	1,127	206
Stock based compensation	1,115	1,541	2,611	2,859
Loss on sale of asset	18	0	18	0
	<u>19,625</u>	<u>14,417</u>	<u>29,003</u>	<u>28,212</u>
Net change in non-cash working capital balances related to operations:				
Accounts receivable	(13,719)	(7,508)	(23,465)	(18,750)
Inventory	(2,965)	2,417	(5,949)	139
Prepaid expenses and other assets	142	932	(409)	(63)
Accounts payable and accruals	2,929	1,668	4,365	3,625
Customer deposits	(85)	(2,863)	(1,260)	(7,050)
LTIP	85	21	35	20
Income taxes payable	980	1,113	1,034	319
	<u>(12,633)</u>	<u>(4,220)</u>	<u>(25,649)</u>	<u>(21,760)</u>
Cash provided by operations	<u>\$6,992</u>	<u>\$10,197</u>	<u>\$3,354</u>	<u>\$6,452</u>

For the three and six months ended June 30, 2010, cash provided by operations was \$7.0 million and \$3.4 million, respectively (2009 –\$10.2 million and \$6.5 million). In fiscal 2010 we expect that non-cash working capital requirements will approximate the patterns experienced in 2009. Ag Growth's working capital requirements in 2010 will be impacted by sales demand as well as certain risk factors including foreign exchange rates and fluctuations in input costs.

Working Capital Requirements

Interim period working capital requirements typically reflect the seasonality of the business. Ag Growth's collections of accounts receivable are weighted towards the third and fourth quarters. This collection pattern, combined with historically 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, Ag Growth begins to draw on its operating lines in the first or second quarter. The operating line balance typically peaks in the second or third quarter and normally begins to decline later in the third quarter as collections of accounts receivable increase. Ag Growth has typically fully repaid its operating line balance by early in the fourth quarter.

Results in 2010 are generally expected to approximate historical patterns, however due to proceeds received from its debenture offering (see "Convertible Debentures") the Company is not expected to draw on its operating lines to the same extent as in prior years. The addition of Mepu will have a minor effect on seasonal working capital requirements as Mepu sales and EBITDA have historically been heavily weighted to the second and third quarters.

Capital Expenditures

Ag Growth had maintenance capital expenditures of \$1.0 and \$2.1 million for the three and six months ended June 30, 2010, respectively (2009 - \$0.8 million and \$1.3 million). Maintenance capital expenditures in 2010 relate primarily to purchases of manufacturing equipment, trucks, trailers, and forklifts and were funded through cash from operations. Maintenance capital expenditures are expected to increase to over \$3.0 million in 2010 and it is anticipated that these expenditures will be financed from operations.

Ag Growth defines maintenance capital expenditures as cash outlays required to maintain plant and equipment at current operating capacity and efficiency levels. Non-maintenance capital expenditures encompass other investments, including cash outlays required to increase operating capacity or improve operating efficiency. Ag Growth had non-maintenance capital expenditures in the three and six months ended June 30, 2010 of \$5.9 million and \$10.8 million, respectively (2009 - \$0.9 million and \$1.4 million). Non-maintenance capital expenditures in 2010 are expected to increase significantly over 2009 and are expected to be financed from the proceeds of the Company's October 2009 debenture offering (See "Capital Resources – Convertible Debentures"). The following capital expenditures were classified as non-maintenance in 2010 and were financed through cash on hand:

- i. Grain storage bin capacity – the Company invested \$9.1 million towards a grain storage bin manufacturing facility and automated storage bin production equipment. The investment is expected to allow the Company to capitalize on international sales opportunities and to increase sales in North America. The total project cost is estimated at \$15 million and the project is expected to be completed in the fourth quarter of 2010.
- ii. Consolidation of Edwards' production facilities – Edwards currently operates out of facilities in Lethbridge, AB and Nobleford, AB. In 2010, the Company expects to invest approximately \$4.0 million to expand the existing facility in Nobleford and transfer production from Lethbridge to the newly expanded plant. Consolidation of the facilities is expected to result in lower operating costs. The project is expected to be completed in the fourth quarter of 2010. The Company expects to sell the existing Lethbridge facility in

- 2011 and proceeds from the sale are expected to approach the initial investment. The Company has invested \$0.1 million towards this project as at June 30, 2010.
- iii. Westfield facility expansion – Westfield’s primary facility in Rosenort, MB is currently supported by a leased facility in Winnipeg, MB. In 2010 the Company expects to invest approximately \$3.5 million to expand the Rosenort facility and transfer production from Winnipeg to the main plant in Rosenort. The investment is expected to lower operating costs, improve the coordination of production activities and provide Westfield with increased space to perform research and development. The project is expected to be completed in the fourth quarter of 2010. The Company has invested \$1.1 million towards this project as at June 30, 2010.
 - iv. Manufacturing equipment – the Company invested \$0.5 million to upgrade certain equipment to allow for increased capacity at Westfield and at Hi Roller.

Cash Balance

For the six months ended June 30, 2010, the Company’s cash balance decreased \$54.3 million (2009 – \$11.6 million). The decrease in the cash balance was higher than in the same period in 2009 largely due to the cash-financed acquisition of Mepu of \$11.7 million, \$11.7 million expended towards the Company’s normal course issuer bid, and a \$10.2 million increase in capital expenditures. At June 30, 2010, the Company had a cash balance of \$54.8 million (2009 – bank indebtedness of \$7.3 million).

CONTRACTUAL OBLIGATIONS (thousands of dollars)

	Total	2010	2011	2012	2013	2014 +
Debentures	\$115,000	\$ 0	\$ 0	\$ 0	\$ 0	\$115,000
Long-term debt	26,909	60	121	120	93	26,515
Operating leases	<u>1,585</u>	<u>656</u>	<u>698</u>	<u>180</u>	<u>41</u>	<u>10</u>
Total obligations	<u>\$143,494</u>	<u>\$ 716</u>	<u>\$ 819</u>	<u>\$ 300</u>	<u>\$ 134</u>	<u>\$141,525</u>

Debentures relate to the aggregate principal amount of debentures issued by the Company in October 2009 (see “Convertible Debentures”). Long-term debt at June 30, 2010 is comprised of USD \$25.0 million aggregate principal amount of secured notes issued through a note purchase and private shelf agreement, net of deferred financing costs, and a \$0.4 million equipment loan inherited with the Mepu transaction. The remaining long-term debt relates to GMAC financed vehicle loans. The operating leases relate primarily to vehicle, equipment, warehousing, and facility leases and were entered into in the normal course of business.

As at August 11, 2010, the Company had outstanding commitments of \$7.2 million in relation to capital expenditures for building and equipment.

CAPITAL RESOURCES

Cash

The Company had a cash balance of \$54.8 million as at June 30, 2010 (2009 – bank indebtedness of \$7.3 million).

Long-term debt

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

On October 29, 2009, the Company also entered a credit facility with three Canadian chartered banks that includes CAD \$10.0 million and USD \$2.0 million available for working capital purposes, and provides for non-amortizing long-term debt of up to CAD \$38.0 million and USD \$20.5 million. No amounts were drawn under these facilities as at June 30, 2010. The facilities bear interest at rates of prime plus 0.50 % to prime plus 1.50% based on performance calculations and matures on October 29, 2012. Ag Growth is subject to certain financial covenants, including a maximum leverage ratio and a minimum debt service ratio, and is in compliance with all financial covenants.

For the three and six months ended June 30, 2010, the Company's effective interest rate on its U.S. dollar term debt was 3.8% in both periods (2009 – 4.3% and 3.8%, and after consideration of the effect of interest rate swaps was 4.3% and 4.1%). For the three and six months ended June 30, 2010, Ag Growth's effective interest rate on its Canadian dollar term debt was 2.8% in both periods (2009 – 3.3% and 3.2%). See "Financial Instruments".

Convertible Debentures

On October 27, 2009, the Company issued \$100 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 in each year, commencing June 30, 2010. The maturity date of the Debentures is December 31, 2014.

Ag Growth granted the underwriters an over-allotment option to purchase up to 15% of the principal amount of the Debentures on the same terms and conditions as the offering of the Debentures. The underwriters exercised the over-allotment option in full on November 6, 2009, resulting in the issuance of an additional \$15 million principal amount of Debentures.

Including the over-allotment option, 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 net proceeds of the offering will be used by Ag Growth for general corporate purposes and were used to repay existing indebtedness of approximately USD \$37.6 million and CAD \$11.9 million under the Company's credit facility.

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. A total of 2,556,692 common shares are reserved for issue on conversion of the Debentures.

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

On redemption or at maturity, the Company may, at its option, 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.

Ag Growth’s convertible debentures trade on the TSX under the symbol AFN.DB.

COMMON SHARES

The following common shares were issued and outstanding and participated pro rata in dividends during the periods indicated:

	# Fund Trust Units	# Class B Units (1)	# Common Shares
Outstanding at December 31, 2008	12,618,915	136,085	0
Conversion (2)	(12,618,915)	(136,085)	12,755,000
Common shares issued upon Conversion (2)(3)	0	0	182,588
Conversion of redeemable preferred shares (3)	0	0	140,452
Outstanding at December 31, 2009	0	0	13,078,040
Normal course issuer bid	0	0	(341,600)
Share award incentive plan issuance	0	0	73,333
Outstanding at June 30, 2010	0	0	12,809,773
Normal course issuer bid	0	0	(333,000)
Outstanding at August 11, 2010	0	0	12,476,773

- (1) Prior to Conversion, there were 136,085 Class B Exchangeable units outstanding in a subsidiary of the Fund that were exchangeable for Fund Trust units at the option of the holder on a one-for-one basis at any time.
- (2) See “Conversion to a Corporation”.
- (3) Pursuant to the Plan of Arrangement, consideration included 182,588 common shares and four million preferred shares that were convertible into 140,452 common shares.

On December 10, 2009, Ag Growth commenced a normal course issuer bid for up to 1,272,423 common shares, representing 10% of the Company’s public float at that time. The normal course issuer bid will terminate on December 9, 2010 unless terminated earlier by Ag Growth. In the three months ended June 30, 2010, the Company purchased 341,600 common shares for \$11.7 million under the normal course issuer bid. In the period July 1, 2010 to August 11, 2010, the Company purchased an additional 333,000 shares for \$11.2 million under the normal course issuer bid.

The Company has issued \$115 million aggregate principal amount of convertible unsecured subordinated debentures. Ag Growth has reserved 2,556,692 common shares for issuance upon conversion of the Debentures. See “Convertible Debentures”.

Ag Growth has granted 220,000 share awards under its share award incentive plan. Effective January 1, 2010, a total of 73,333 awards vested and the equivalent number of common shares were issued to the participants. The remaining 146,667 share awards remain outstanding at May 13, 2010 and, subject to vesting and payment of the exercise price, are each exercisable for one common share.

The administrator of the LTIP has acquired 249,308 common shares to satisfy its obligations with respect to awards under the LTIPs for fiscal 2007, 2008 and 2009. These common shares are not cancelled but rather are held by the administrator until such time as they vest to the LTIP participants. As at June 30, 2010, a total of 50,603 common shares related to the LTIP had vested to the participants.

A total of 11,382 deferred grants of common shares are outstanding under the Company’s Director’s Deferred Compensation Plan.

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

DIVIDENDS

Ag Growth declared dividends to security holders of \$6.6 million and \$13.3 million for the three and six months ended June 30, 2010, respectively (2009 - \$6.5 million and \$13.0 million). Dividends in 2010 increased due to an increase in the weighted number of outstanding securities.

Ag Growth’s policy is to pay monthly dividends. The Company’s Board of Directors reviews financial performance and other factors when assessing dividend levels. An adjustment to dividend levels may be made at such time as the Board determines an adjustment to be in the best interest of the Company and its shareholders.

FUNDS FROM OPERATIONS

Funds from operations, defined under “non-GAAP measures” is the equivalent of EBITDA less interest expense, current cash taxes and maintenance capital expenditures, plus the non-cash component of interest expense and stock based compensation and adjusted for the translation gain or loss on foreign exchange. 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 June 30		Six months ended June 30	
	2010	2009	2010	2009
EBITDA	\$19,582	\$19,963	\$32,014	\$30,954
Stock based compensation	1,115	1,541	2,611	2,859
Non-cash interest expense	558	113	1,127	206
Translation loss (gain) on foreign exchange	3,082	(3,959)	1,187	(2,621)
Interest expense	(3,105)	(565)	(6,234)	(1,277)
Current income tax	(1,625)	(931)	(1,720)	(164)
Maintenance capital expenditures	<u>(1,002)</u>	<u>(790)</u>	<u>(2,079)</u>	<u>(1,268)</u>
Funds from operations (2)	<u>\$18,605</u>	<u>\$15,372</u>	<u>\$26,906</u>	<u>\$28,689</u>

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

(thousands of dollars)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cash provided by (used in) operating activities	\$6,992	\$10,197	\$3,354	\$6,452
Change in non-cash working capital	12,633	4,220	25,649	21,760
Conversion costs	0	1,745	0	1,745
Maintenance capital expenditures	(1,002)	(790)	(2,079)	(1,268)
Loss on sale of assets	<u>(18)</u>	<u>0</u>	<u>(18)</u>	<u>0</u>
Funds from operations (2)	<u>\$18,605</u>	<u>\$15,372</u>	<u>\$26,906</u>	<u>\$28,689</u>
Shares outstanding (3)	13,191,204	12,752,124	13,225,373	12,730,217
Dividends declared per share	\$0.51	\$0.51	\$1.02	\$1.02
Funds from operations per share (2)	\$1.41	\$1.21	\$2.03	\$2.25
Payout ratio	36%	42%	50%	45%

- (1) See “EBITDA and Net Earnings”.
- (2) See “non-GAAP Measures”.
- (3) Fully diluted weighted average, excluding the potential dilution of the convertible debentures as the calculation includes the interest expense related to the convertible debentures.

The following table displays total funds from operations and total dividends declared since Ag Growth’s 2004 initial public offering:

Funds from Operations			
(in thousands of dollars)	Generated	Dividends Declared (1)	Payout Ratio
Period Ended December 31, 2004	\$ 9,887	\$ 9,109	92%
Year Ended December 31, 2005	22,676	18,918	83%
Year Ended December 31, 2006	21,974	18,858	86%
Year Ended December 31, 2007	25,553	19,585	77%
Year Ended December 31, 2008	38,554	26,701	69%
Year Ended December 30, 2009	52,165	26,307	50%
Six months ended June 30, 2010	<u>26,906</u>	<u>13,332</u>	<u>50%</u>
Cumulative since inception	<u>\$197,715</u>	<u>\$132,810</u>	<u>67%</u>

(1) Includes special distributions of the Fund of \$1,329 in 2004, \$3,368 in 2005, and \$3,061 in 2008. Excludes \$9 dividend paid to holders of preferred shares in 2009.

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. The Company expects dividends in 2010 will be funded through cash from operations.

Ag Growth’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 and its shareholders.

CONVERSION TO A CORPORATION

The Fund’s decision to convert to a corporation arose from the federal government’s October 31, 2006 announcement and subsequent legislation (the “SIFT legislation”) to impose additional income taxes on publicly traded income trusts, including the Fund, effective January 1, 2011. In addition, in order to qualify under new legislation for a tax-free conversion, it was necessary to convert to a corporation before the end of 2013. Management and the Fund’s Board of Trustees had been proactively assessing several options available to provide long-term stability of distributions for unitholders while mitigating the impact of the trust taxation legislated by the Federal Government in June 2007. As the tax enhancement value related to the income trust structure diminished, it was determined that the benefits of an early conversion to a corporation outweighed the value of remaining under the trust structure.

The Conversion was completed pursuant to a Plan of Arrangement that was approved at a special meeting (the “Special Meeting”) of the Fund’s unitholders and holders of exchangeable limited partnership units of AGX Holdings Limited Partnership held on June 3, 2009. Under the Plan of Arrangement, the Fund’s unitholders received one common share of Benachee Resources Inc.

("Benachee") in exchange for each Fund unit and/or exchangeable unit held, resulting in the Fund unitholders becoming shareholders of Benachee. Benachee then changed its name to "Ag Growth International Inc." and the existing trustees and management of the Fund became the board and management of Ag Growth. The Conversion was accounted for as a continuity of interests of the Fund since there was no change of control and since Ag Growth continues to operate the business of the Fund. Ag Growth did not retain the business previously carried on by Benachee. Costs incurred with respect to the Conversion in 2009 were \$2.1 million.

Pursuant to the Plan of Arrangement, Ag Growth also issued consideration in the form of \$5.0 million cash, an additional 182,588 common shares, and stated value \$4.0 million redeemable preferred shares which were convertible into 140,452 common shares. On October 15, 2009, the holder exercised the conversion option on the redeemable preferred shares.

Complete details of the terms of the Plan of Arrangement are set out in the Arrangement Agreement and the Management Information Circular for the Special Meeting that have been filed by Ag Growth on SEDAR (www.sedar.com).

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. By their nature, these estimates are subject to a degree of uncertainty and are based on historical experience and trends in the industry. Management reviews these estimates on an ongoing basis. While management has applied judgment based on assumptions believed to be reasonable in the circumstances, actual results can vary from these assumptions. It is possible that materially different results would be reported using different assumptions.

Ag Growth believes the accounting policies that are critical to its business relate to the use of estimates regarding the recoverability of accounts receivable and the valuation of inventory, intangibles, goodwill, convertible debentures and future income taxes. Ag Growth's accounting policies are described in Note 2 to the audited financial statements for the year ended December 31, 2009.

Allowance for Doubtful Accounts

Due to the nature of Ag Growth's business and the credit terms it provides to its customers, estimates and judgments are inherent in the on-going assessment of the recoverability of accounts receivable. Ag Growth maintains an allowance for doubtful accounts to reflect expected credit losses. A considerable amount of judgment is required to assess the ultimate realization of accounts receivable and these judgments must be continuously evaluated and updated. Ag Growth is not able to predict changes in the financial conditions of its customers, and the Company's judgment related to the recoverability of accounts receivable may be materially impacted if the financial condition of the Company's customers deteriorates.

Valuation of Inventory

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

deemed to be fully recoverable. Judgment related to the determination of net realizable value may be impacted by a number of factors including market conditions.

Goodwill and Intangible Assets

Assessments and judgments are inherent in the determination of the fair value of goodwill and intangible assets. Goodwill and indefinite life intangible assets are recorded at cost and finite life intangibles are recorded at cost less accumulated amortization. Goodwill and intangible assets are tested for impairment at least annually. Assessing goodwill and intangible assets for impairment requires considerable judgment and is based in part on current expectations regarding future performance. Changes in circumstances including market conditions may materially impact the assessment of the fair value of goodwill and intangible assets.

Future Income Taxes

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

Future Benefit of Tax-loss Carryforwards

Ag Growth should only recognize the future benefit of tax-loss carryforwards where it is more likely than not 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 earnings, 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 future income tax assets. Future 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 more likely than not that those future tax assets would be fully realized.

FINANCIAL INSTRUMENTS

Foreign exchange contracts

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. dollar. Ag Growth has entered into foreign exchange contracts with two Canadian chartered banks to partially hedge its foreign currency exposure on anticipated U.S. dollar sales transactions and the collection of the related accounts receivable. As at June 30, 2010, the Company had outstanding the following foreign exchange contracts:

Forward Foreign Exchange Contracts			
Settlement Dates	Face Amount USD (000's)	Average Rate CAD	CAD Amount (000's)
July – December 2010	\$27,000	\$1.15	\$31,166
January – November 2011	\$45,000	\$1.10	\$49,299

At June 30, 2010, the fair value of the outstanding forward foreign exchange contracts was a gain of \$3.5 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 June 30, 2010.

As at June 30, 2010, the Company also had outstanding a series of call and put options as follows:

Buyer: Ag Growth

Expiration Date	Call Amount CAD (000's)	Put Amount USD (000's)
October 28, 2010	\$6,100	\$5,000
December 31, 2010	\$3,660	\$3,000

Seller: Ag Growth

Expiration Date	Call Amount USD (000's)	Put Amount CAD (000's)
October 28, 2010	\$10,000	\$13,050
December 31, 2010	\$6,000	\$7,830

At June 30, 2010, the fair value of the October 2010 and December 2010 call and put options was a gain of \$1.2 million (December 31, 2009 - \$1.3 million). These call and put options are not considered to be an effective hedge for accounting purposes and the movement in the unrealized gain subsequent to December 31, 2009 has been included in the Company's foreign exchange gain for the period ended June 30, 2010.

The Company periodically enters into foreign exchange swap contracts to manage its short term Canadian and U.S. dollar positions. As at June 30, 2010, the Company had outstanding the following swap contracts:

FX Swap Contracts			
Settlement Dates	Face Amount USD (000's)	Rate CAD	CAD Amount (000's)
August 2010	\$2,000	\$1.0402	\$2,080
September 2010	\$3,000	\$1.0343	\$3,103

At June 30, 2010, the fair value of the swap contracts was a loss of \$0.1 million and this amount has been included in the Company's foreign exchange gain for the period ended June 30, 2010.

OUTLOOK

U.S. farmers in 2010 planted an estimated 87.9 million acres of corn (2009 – 86.5 million) and 78.9 million acres of soybean (2009 – 77.5 million). The high number of acres planted, coupled with favourable U.S. crop conditions, bodes well for a strong U.S. harvest. The Company is experiencing high levels of demand for portable and commercial grain handling equipment in the U.S. and expects third quarter sales to be robust. In 2009, sales to the U.S. market accounted for 67% of the Company's total sales.

Crop conditions in western Canada have been negatively impacted by unprecedented moisture. Estimates of the ultimate impact on crop production vary widely. The Canadian Wheat Board recently forecast a 17% decrease in wheat production compared to the prior year. A decrease in crop production will negatively impact sales of farm level equipment in western Canada in the second half of 2010 and the first half of 2011. In 2009, sales in Canada accounted for approximately 25% of the Company's total sales.

Management expects sales of commercial equipment to increase significantly compared to the prior year. Order backlogs for commercial equipment are significantly higher than the prior year due to improved domestic macro-economic factors and increased activity in new international markets. Demand in 2010 and 2011 will continue to be contingent on a number of macro-economic factors, including the availability of credit in developing markets.

In the U.S., an early planting season and favourable weather conditions have resulted in crop progress being well ahead of 2009. Accordingly, the 2010 harvest will likely be completed much earlier than the exceptionally late harvest of 2009. Compared to 2009, an early harvest may have a slight negative impact on fourth quarter demand. The impact is not expected to be material, however, since in 2009 the Company had stocked its dealer network in advance of the harvest season and as a result the late harvest did not have a significant impact on in-season sales.

Ag Growth's financial results are impacted by the rate of exchange between the Canadian and U.S. dollars. A stronger Canadian dollar negatively impacts sales and gross margin percentages compared to prior periods. The impact of foreign exchange was quite pronounced in the first half of 2010, as the Company's average exchange rate decreased from \$1.21 in 2009 to \$1.04 in the current year. Ag Growth's average rates of exchange in the third and fourth quarters of 2009 were \$1.11 and \$1.07. Accordingly, based on prevailing exchange rates, the negative impact of foreign exchange when comparing to 2009 may lessen later in 2010.

On April 29, 2010, the Company acquired Mepu Oy, a manufacturer of portable and stationary grain drying systems based in Ylane, Finland. Sales and EBITDA at Mepu have historically been heavily weighted towards the second and third quarters. Sales and EBITDA in the second half of 2010 are expected to be below historical averages as a result of poor crop conditions in its domestic market and the timing of government subsidies.

Overall, management anticipates that favourable crop conditions in the U.S. and strength in the commercial markets will result in strong demand in the third quarter of 2010. Consistent with the second quarter of 2010, gross margin percentages are expected to be impacted by foreign exchange rates and sales mix. Demand in the fourth quarter will be influenced by several factors, including the outcome of the 2010 harvest. Based on current conditions, management expects fourth quarter activity to approximate that experienced in 2009, as strength in the U.S. market and robust demand for commercial equipment is offset by weakness in western Canada.

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 deem 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 Cyclicity and General Economic Conditions

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

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

Risk of Decreased Crop Yields

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

Potential Volatility of Production Costs

Various materials and components are purchased in connection with Ag Growth's manufacturing process, some or all of which may be subject to wide price variation. Consistent with past and current practices within the industry, Ag Growth seeks to manage its exposure to material and component price volatility by planning and negotiating significant purchases on an annual basis, and endeavours to pass through to customers, most, if not all, of the price volatility. There can be no assurance that industry dynamics will allow Ag Growth to continue to reduce its exposure to volatility of production costs by passing through price increases to its customers.

Foreign Exchange Risk

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

Acquisition and Expansion Risk

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

Commodity Prices, International Trade and Political Uncertainty

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

Competition

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

Seasonality of Business

The seasonality of the demand for Ag Growth's products results in lower cash flow in the first three quarters of each calendar year and may impact the ability of the Company to make cash dividends to Shareholders, or the quantum of such dividends, if any. No assurance can be given that Ag Growth's credit facility will be sufficient to offset the seasonal variations in Ag Growth's cash flow.

Business Interruption

The operation of the manufacturing facilities of Ag Growth are subject to a number of business interruption risks, including delays in obtaining production materials, plant shutdowns, labour disruptions and weather conditions/natural disasters. Ag Growth may suffer damages associated with such events that it cannot insure against or which it may elect not to insure against because of high premium costs or other reasons. For instance, Ag Growth's Rosenort facility is located in an area that was affected by widespread floods experienced in Manitoba in 1997 and 2009, and

insurance coverage for this type of business interruption is limited. Ag Growth is not able to predict the occurrence of business interruptions.

Litigation

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

Dependence on Key Personnel

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

Labour Costs and Shortages and Labour Relations

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

Distribution, Sales Representative and Supply Contracts

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

Availability of Credit

Ag Growth's credit facility expires October 29, 2012, 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 impacted.

Interest Rates

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

Uninsured and Underinsured Losses

Ag Growth will use its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on its assets and operations at a commercially reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of its assets or cover the cost of a particular claim.

Cash Dividends are not Guaranteed

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

Income Tax Matters

In the ordinary course of business, Ag Growth may be subject to audits by tax authorities. While management anticipates that Ag Growth's tax filing positions will be appropriate and supportable, it is possible that tax matters, including the calculation and determination of revenue, expenditures, deductions, credits and other tax attributes, taxable income and taxes payable, may be reviewed and challenged by the tax authorities. If such challenge were to succeed, it could have a material adverse effect on Ag Growth's tax position. Further, the interpretation of and changes in tax laws, whether by legislative or judicial action or decision, and the administrative policies and assessing practices of taxation authorities, could materially adversely affect Ag Growth's tax position.

Possible Failure to Realize Anticipated Benefits of the Conversion

Achieving the anticipated benefits of the Conversion will depend in part on Ag Growth's ability to realize the anticipated growth opportunities from reorganizing the Fund into a corporate structure. Management expects that the corporate structure will allow Ag Growth to adopt similar policies with respect to capital expenditures as were in place with the trust structure. In addition, the Conversion is expected to simplify the operations of the continuing entity. The realization of the anticipated benefits of the Conversion will require the dedication of substantial management effort, time and resources. There can be no assurance that management will be successful in refocusing the continuing entity into a growth-oriented entity.

Ag Growth May Issue Additional Common Shares Diluting Existing Shareholders' Interests

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

Leverage, Restrictive Covenants

The degree to which Ag Growth is leveraged could have important consequences to the Shareholders, including: (i) the ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) a material portion of Ag Growth's cash flow from operations may need to be dedicated to payment of the principal of and interest on indebtedness, thereby reducing funds available for future operations and to pay dividends; (iii)

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

The ability of Ag Growth to make dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing its indebtedness, including the Company's credit facility and note purchase agreement. Ag Growth's credit facility and note purchase agreement contain restrictive covenants customary for agreements of this nature, including covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Ag Growth to incur additional indebtedness, to pay dividends or make certain other payments and to sell or otherwise dispose of material assets. In addition, the credit facility and note purchase agreement contain a number of financial covenants that will require Ag Growth to meet certain financial ratios and financial tests. A failure to comply with these obligations could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness and trigger financial penalties including a make-whole provision in the note purchase agreement. If the indebtedness under the credit facility and note purchase agreement were to be accelerated, there can be no assurance that the assets of Ag Growth would be sufficient to repay in full that indebtedness. There can also be no assurance that the credit facility or any other credit facility will be able to be refinanced.

International Sales and Operations

A portion of Ag Growth's sales are generated in overseas markets and Ag Growth anticipates increasing its offshore sales and operations in the future. Sales and operations outside of North America, particularly in emerging markets, are subject to various risks, including: currency exchange rate fluctuations; foreign economic conditions; trade barriers; competition with domestic and international manufacturers and suppliers; exchange controls; national and regional labour strikes; political risks and risks of increases in duties; taxes and changes in tax laws; expropriation of property, cancellation or modification of contract rights, unfavourable legal climate for the collection of unpaid accounts; changes in laws and policies governing operations of foreign-based companies, as well as risks of loss due to civil strife and acts of war. There is no guarantee that one or more of these factors will not materially adversely affect Ag Growth's offshore sales and operations in the future.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Policies

EIC-175 "Revenue Arrangements with Multiple Deliverables"

In December 2009, the Canadian Institute of Chartered Accountants ["CICA"] issued Emerging Issues Committee ["EIC"] 175 "Revenue Arrangements with Multiple Deliverables". EIC-175 is effective prospectively, for revenue arrangements entered into or materially modified in fiscal years beginning on or after January 1, 2011. Early adoption is also permitted and on January 1, 2010, the Company adopted EIC-175, which provides guidance on certain aspects of the accounting for arrangements under which the Company will perform multiple revenue-generating

activities. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The effect may be material as to future transactions, however the impact to current and past transactions is not material.

Estimates

Foreign currency translation

As at January 1, 2010, the Company determined that its foreign operations Hansen Manufacturing Corp., Union Iron Works, Inc. and Applegate Livestock Equipment, Inc. had more characteristics of self-sustaining foreign operations than integrated foreign operations. Accordingly, the Company adopted the current rate method of foreign currency translation for these self-sustaining foreign operations. The Company has prospectively adopted the current rate method of foreign currency translation in accordance with Section 1651 of the CICA Handbook. The reporting currency of the foreign operations remains as the Canadian dollar. Under the current rate method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date and all income and expenses are translated at the monthly rate of exchange. Unrealized foreign currency translation gains and losses on the Company's net investment in its self-sustaining foreign operations are presented separately as a component of other comprehensive income. As a result of the reclassification of foreign operations to self-sustaining, the exchange amount attributable to the current rate translation of non-monetary items as of the date of change is included as part of the foreign currency translation component of accumulated other comprehensive income.

NEW ACCOUNTING STANDARDS

Conversion to International Financial Reporting Standards

In February 2008, the AcSB confirmed that IFRS will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. Ag Growth will be required to report its results in accordance with IFRS starting in 2011. Under IFRS, the primary audience is capital markets and as a result there may be significantly more disclosure required, particularly for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there may be significant differences in accounting policy that must be addressed.

The Company formally commenced an IFRS conversion project in the third quarter of 2008 and engaged the services of an external advisor with IFRS expertise to work with management. Regular reporting is provided to Ag Growth's senior management and to the Audit Committee of the Board of Directors. An assessment was initiated to examine the extent of the impact that the conversion may have on financial reporting, business processes, internal controls and information systems. The Company's plan is aimed in particular at identifying the differences between IFRS and the Company's current accounting policies, as well as assessing the impact of various accounting alternatives offered pursuant to IFRS. Ag Growth's preliminary assessment of key areas has identified the following areas that may have a significant impact upon the adoption of IFRS:

- Deferred tax credit – Ag Growth recognized a deferred tax credit related to acquired tax benefits in accordance with EIC 110 of Canadian GAAP as a result of its conversion to a

corporation in 2009. Deferred tax credits are not generally recognized under IFRS as it is not consistent with the IFRS conceptual framework. Management is currently working with its external advisors to analyze the accounting treatment under IFRS. The financial impact of the transition to IFRS, if any, cannot be reasonably estimated at this time.

- Stock-based compensation – Ag Growth utilizes a number of stock-based payment plans as part its overall compensation strategy. While there are some similarities between IFRS and Canadian GAAP, there are a number of valuation and disclosure differences that may have a financial statement impact. Management is currently working with its external advisors to analyze the accounting treatment of its stock-based compensation plans under IFRS. The financial impact of the transition to IFRS, if any, cannot be reasonably estimated at this time.

The Company will continue to evaluate these and other key areas in the coming quarters. The financial impact of the transition to IFRS cannot be reasonably estimated at this time, however, there will likely be changes in accounting policies and these may materially impact the Company's financial statements. The Company will continue to work with its external advisors to quantify the impact of any potential changes, and will disclose its findings subsequent to the review of its external auditors.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS

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

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

On April 29, 2010 the Fund acquired Mepu Oy see "Acquisitions". Management has not fully completed its review of internal controls over financial reporting for this newly acquired operation. Since the acquisition occurred within the 365 days of the reporting period, management has limited the scope of design, and subsequent evaluation, of disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of Mepu Oy, as permitted under Section 3.3 of National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings. For the period covered by this MD&A, management has undertaken specific procedures to satisfy itself with respect to the accuracy and completeness of the acquired operation's financial information. Management believes that Ag Growth's existing internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The following is the summary financial information pertaining to the Mepu Oy acquisition that was included in Ag Growth's consolidated financial statements for the quarter ended June 30th, 2010:

(thousands of dollars)

Revenue	3,404
Net income	753
Current assets	9,069
Non-current assets	9,695
Current liabilities	3,975
Non-current liabilities	7,445

There have been no material changes in Ag Growth's internal controls over financial reporting that occurred in the three month period ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

NON-GAAP MEASURES

References to "EBITDA" are to earnings before interest, income taxes, depreciation, amortization and Conversion costs. References to "Adjusted EBITDA" are to EBITDA before the gain (loss) on foreign exchange. Management believes that, in addition to net income or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating the Company's performance. EBITDA and Adjusted EBITDA are not financial measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Management cautions investors that EBITDA and Adjusted EBITDA should not replace net income 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 EBITDA and Adjusted EBITDA may differ from the methods used by other issuers.

References to "gross margin" are to sales less cost of goods sold. Management believes that, in addition to net income or loss, gross margin provides a useful supplemental measure in evaluating Ag Growth's performance. Gross margin is not a financial measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Management cautions investors that gross margin should not replace net income or loss as an indicator 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 gross margin may differ from the methods used by other issuers.

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, less maintenance capital expenditures. 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. Funds from operations is not a financial measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. The method of calculating funds from operations may differ from similar computations as reported by similar entities. Management cautions investors that funds from operations should not replace net income or loss as an indicator of performance, or cash flows from operating, investing, and financing activities as a measure of the Company's liquidity and cash flows.

References to "payout ratio" are to dividends declared as a percentage of funds from operations. Payout ratio is not a financial measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. The method of calculating the Company's payout ratio may differ from similar computations as reported by similar entities and, accordingly, may not be comparable to the payout ratio as reported by such entities.

ADDITIONAL INFORMATION

Additional information relating to Ag Growth, including Ag Growth's most recent Annual Information Form, is available on SEDAR (www.sedar.com).

INVESTOR RELATIONS

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Unaudited Interim Consolidated Financial Statements

Ag Growth International Inc.

June 30, 2010

Ag Growth International Inc.

**UNAUDITED INTERIM CONSOLIDATED
BALANCE SHEETS**

	As at June 30, 2010 \$ [000's]	As at December 31, 2009 \$ [000's]
ASSETS [notes 13 and 20]		
Current		
Cash and cash equivalents	54,767	109,094
Cash held in trust [note 5]	651	—
Accounts receivable [note 15c]	49,745	25,072
Inventory	49,847	39,432
Prepaid expenses and other assets	2,658	1,858
Income taxes recoverable [note 14]	—	598
Derivative instruments [note 15]	4,335	7,652
Future income taxes [note 14]	8,925	10,103
Total current assets	170,928	193,809
Property, plant and equipment, net	43,649	27,779
Goodwill [note 7]	54,707	52,337
Intangible assets, net [note 8]	69,440	69,023
Other investment	2,000	2,000
Derivative instruments [note 15]	279	1,848
Future income taxes [note 14]	38,842	41,054
	379,845	387,850
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	21,038	13,930
Customer deposits	7,214	8,340
Dividends payable	2,181	2,224
Income taxes payable [note 14]	436	—
Transaction and financing costs payable [notes 5 and 26]	866	1,028
Long-term incentive plan [note 17]	706	2,184
Current portion of deferred credit [note 14]	7,602	9,305
Current portion of long-term debt [note 20]	121	16
Total current liabilities	40,164	37,027
Long-term debt [note 20]	26,108	25,403
Convertible unsecured subordinated debentures [note 10]	104,115	103,107
Deferred credit [note 14]	36,302	38,601
Future income taxes [note 14]	1,227	1,047
Share award incentive plan [note 18]	3,970	5,866
Total liabilities	211,886	211,051
Commitments [note 25]		
Shareholders' equity [note 9]		
Common shares	150,048	157,279
Accumulated other comprehensive income	2,916	5,590
Contributed surplus	11,279	8,653
Retained earnings	3,716	5,277
Total shareholders' equity	167,959	176,799
	379,845	387,850

See accompanying notes

On behalf of the Board of Directors:

Signed Bill Lambert
Director

Signed John R. Brodie, FCA
Director

Ag Growth International Inc.

**UNAUDITED INTERIM CONSOLIDATED STATEMENTS
OF EARNINGS AND RETAINED EARNINGS (ACCUMULATED
DEFICIT)**

	Three-month period ended		Six-month period ended	
	June 30, 2010 \$ [000's]	June 30, 2009 \$ [000's]	June 30, 2010 \$ [000's]	June 30, 2009 \$ [000's]
Sales	72,358	66,840	123,997	122,129
Cost of goods sold	43,637	38,466	74,984	70,971
Gross margin	28,721	28,374	49,013	51,158
Expenses				
Selling, general and administrative	8,674	8,366	17,106	16,686
Stock-based compensation <i>[notes 17, 18 and 19]</i>	1,115	1,541	2,611	2,859
Research and development	323	255	665	592
Loss (gain) on foreign exchange	(779)	(1,722)	(2,959)	306
Other income	(194)	(29)	(424)	(239)
Corporate conversion	—	1,745	—	1,745
Interest <i>[note 24]</i>	3,105	565	6,234	1,277
Amortization <i>[note 24]</i>	2,175	2,084	4,004	4,092
	14,419	12,805	27,237	27,318
Earnings before income taxes	14,302	15,569	21,776	23,840
Provision for (recovery of) income taxes <i>[note 14]</i>				
Current	1,625	931	1,720	164
Future	234	(1,793)	1,188	(2,882)
	1,859	(862)	2,908	(2,718)
Net earnings for the period	12,443	16,431	18,868	26,558
Retained earnings (accumulated deficit), beginning of period	5,001	(10,088)	5,277	(13,710)
Dividends to shareholders	(6,631)	(6,534)	(13,332)	(13,039)
Shares purchased in the market under normal course issuer bid	(7,097)	—	(7,097)	—
Net earnings for the period	12,443	16,431	18,868	26,558
Retained earnings (accumulated deficit), end of period	3,716	(191)	3,716	(191)
Net earnings per share - basic <i>[note 22]</i>	0.97	1.29	1.45	2.08
Net earnings per share - diluted <i>[note 22]</i>	0.90	1.27	1.42	2.05

See accompanying notes

Ag Growth International Inc.

**UNAUDITED INTERIM CONSOLIDATED
STATEMENTS OF COMPREHENSIVE INCOME**

	Three-month period ended		Six-month period ended	
	June 30, 2010 \$ [000's]	June 30, 2009 \$ [000's]	June 30, 2010 \$ [000's]	June 30, 2009 \$ [000's]
Net earnings for the period	12,443	16,431	18,868	26,558
Other comprehensive income (loss)				
Change in fair value of derivatives designated as cash flow hedges	(3,361)	7,376	(462)	3,232
Losses (gains) on derivatives designated as cash flow hedges recognized in net earnings in the current period	(2,869)	2,424	(3,833)	3,321
Unrealized gains on dual purpose derivatives designated as cash flow hedges in prior periods recognized in net earnings in the current period	544	200	176	205
Income tax effect on items enumerated above	1,793	1,175	1,347	1,175
Unrealized loss on translation of self- sustaining foreign operations	2,258	—	98	—
Other comprehensive income (loss) for the period	(1,635)	11,175	(2,674)	7,933
Comprehensive income	10,808	27,606	16,194	34,491

See accompanying notes

**UNAUDITED INTERIM CONSOLIDATED
STATEMENTS OF CASH FLOWS**

	Three-month period ended		Six-month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
	[000's]	[000's]	[000's]	[000's]
OPERATING ACTIVITIES				
Net earnings for the period	12,443	16,431	18,868	26,558
Add (deduct) items not affecting cash				
Amortization	2,175	2,084	4,004	4,092
Future income taxes (recovery)	234	(1,793)	1,188	(2,882)
Translation loss (gain) on foreign exchange	3,082	(3,959)	1,187	(2,621)
Non-cash component of interest expense	558	113	1,127	206
Stock-based compensation	1,115	1,541	2,611	2,859
Loss on sale of assets	18	—	18	—
	19,625	14,417	29,003	28,212
Net change in non-cash working capital balances related to operations <i>[note 23]</i>	(12,633)	(4,220)	(25,649)	(21,760)
Cash provided by operating activities	6,992	10,197	3,354	6,452
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(6,873)	(1,683)	(12,888)	(2,708)
Acquisition of shares of Mepu Oy, including bank indebtedness assumed <i>[note 5]</i>	(12,947)	—	(12,947)	—
Acquisition of assets of Benachee Resources Inc.	—	(5,000)	—	(5,000)
Proceeds from sale of property, plant and equipment	48	11	96	68
Transfer to cash held in trust <i>[note 5]</i>	(651)	—	(651)	—
Increase (decrease) in transaction and financing costs payable <i>[note 26]</i>	591	969	(12)	969
Cash used in investing activities	(19,832)	(5,703)	(26,402)	(6,671)
FINANCING ACTIVITIES				
Increase (decrease) in bank indebtedness	—	(2,637)	—	7,257
Proceeds from long-term debt	—	4,996	—	4,992
Repayment of long-term debt	(19)	—	(23)	—
Dividends paid	(6,685)	(6,505)	(13,374)	(16,073)
Decrease in financing costs payable	—	—	(150)	—
Increase in deferred financing costs on long-term debt	—	(12)	—	(12)
Share issuance costs	—	(50)	—	(50)
Purchase of common shares under the normal course issuer bid <i>[note 9]</i>	(11,700)	—	(11,700)	—
Purchase of common shares in the market under the long-term incentive plan <i>[note 17]</i>	(2,424)	(286)	(6,032)	(286)
Cash used in financing activities	(20,828)	(4,494)	(31,279)	(4,172)

Ag Growth International Inc.

**UNAUDITED INTERIM CONSOLIDATED
STATEMENTS OF CASH FLOWS**

Page 2

	Three-month period ended		Six-month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
	[000's]	[000's]	[000's]	[000's]
Net decrease in cash and cash equivalents during the period	(33,668)	—	(54,327)	(4,391)
Cash and cash equivalents, beginning of period	88,435	—	109,094	4,391
Cash and cash equivalents, end of period	54,767	—	54,767	—
Supplemental cash flow information				
Interest paid	5,949	581	6,513	1,266
Income taxes paid (received)	680	(87)	680	(87)

See accompanying notes

Ag Growth International Inc.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2010

1. DESCRIPTION OF BUSINESS

Ag Growth International Inc. ["Ag Growth" or the "Company"] acquired all of the trust units of its predecessor, Ag Growth Income Fund [the "Fund"] in exchange for common shares of Ag Growth pursuant to an arrangement completed under Section 192 of the Canada Business Corporations Act effective June 3, 2009 [the "Conversion"] [note 2]. Ag Growth conducts business in the grain handling, storage and conditioning market.

Included in these unaudited interim consolidated financial statements are the accounts of Ag Growth and its predecessor, the Fund, [collectively hereinafter referred to as "Ag Growth" or the "Company"] and all of its subsidiary partnerships and incorporated companies.

2. CORPORATE CONVERSION

The Conversion was completed June 3, 2009 pursuant to a Plan of Arrangement with, among others, Ag Growth [then known as Benachee Resources Inc. ["Benachee"]] [note 6]. As a result of the Conversion, holders of Fund trust units and Class B exchangeable units of a subsidiary of the Fund received one common share of Benachee in exchange for every unit held on the effective date of the Conversion, and Benachee changed its name to Ag Growth International Inc.

The Conversion was accounted for as a continuity of interests of the Fund since there was no change of control and since Ag Growth continues to operate the business of the Fund. These unaudited interim consolidated financial statements reflect Ag Growth as a corporation on and subsequent to June 3, 2009 and as Ag Growth Income Fund prior thereto. All references to "common shares" refer collectively to Ag Growth's common shares on and subsequent to June 3, 2009 and to Fund units prior to the Conversion. All references to "dividends" refer to dividends paid or payable to holders of Ag Growth common shares on and subsequent to June 3, 2009 and to distributions paid or payable to Fund unitholders prior to the Conversion. All references to "shareholders" refer collectively to holders of Ag Growth's common shares on and subsequent to June 3, 2009 and to Fund unitholders prior to the Conversion. References to the "Share Award Incentive Plan" should be read as references to the "Unit Award Incentive Plan" for all periods prior to the Conversion.

Ag Growth International Inc.

**NOTES TO UNAUDITED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2010

3. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"]. They have been prepared using the same accounting policies and methods of application as disclosed in Ag Growth's audited consolidated financial statements for the year ended December 31, 2009, except as described in note 4.

These unaudited interim consolidated financial statements do not include all of the information and notes to the financial statements required by Canadian GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in Ag Growth's annual report for the year ended December 31, 2009.

Accounting measurements at interim dates inherently involve a greater reliance on estimates than at year end. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature to present fairly the consolidated financial position of the Company as at June 30, 2010.

4. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Policies

EIC-175 "Revenue Arrangements with Multiple Deliverables"

In December 2009, the Canadian Institute of Chartered Accountants ["CICA"] issued Emerging Issues Committee ["EIC"] 175 "Revenue Arrangements with Multiple Deliverables". EIC-175 is effective prospectively, for revenue arrangements entered into or materially modified in fiscal years beginning on or after January 1, 2011. Early adoption is also permitted and on January 1, 2010, the Company adopted EIC-175, which provides guidance on certain aspects of the accounting for arrangements under which the Company will perform multiple revenue-generating activities. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The effect may be material as to future transactions, however the impact to current and past transactions is not material.

Ag Growth International Inc.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2010

Estimates

Foreign currency translation

As at January 1, 2010, the Company determined that its foreign operations Hansen Manufacturing Corp., Union Iron Works, Inc. and Applegate Livestock Equipment, Inc. had more characteristics of self-sustaining foreign operations than integrated foreign operations. Accordingly, the Company adopted the current rate method of foreign currency translation for these self-sustaining foreign operations. The Company has prospectively adopted the current rate method of foreign currency translation in accordance with Section 1651 of the CICA Handbook. The reporting currency of the foreign operations remains as the Canadian dollar. Under the current rate method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date and all income and expenses are translated at the monthly rate of exchange. Unrealized foreign currency translation gains and losses on the Company's net investment in its self-sustaining foreign operations are presented separately as a component of other comprehensive income. As a result of the reclassification of foreign operations to self-sustaining, the exchange amount attributable to the current rate translation of non-monetary items as of the date of change is included as part of the foreign currency translation component of accumulated other comprehensive income.

5. ACQUISITION OF MEPU OY

Effective April 29, 2010, the Company acquired 100% of the outstanding shares of Mepu Oy ["Mepu"], a manufacturer of grain drying systems, for cash consideration of \$11,912, which includes transaction costs of \$638.

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

	\$
Accounts receivable	1,208
Inventory	4,465
Prepaid expenses and other	396
Capital assets	5,282
Intangible assets – distribution network	1,370
Intangible assets – brand name	743
Intangible assets – order backlog	363
Goodwill	2,382

Ag Growth International Inc.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2010

Bank indebtedness	(1,035)
Long-term debt	(382)
Accounts payable and accrued liabilities	(2,746)
Customer deposits	(134)
	<u>11,912</u>
Consideration	
Cash	11,046
Transaction costs payable	866
	<u>11,912</u>

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

As at June 30, 2010, the Company had cash held in trust of \$651 relating to the acquisition of Mepu.

6. PLAN OF ARRANGEMENT

The Conversion was completed effective June 3, 2009 pursuant to a Plan of Arrangement with, among others, Benachee. As a result of the Plan of Arrangement, holders of Fund trust units and Class B exchangeable units of the Fund received one common share of Benachee in exchange for every unit held on the effective date of the Conversion, and Benachee changed its name to Ag Growth International Inc. Pursuant to the Plan of Arrangement, consideration in the form of \$5.0 million cash, 182,588 common shares at an estimated fair value of \$24.65 per share, being the volume weighted trading price of the Fund's units on the two days before and the two days after April 19, 2009, the date the Fund's trustees approved and announced the terms of the transaction, and par value \$4.0 million of redeemable preferred shares, convertible into 140,452 common shares, was issued to the parent corporation of Benachee, a participant in the Plan of Arrangement. Immediately prior to June 3, 2009, Benachee transferred substantially all of its assets and all of its liabilities to a related company. Ag Growth recorded its acquisition of Benachee as an acquisition of assets.

Ag Growth International Inc.

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

June 30, 2010

The Company presents and discloses its financial instruments in accordance with the substance of its contractual arrangement. Accordingly, on the effective date of the Conversion, \$3.6 million of the Company's redeemable preferred shares were classified as a liability since the Company was obligated to pay cash to redeem these preferred shares. The estimated fair value of the holder's option to convert the Class A preferred shares to common shares in the amount of \$400 was separated from the fair value of the liability and was recorded to contributed surplus. The liability component was accreted using the effective interest rate method until October 15, 2009 when the liability was settled for common shares. Upon conversion to common shares, the accreted value of the preferred share liability of \$3,737 and the equity component of preferred shares of \$400 were transferred to common shares [note 9].

On June 3, 2009, the effective date of the Plan of Arrangement, the following assets and liabilities have been recorded in the consolidated financial statements:

	\$
Future income tax asset	69,800
Deferred credit [note 14]	56,300
Total consideration	13,500

Total consideration is comprised of:

	\$
Cash	5,000
Common shares of Ag Growth International Inc.	4,500
Redeemable preferred shares	4,000
Total consideration	13,500

7. GOODWILL

	\$
Balance, December 31, 2008 and December 31, 2009	52,337
Effect of foreign currency exchange rate changes [note 4]	(12)
Acquisition of Mepu [note 5]	2,382
Balance, June 30, 2010	54,707

Ag Growth International Inc.

**NOTES TO UNAUDITED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2010

8. INTANGIBLE ASSETS

	\$
Balance, December 31, 2008	71,989
Amortization for the six-month period ended <i>[note 24]</i>	<u>(1,483)</u>
Balance, June 30, 2009	70,506
Amortization for the six-month period ended	<u>(1,483)</u>
Balance, December 31, 2009	69,023
Amortization for the six-month period ended <i>[note 24]</i>	(1,608)
Effect of foreign currency exchange rates <i>[note 4]</i>	(451)
Acquisition of Mepu <i>[note 5]</i>	<u>2,476</u>
Balance, June 30, 2010	<u>69,440</u>

Ag Growth International Inc.

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

June 30, 2010

9. SHAREHOLDERS' EQUITY

[a] Common shares

Authorized - Unlimited number of voting common shares without par value

Issued – 12,611,068 common shares

	Fund Trust units	Class B units	Total Fund Trust and Class B units	Common shares
	\$	\$	\$	\$
				<i>[notes 2 and 6]</i>
Balance, December 31, 2008	146,894	1,361	148,255	—
Settlement of LTIP obligation – vested shares	723	—	723	—
Purchase of units under LTIP	(286)	—	(286)	—
Balance prior to Conversion	147,331	1,361	148,692	—
Conversion	(147,331)	(1,361)	(148,692)	148,692
Issuance of common shares pursuant to Plan of Arrangement <i>[note 6]</i>	—	—	—	4,500
Issuance costs	—	—	—	(50)
Balance, June 30, 2009	—	—	—	153,142
Preferred shares conversion to common shares	—	—	—	4,137
Balance, December 31, 2009	—	—	—	157,279
Purchase of common shares under LTIP <i>[note 17]</i>	—	—	—	(6,032)
Purchase of common shares under normal course issuer bid	—	—	—	(4,603)
Settlement of LTIP obligation – vested shares <i>[note 17]</i>	—	—	—	818
Settlement of SAIP obligation <i>[note 18]</i>	—	—	—	2,586
Balance, June 30, 2010	—	—	—	150,048

Ag Growth International Inc.

**NOTES TO UNAUDITED INTERIM CONSOLIDATED
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June 30, 2010

	Fund Trust units #	Class B units #	Common shares #
			<i>[notes 2 and 6]</i>
Balance, December 31, 2008	12,548,515	136,085	—
Settlement of LTIP obligation – vested shares	23,467	—	—
Purchase of units under LTIP <i>[note 17]</i>	(11,008)	—	—
Balance prior to Conversion	12,560,974	136,085	—
Conversion	(12,560,974)	(136,085)	12,697,059
Issuance of common shares pursuant to Plan of Arrangement <i>[note 6]</i>	—	—	182,588
Balance, June 30, 2009	—	—	12,879,647
Preferred shares conversion to common shares <i>[note 6]</i>	—	—	140,452
Balance, December 31, 2009	—	—	13,020,099
Purchase of common shares under LTIP <i>[note 17]</i>	—	—	(167,900)
Purchase of common shares under normal course issuer bid	—	—	(341,600)
Settlement of LTIP obligation – vested shares <i>[note 17]</i>	—	—	27,136
Settlement of SAIP obligation <i>[note 18]</i>	—	—	73,333
Balance, June 30, 2010	—	—	12,611,068

Prior to the Conversion, there were 136,085 Class B Exchangeable units outstanding in a subsidiary of the Fund that were exchangeable for Fund Trust units at the option of the holder on a one-for-one basis at any time. In conjunction with the Conversion, these Class B units were exchanged for common shares of Ag Growth.

The 12,611,068 common shares at June 30, 2010 are net of 198,705 common shares with a stated value of \$6,946 that are being held by the Company under the terms of the LTIP until vesting conditions are met.

Normal course issuer bid

On December 10, 2009, Ag Growth commenced a normal course issuer bid for up to 1,272,423 common shares, representing 10% of the Company's public float at that time. The normal course issuer bid will terminate on December 9, 2010 unless terminated earlier by Ag Growth. Ag Growth purchased 341,600 common shares under the normal course issuer bid during the six-month period ended June 30, 2010 for \$11,700.

Ag Growth International Inc.

**NOTES TO UNAUDITED INTERIM CONSOLIDATED
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June 30, 2010

Subsequent to June 30, 2010, Ag Growth purchased an additional 333,000 common shares under the normal course issuer bid for \$11,233.

[b] Contributed surplus

	\$
Balance, December 31, 2008	1,551
Settlement of LTIP obligation - vested shares <i>[note 17]</i>	(723)
Equity settled director compensation <i>[note 19]</i>	15
Equity component of preferred shares <i>[note 6]</i>	400
Settlement of LTIP obligation - shares purchased under LTIP <i>[note 17]</i>	364
Balance, June 30, 2009	1,607
Equity settled director compensation <i>[note 19]</i>	32
Settlement of LTIP obligation - shares purchased under LTIP	268
Equity component of convertible unsecured subordinated debentures <i>[note 10]</i>	7,146
Conversion of preferred shares <i>[note 6]</i>	(400)
Balance, December 31, 2009	8,653
Equity settled director compensation <i>[note 19]</i>	49
Settlement of LTIP obligation - vested shares <i>[note 17]</i>	(818)
Exercise price on vested SAIP awards	7
Settlement of LTIP obligation - shares purchased under LTIP	3,388
Balance, June 30, 2010	11,279

[c] Accumulated other comprehensive income (loss)

	\$
Balance, December 31, 2008	(10,560)
Other comprehensive income in period	7,933
Balance, June 30, 2009	(2,627)
Other comprehensive income in period	8,217
Balance, December 31, 2009	5,590
Other comprehensive loss in period	(2,674)
Balance, June 30, 2010	2,916

Ag Growth International Inc.

**NOTES TO UNAUDITED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

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

June 30, 2010

10. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

	June 30, 2010	December 31, 2009
	\$	\$
Principal amount	115,000	115,000
Equity component	(7,475)	(7,475)
Accretion	811	185
Financing fees, net of amortization	(4,221)	(4,603)
Convertible unsecured subordinated debentures	104,115	103,107

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

Each Debenture is convertible into common shares of the Company at the option of the holder at any time on the earlier of the maturity date and the date of redemption of the Debenture, at a conversion price of \$44.98 per common share being a conversion rate of approximately 22.2321 common shares per \$1,000 principal amount of Debentures. Ag Growth has reserved 2,556,692 common shares for issuance upon conversion of the Debentures.

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

On redemption or at maturity, the Company may, at its option, elect to satisfy its obligation to pay the principal amount of the Debentures by issuing and delivering common shares. The Company may also elect to satisfy its obligations to pay interest on the Debentures by delivering common shares. The Company does not expect to exercise this option and as a result the potentially

Ag Growth International Inc.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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June 30, 2010

dilutive impact has been excluded from the calculation of fully diluted earnings per share [note 22]. 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 in the six-month period ended June 30, 2010 the Company recorded accretion of \$626 which has been included in debenture interest expense of \$5,033 [note 24]. 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 its pro rata share of financing costs of \$329.

11. CAPITAL STRUCTURE

Ag Growth's capital structure is comprised of shareholders' equity and long-term debt. Ag Growth's objectives when managing its capital structure are to maintain and preserve its 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 monitors its capital structure using non-GAAP financial metrics including net debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] and corporate conversion costs for the immediately preceding 12-month period and net debt to shareholders' equity. Ag Growth defines net debt as long-term debt plus the liability component of debentures less cash and cash equivalents.

Ag Growth's optimal capital structure targets to maintain its net debt to EBITDA ratio at levels below 2.5, after taking into consideration the impacts of industry cyclicalities and acquisitions. The table below calculates the ratio based on EBITDA achieved in the previous 12 months:

	As at June 30, 2010	As at December 31, 2009
	\$	\$
Net debt	75,456	19,416
EBITDA	61,738	60,680
Ratio	1.22 times	0.32 times

Ag Growth International Inc.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	As at June 30, 2010	As at December 31, 2009
	\$	\$
Net debt	75,456	19,416
Shareholders' equity	167,959	176,799
Ratio	0.45 times	0.11 times

Ag Growth's capital management objectives, evaluation measures, definitions and targets have changed over the periods presented to incorporate the issuance of its Debentures. Ag Growth is subject to certain financial covenants in its credit facility agreement which must be maintained to avoid acceleration of the termination of the agreement. Ag Growth is in compliance with all financial covenants.

12. 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. Ag Growth's use of its bank revolver in 2010 may differ from historical patterns due to the availability of the remaining proceeds from its Debenture offering in October 2009.

Ag Growth International Inc.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2010

13. BANK INDEBTEDNESS

Ag Growth's credit facility includes Cdn. \$10 million and U.S. \$2.0 million available for working capital and general corporate purposes. The facilities bear interest at a rate of prime plus 0.50% to prime plus 1.50% per annum based on performance calculations. The effective interest rate during the three and six-month periods ended June 30, 2010 on Ag Growth's Canadian dollar term debt was 2.8% and 2.8%, respectively [2009 - 3.3% and 3.2%], and on its U.S. dollar term debt was 3.3% and 3.3%, respectively [2009 - 4.3% and 3.8%]. At June 30, 2010, there was nil outstanding under these facilities [December 31, 2009 - nil]. These facilities mature October 29, 2012. Collateral for the operating facilities rank pari passu with Series A notes and term debt [note 20] and includes a general security agreement over all assets, first position collateral mortgages on land and buildings and assignments of rents and leases and security agreements for patents and trademarks.

14. INCOME TAXES

Ag Growth converted from a publicly traded income trust to a publicly traded corporation on June 3, 2009 [notes 2 and 6]. Accordingly, Ag Growth's calculation of current and future income taxes for the three and six-month periods ended June 30, 2010 are based on the conversion to a corporate structure, whereas the calculation of current and future income taxes for the periods ended June 30, 2009 are based on Ag Growth being a publicly traded income trust prior to June 3, 2009 and a corporation subsequent thereto.

In June 2007, the Government of Canada enacted legislation to impose additional taxes on income trusts, including the Fund, effective January 1, 2011. Under this legislation, and updated legislation enacted in 2008, the Fund estimated its future income taxes on the reversal of certain temporary differences between amounts recorded for book and income tax purposes based on effective tax rates of between 28.0% and 29.5%, applied only to reversals subsequent to January 1, 2011. Due to its status as an income trust, temporary differences reversing before 2011 still gave rise to future income taxes of nil. Subsequent to the Conversion, Ag Growth is no longer an income trust and, accordingly, is required to estimate its future income taxes on the reversals of all temporary differences, including those reversing before 2011. As a result, an additional future income tax recovery of \$1,598 was recorded as of the effective date of the conversion.

For the three and six-month periods ended June 30, 2010, Ag Growth has recorded a current income tax expense of \$1,625 and \$1,720, respectively [2009 - \$931 and \$164], primarily related to income of its U.S. corporation subsidiaries.

Ag Growth International Inc.

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

June 30, 2010

Ag Growth's future income tax asset and liability are comprised of the following components:

	June 30, 2010	December 31, 2009
	\$	\$
Future tax liability related to derivatives included in OCI	(842)	(1,765)
Future tax asset related to property, plant and equipment, intangible assets, non-capital losses, exploration and development expenses, and investment tax credits	9,767	11,868
Future tax asset - current	8,925	10,103
Future tax liability related to derivatives included in OCI	(66)	(490)
Future tax asset related to property, plant and equipment, intangible assets, non-capital losses, exploration and development expenses, and investment tax credits	61,327	62,984
Valuation allowance - Canadian non-capital losses and exploration and development expenses	(23,483)	(23,483)
Future tax asset related to other temporary differences	1,064	2,043
Future tax asset - long-term	38,842	41,054
Future tax liability related to property, plant and equipment - US Operations	(1,227)	(1,047)
Future tax liability - long-term	(1,227)	(1,047)

The Company recorded a deferred credit relating to the difference between the future income tax asset and the amount of the consideration paid pursuant to the Plan of Arrangement [note 6]. The credit is being amortized to income in proportion to reversal of the future tax asset.

Income tax provisions, including current and future income tax assets and liabilities, 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. Therefore, it is possible that the ultimate value of Ag Growth's income tax assets and liabilities could change in the future and that change to these amounts could have a material effect on these consolidated financial statements.

Ag Growth International Inc.

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15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

Ag Growth has the following financial instruments: cash and cash equivalents, cash held in trust, accounts receivable, other investment, accounts payable and accrued liabilities, transaction and financing costs payable, dividends payable, long-term debt, derivative instruments and convertible unsecured subordinated debentures.

Ag Growth is exposed to financial risks arising from financial assets and liabilities. The Company's objectives in managing these risks are to protect from volatility in net earnings and to minimize exposure from fluctuations in market rates. The financial risks include foreign exchange risk, interest rate risk, credit risk and liquidity risk as follows:

[a] Foreign exchange risk

Ag Growth operates primarily in North America and as a result fluctuations in the rate of exchange between the U.S. and Canadian dollar can have a significant effect on its cash flows and reported results. To mitigate exposure to the fluctuating rate of exchange, Ag Growth enters into foreign exchange contracts and denominates a portion of its debt in U.S. dollars. At June 30, 2010, Ag Growth's U.S. dollar denominated debt totaled U.S. \$25.0 million and the Company had entered into the following foreign exchange contracts to sell U.S. dollars in order to hedge their foreign exchange risk:

Settlement dates	Face value	Average rate
	U.S. \$	Cdn. \$
July 2010 to December 2010	27,000	1.15
January 2011 to November 2011	45,000	1.10

At June 30, 2010, Ag Growth had outstanding a series of foreign exchange call and put options not designated as a hedge instrument as noted below. Realized and unrealized gains or losses on the call and put options are included in loss (gain) on foreign exchange on the statement of earnings. The Company accounts for purchases and sales of financial assets at the trade date.

CALLS

Expiration date	Face value	Strike price
	U.S. \$	\$
October 28, 2010	5,000	1.2200
December 31, 2010	3,000	1.2200

Ag Growth International Inc.

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PUTS Expiration date	Face value	Strike price
	U.S. \$	\$
October 28, 2010	10,000	1.3050
December 31, 2010	6,000	1.3050

At June 30, 2010, Ag Growth had outstanding two foreign exchange swap contracts not designated as a hedge instrument as noted below. Realized and unrealized gains or losses on the swap contracts are included in loss (gain) on foreign exchange on the statement of earnings. The Company accounts for purchases and sales of financial assets at the trade date.

Settlement dates	Face value	Rate
	U.S. \$	Cdn. \$
August 2010	2,000	1.0402
September 2010	3,000	1.0343

Ag Growth's sales denominated in U.S. dollars for the six-month period ended June 30, 2010 were U.S. \$76.4 million, and the total of its cost of goods sold and its selling, general and administrative expenses denominated in that currency were U.S. \$35.4 million. Accordingly, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$7.6 million increase or decrease in sales and a total increase or decrease of \$3.5 million in its cost of goods sold and its selling, general and administrative expenses. In relation to Ag Growth's foreign exchange hedging contracts, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in an increase or decrease in the foreign exchange gain of \$2.6 million and an increase or decrease to other comprehensive income of \$7.6 million. In relation to Ag Growth's U.S. dollar denominated long-term debt, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in an increase or decrease in the foreign exchange gain of \$2.7 million.

[b] Interest rate risk

Ag Growth is subject to risks associated with fluctuating interest rates on its floating rate long-term debt. The Company had no floating rate long-term debt outstanding in the three-month and six-month periods ended June 30, 2010.

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[c] 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, through the use of insurance on certain international accounts receivable, and due to the accounts receivable being spread over a large number of customers. Ag Growth establishes a reasonable allowance for non-collectible amounts with this allowance netted against the accounts receivable on the consolidated balance sheets. Ag Growth does not hold collateral as security of these balances.

Ag Growth does not believe it has significant concentration risk. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

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 table below sets out the details of the accounts receivable balances outstanding as at June 30, 2010, based on the status of the receivable in relation to when the receivable was due and payable:

	<u>\$</u>
Neither impaired nor past due	38,439
Not impaired and past the due date as follows	
Within 30 days	6,536
31 to 60 days	2,079
61 to 90 days	1,151
Over 90 days	2,249
Allowance for doubtful accounts	<u>(709)</u>
Total accounts receivable, June 30, 2010	<u>49,745</u>

There were no accounts receivable deemed uncollectible. In the event an amount is deemed uncollectible, the credit loss is charged against the allowance.

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The following table represents a summary of the movement of the allowance for doubtful accounts:

	June 30, 2010	December 31, 2009
	\$	\$
Balance, beginning of period	499	528
Acquisition of Mepu	196	—
Allowance for doubtful accounts	17	220
Write-off of specific accounts receivable	(3)	(249)
Balance, end of period	709	499

[d] Liquidity risk

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

The following are the contractual maturities of non-derivative financial liabilities as at June 30, 2010:

	Carrying amount	Contractual cash flows	0 - 6 months	6 - 12 months	12 - 24 months	After 24 months
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	21,038	21,038	21,038	—	—	—
Long-term debt, including the current portion	26,909	26,909	60	60	120	26,669
Dividends payable	2,181	2,181	2,181	—	—	—
Transaction and financing costs payable	866	866	866	—	—	—
Convertible unsecured subordinated debentures	104,115	115,000	—	—	—	115,000
	155,109	165,994	24,145	60	120	141,669

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Fair value

Section 3862, "Financial Instruments - Disclosures", establishes a fair value hierarchy which requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company primarily applies the market approach for recurring fair value measurements. The Section describes three levels of inputs that may be used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability in a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	54,767	—	—	54,767
Cash held in trust	651			651
Derivative financial instruments	—	4,614	—	4,614

The fair value of a financial instrument on initial recognition is normally the transaction price, which is the value of the consideration given or received.

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At June 30, 2010, the carrying value of cash and cash equivalents, cash held in trust, accounts receivable, accounts payable and accrued liabilities, transaction and financing costs payable and dividends payable approximates their fair value due to the relatively short period to maturity. Long-term debt in the form of term loans with a variable interest rate are carried at amortized cost, which approximates fair value. Derivatives are valued based on market quotations. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors with similar characteristics and risk profiles. The fair value of the Company's other investment is not determinable. At June 30, 2010, the fair value and carrying value of the foreign exchange contracts was an unrealized gain of \$4,614 [December 31, 2009 - \$9,500]. For the six-month period ended June 30, 2010, a loss of \$27 [2009 - nil] arising from hedge ineffectiveness was recorded through net earnings in loss (gain) on foreign exchange. At June 30, 2010, the fair value of the Series A notes was approximately \$30,690. As at the issuance date, the fair value of the liability component of the debenture was estimated by discounting future payments of interest and principal over the period to their maturity date of December 31, 2014. As at June 30, 2010, the fair value of the liability component of the debenture using the same valuation technique was approximately \$109,035.

Over the next 12 months, Ag Growth expects to realize an estimated \$3.1 million in net gains reported in accumulated other comprehensive income as unrealized gains as at June 30, 2010.

16. SEGMENTED DISCLOSURE

Ag Growth operates in one business segment related to the manufacturing and distributing of portable and stationary grain handling, storage and conditioning equipment. Geographic information about the Company's sales is based on the product shipment destination. Assets are based on their physical location as at the period end:

	Sales				Property, plant and equipment, goodwill and intangible assets as at	
	Three-month period ended		Six-month period ended		June 30, December 31, 2010 2009	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	2010	2009
	\$	\$	\$	\$	\$	\$
Canada	19,107	19,700	33,347	38,676	115,973	106,313
United States	46,692	42,695	79,098	76,885	42,127	42,826
International	6,559	4,445	11,552	6,568	9,696	—
	72,358	66,840	123,997	122,129	167,796	149,139

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17. LONG-TERM INCENTIVE PLAN

Pursuant to the LTIP, the Company establishes the amount to be allocated to eligible participants based upon the amount by which distributable cash, as defined in the LTIP, exceeds a predetermined threshold. The amount owing to participants is recorded as a long-term incentive plan liability with the offset recorded to net earnings. At such time that the common shares are purchased the liability is reclassified to contributed surplus under shareholders' equity. In the six-month period ended June 30, 2010, the administrator purchased 167,900 common shares in the market for \$6,032 [note 9[a]] to satisfy its obligation related to fiscal 2009. During the six months ended June 30, 2010, \$2,570 was reclassified from the long-term incentive plan liability to contributed surplus.

The common shares awarded vest over a three-year period commencing one year after the fiscal year of the award. In the period ended June 30, 2010, 27,136 LTIP common shares vested to the participants at which time \$818 [note 9[a] and 9[b]] was reclassified from contributed surplus to shareholders' equity. An aggregate of 50,603 LTIP common shares have vested as at June 30, 2010. Cash dividends paid on common shares held by the administrator are payable to participants in the plan. The expense related to the LTIP is recorded in relation to the service period and accordingly the total award will be expensed over a four year period with 36% in the initial fiscal year and 36%, 20% and 8% in the next three fiscal years, respectively, subsequent to the current year. For the three-month and six-month periods ended June 30, 2010, Ag Growth has recorded an expense with respect to the LTIP of \$973 and \$1,873, respectively [2009 - \$700 and \$1,150]. The amount to be expensed in future periods with respect to the LTIPs for fiscal years 2007, 2008, 2009 and 2010 is \$5.7 million.

18. SHARE AWARD INCENTIVE PLAN

The Company has a share award incentive plan which authorizes the Directors to grant awards ["Share Awards"] to employees or officers of Ag Growth or any affiliates of the Company or who are consultants or other service providers to the Company and its affiliates ["Service Providers"]. Share Awards may not be granted to non-management Directors. The shareholders reserved for issuance 220,000 common shares, subject to adjustment in lieu of dividends, if applicable, and no additional awards may be granted without shareholder approval. 220,000 Share Awards have been granted and 146,667 remain outstanding as at June 30, 2010. During the six-month period ended June 30, 2010, 73,333 [2009 - nil] share awards vested and were exercised, at which time common shares of the Company were issued for \$2,586 [note 9[a]]. For the three-month and six-month periods ended June 30, 2010, Ag Growth recorded an expense of \$115 and \$689, respectively for the Share Awards [2009 - \$826 and \$1,694].

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Under the terms of the Share Award Incentive Plan [the "Share Award Plan"], any Service Provider may be granted Share Awards. Each Share Award entitles the holder to be issued the number of common shares designated in the Share Award, upon payment of an exercise price of \$0.10 per common share, and the common shares will vest and may be issued as to one half on each of January 1, 2011 and January 1, 2012 or such earlier or later dates as may be determined by the Directors. In lieu of receiving common shares, the holder, with the consent of Ag Growth, may elect to be paid cash for market value of the common shares in excess of exercise price of the common shares. The Share Award Plan provides for immediate vesting of the Share Awards in the event of retirement, death, termination without cause or in the event the Service Provider becomes disabled.

19. DIRECTORS' DEFERRED COMPENSATION PLAN

The Company has a Directors' Deferred Compensation Plan [the "Plan"], which provides that a minimum of 20% of the remuneration of non-management Directors be payable in common shares of the Company. The principal purpose of the Plan is to encourage non-management Director ownership of common shares. A Director will not be entitled to receive the common shares granted for three years from the date of grant or until the Director ceases to be a Director, whichever is earlier. Director remuneration under the Plan will be expensed over the three-year vesting period of the share grants. For the three and six-month periods ended June 30, 2010, Ag Growth recorded an expense of \$27 and \$49, respectively [2009 - \$15 and \$15] [note 9[b]] for the share grants and a corresponding amount has been recorded to contributed surplus.

The price to be used for determining the number of common shares to be granted will be the weighted average trading price of common shares for the ten trading days preceding the Company's financial quarter. The total number of common shares issuable pursuant to the Plan shall not exceed 35,000, subject to adjustment in lieu of dividends, if applicable. As at June 30, 2010, a total of 11,382 common shares had been granted under the Plan and no common shares had been issued.

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20. LONG-TERM DEBT

	June 30, 2010	December 31, 2009
	\$	\$
Series A secured notes	26,515	26,165
Nordea equipment loan	355	—
GMAC loans	39	47
	26,909	26,212
Less current portion	121	16
Less deferred financing costs	680	793
	26,108	25,403

The Series A secured notes were issued on October 29, 2009. The non-amortizing notes bear interest at 6.8%, payable quarterly beginning January 31, 2010, and mature October 29, 2016.

Term loans bear interest at rates of prime plus 0.5% to prime plus 1.5% based on performance calculations. There were no term loans outstanding at June 30, 2010 or December 31, 2009. The effective interest rate on Canadian dollar term loans in 2009 was 3.4% and on U.S. dollar term loans was 4.2%. During 2009, the Company settled interest rate swap contracts of U.S. \$26,500 that were used to fix a portion of its U.S. dollar denominated debt, and the effective interest rate on the U.S. term loans after consideration of the interest rate swaps was 4.5%. Ag Growth's credit facility provides for term loans of up to Cdn \$38,000 and U.S. \$20,500, and matures October 29, 2012.

Nordea equipment loan bears interest at 2% and matures in 2013. The equipment financed is pledged as collateral.

GMAC loans bear interest at 0% and mature in 2011 and 2014. The vehicles financed are pledged as collateral.

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.

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Principal repayments due within the next five fiscal years and thereafter are as follows:

	\$
2010	60
2011	121
2012	120
2013	93
2014 and thereafter	26,515
	<u>26,909</u>

21. STOCK OPTION PLAN

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

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

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

As at June 30, 2010, a total of 970,319 options are available for grant. No options have been granted as at June 30, 2010.

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

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22. NET EARNINGS PER SHARE

	Three-month period ended		Six-month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
Net earnings available to common shareholders	12,443	16,431	18,868	26,558
Add back cumulative preferred interest	—	14	—	14
Add back interest expense (after tax) on convertible debentures	1,739	—	3,487	—
Numerator for diluted earnings per share	14,182	16,445	22,355	26,572
Basic weighted average number of shares	12,884,316	12,730,217	12,991,847	12,752,124
Dilutive effect of long-term incentive plan	182,632	57,941	108,857	57,941
Dilutive effect of share award incentive plan	112,874	133,856	113,287	120,952
Dilutive effect of redeemable preferred shares	—	43,124	—	43,124
Dilutive effect of directors' deferred compensation plan	11,382	5,532	11,382	5,532
Dilutive effect of convertible debentures	2,556,692	—	2,556,692	—
Diluted weighted average number of shares	15,747,896	12,970,670	15,782,065	12,979,673
Basic earnings per share	0.97	1.29	1.45	2.08
Diluted earnings per share	0.90	1.27	1.42	2.05

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June 30, 2010

**23. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES
RELATED TO OPERATIONS**

	Three-month period ended		Six-month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
Decrease (increase) in current assets				
Accounts receivable	(13,719)	(7,508)	(23,465)	(18,750)
Inventory	(2,965)	2,417	(5,949)	139
Income taxes recoverable	—	1,113	—	319
Prepaid expenses and other assets	142	932	(409)	(63)
	(16,542)	(3,046)	(29,823)	(18,355)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	2,929	1,668	4,365	3,625
Income taxes payable	980	—	1,034	—
Customer deposits	85	(2,863)	(1,260)	(7,050)
Long-term incentive plan	(85)	21	35	20
	3,909	(1,174)	4,174	(3,405)
	(12,633)	(4,220)	(25,649)	(21,760)

24. SUPPLEMENTAL EXPENSE INFORMATION

[a] Interest expense

	Three-month period ended		Six-month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
Interest on short-term debt	—	33	24	49
Interest on long-term debt	595	519	1,177	1,215
Interest on redeemable preferred shares	—	13	—	13
Interest on debentures	2,510	—	5,033	—
	3,105	565	6,234	1,277

[b] Amortization

	Three-month period ended		Six-month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
Amortization of property, plant and equipment	1,301	1,344	2,396	2,609
Amortization of intangible assets	874	740	1,608	1,483
	2,175	2,084	4,004	4,092

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25. COMMITMENTS

Ag Growth has entered into various operating leases for office and manufacturing equipment, warehouse facilities and vehicles. Future minimum annual lease payments required in aggregate are as follows:

	<u>\$</u>
2010	656
2011	698
2012	180
2013	41
2014	10
	<u>1,585</u>

The Company has entered into commitments of \$8.9 million in relation to building and equipment which will be incurred throughout 2010.

26. RELATED PARTY TRANSACTIONS

Burnet, Duckworth & Palmer LLP provides legal services to the Company and a Director of Ag Growth is a partner of Burnet, Duckworth & Palmer LLP. The total cost of these legal services related to the Conversion and the debenture offering during the three and six-month periods ended June 30, 2010 were nil [year ended December 31, 2009 - \$0.9 million] and is included in transaction and financing costs payable. These transactions are measured at the exchange amount and were incurred during the normal course of business on similar terms and conditions to those entered into with unrelated parties.

27. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

Officers

Rob Stenson, Chief Executive Officer and Director
Gary Anderson, President, Chief Operating Officer and Director
Steve Sommerfeld, CA, Chief Financial Officer
Dan Donner, Vice President Sales and Marketing
Paul Franzmann, CA, Vice President, Southern Business Group
Doug Weinbender, Vice President, Western Business Group
Ron Braun, Vice President and General Manager, Westfield Industries
Eric Lister, Q.C., Counsel

Directors

Rob Stenson
Gary Anderson
John R. Brodie, FCA, Audit Committee Chairman
Bill Lambert, Board of Directors Chairman
Bill Maslechko, Governance Committee Chairman
David White, CA

Additional information relating to the Company, including all public filings,
is available on SEDAR (www.sedar.com).

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Transfer Agent: Computershare Investor Services Inc.

Shares Listed: Toronto Stock Exchange
Stock Symbol: AFN