



**Ag Growth Announces Record Third Quarter Results; Declares Dividends**

Winnipeg, MB, November 13, 2013 – Ag Growth International Inc. (TSX: AFN) (“AGI” or the “Company”) today announced its financial results for the three and nine month periods ended September 30, 2013, and declared dividends for December 2013, January 2014 and February 2014.

**Overview of Results**

(thousands of dollars)	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	Change	2013	2012	Change
Trade sales (1)	\$116,537	\$83,465	40%	\$270,332	\$254,717	6%
Adjusted EBITDA (1)	\$23,330	\$12,531	86%	\$47,282	\$44,757	6%
Net Profit	\$12,718	\$6,501	96%	\$22,073	\$20,624	7%
Diluted profit per share	\$0.95	\$0.52	83%	\$1.71	\$1.64	4%

(1) See “Non-IFRS Measures”.

AGI’s record third quarter results reflect its significant market share in North American portable grain handling, the strength of its leading commercial grain handling brands and an increasing presence in international markets. Sales, adjusted EBITDA and net profit per share all increased substantially over the prior period as the Company benefited from favourable crop conditions in North America and continued investment in commercial grain handling infrastructure both domestically and overseas. International sales surged in the third quarter, increasing 76% compared to the prior year. Based on current conditions in North America and strong momentum in its international business, management retains a very positive outlook for the balance of 2013 and fiscal 2014 (see “Outlook”).

“We are very pleased with our third quarter results.” said Gary Anderson, President and Chief Executive Officer. “The record earnings we reported today not only reflect a return to normal market conditions but also speak to the hard work that has been going on behind the scenes while we managed our way through the effects of the 2012 drought. Operational improvements and the continued implementation of lean manufacturing contributed to strong margin performances across all business lines. Our international

sales team continued to build sustainable relationships in growing offshore markets which are expected to benefit the Company for years to come. We retained our focus on customer satisfaction throughout the recent market challenges and accordingly our business remains well positioned to deliver strong results over the long-term.”

“We expect to report record results in the fourth quarter of 2013 and it is gratifying that despite the significant headwinds faced in the first half of the year our adjusted EBITDA for fiscal 2013 should approach record levels. We remain very enthusiastic with respect to AGI’s prospects in 2014 and expect to capitalize on our substantial North American market share in portable and commercial grain handling equipment and to continue growing our business in offshore markets.”

## **Outlook**

AGI’s primary demand driver is the volume of grains grown, followed by the magnitude of on-farm storage, commodity prices and conditions during harvest. The industry environment currently is suggestive of very high levels of demand as North American farmers are expected to harvest a record crop, moderating commodity prices may incentivize producers to store more grain on the farm, resulting in increased use of handling equipment, and a late harvest in the U.S. has led to a prolonged in-season sales period.

Sales of portable handling equipment have benefited from these demand drivers and strong on-farm demand is anticipated to continue as the U.S. harvest progresses well into the fourth quarter of 2013. Management anticipates low levels of inventory throughout the Company’s distribution network post-harvest will lead to strong dealer participation in preseason programming, increasing demand later in the fourth quarter but more significantly in the first half of 2014. Demand for commercial equipment remains very strong as the U.S. commercial grain handling infrastructure continues to expand and focus on efficiencies in response to a long-term trend towards higher grain production. The Company’s commercial backlog entering the fourth quarter was its highest on record and the current backlog and ongoing quoting activity suggests strong commercial demand will continue into 2014.

International sales surged in the third quarter of 2013 and based on outstanding orders the Company expects fourth quarter international sales to significantly exceed the prior year. AGI’s increasing presence in new markets across the globe has resulted in record levels of quoting activity and a substantial amount of business committed for 2014. As at September 30, 2013, sales plus order backlog in these recently targeted markets were 65% higher than at the same time in 2012. Accordingly, management expects international sales in 2014 to exceed the record levels anticipated to be achieved in the current year.

On balance, strong North American demand for portable and commercial grain handling equipment and continued strength in offshore markets is anticipated to drive record

results in the fourth quarter of 2013. As a result, adjusted EBITDA for fiscal 2013, despite significant headwinds in the first half related to the 2012 U.S. drought, is expected to approach record levels. Management expects to enter 2014 with excellent backlogs both domestically and overseas and remains very optimistic regarding the Company's prospects for the upcoming year.

Consistent with prior years, demand in 2014, particularly in the second half, will be influenced by weather patterns, crop conditions, the timing of harvest and conditions during harvest. Changes in global macro-economic factors, including the availability of credit in new markets, also may influence demand, primarily for commercial grain handling and storage products. Results may also be impacted by changes in steel and other material input costs and the rate of exchange between the Canadian and U.S. dollars.

## **Dividends**

AGI today announced the declaration of cash dividends of \$0.20 per common share for the months of December 2013, January 2014 and February 2014. The dividends are eligible dividends for Canadian income tax purposes. AGI's current annualized cash dividend rate is \$2.40 per share.

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

<b>Monthly dividend</b>	<b>Payable date</b>	<b>Record date</b>
December 2013	January 15, 2014	December 31, 2013
January 2014	February 14, 2014	January 31, 2014
February 2014	March 14, 2014	February 28, 2014

## **MD&A and Financial Statements**

AGI's financial statements and management's discussion and analysis for the three and nine month periods ended September 30, 2013 can be obtained at <http://media3.marketwire.com/docs/AFN1113Q3829.pdf> and will also be available electronically from SEDAR (www.sedar.com) or from AGI's website ([www.aggrowth.com](http://www.aggrowth.com)).

## **Conference Call**

AGI will hold a conference call on Wednesday, November 13, 2013, at 10:00 a.m. EST to discuss its results for the three and nine month periods ended September 30, 2013. To participate in the conference call, please dial 1-866-223-7781 or for local access dial 416-340-2218. An audio replay of the call will be available for seven days. To access the

audio replay, please dial 1-800-408-3053 or for local access dial 905-694-9451. Please quote pass code 2235910.

## **Company Profile**

Ag Growth International Inc. is a leading manufacturer of portable and stationary grain handling, storage and conditioning equipment, including augers, belt conveyors, grain storage bins, grain handling accessories, grain aeration equipment and grain drying systems. AGI has eleven manufacturing facilities in Canada, the United States, the United Kingdom and Finland, and distributes its products globally.

For More Information Contact:

Investor Relations

Steve Sommerfeld

204-489-1855

steve@aggrowth.com

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

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

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

*This press release contains forward-looking statements that reflect our expectations regarding the future growth, results of operations, performance, business prospects, and opportunities of the Company. Forward-looking statements may contain such words as “anticipate”, “believe”, “continue”, “could”, “expects”, “intend”, “plans”, “will” or similar expressions suggesting future conditions or events. In particular, the forward looking statements in this press release include statements relating to our business and*

*strategy, including our outlook for our financial and operating performance including that we expect to report record results in the fourth quarter of 2013, that our adjusted EBITDA for fiscal 2013 should approach record levels, that the industry environment currently is suggestive of very high levels of demand as North American farmers are expected to harvest a record crop, moderating commodity prices may incentivize producers to store more grain on the farm, resulting in increased use of handling equipment, that strong on-farm demand is anticipated to continue as the U.S. harvest progresses well into the fourth quarter of 2013, that management anticipates low levels of inventory throughout the Company's distribution network post-harvest will lead to strong dealer participation in preseason programming, increasing demand later in the fourth quarter but more significantly in the first half of 2014, that the current backlog and ongoing quoting activity suggests strong commercial demand will continue into 2014, that strong North American demand for portable and commercial grain handling equipment and continued strength in offshore markets is anticipated to drive record results in the fourth quarter of 2013, that adjusted EBITDA for fiscal 2013, despite significant headwinds in the first half related to the 2012 U.S. drought, is expected to approach record levels, that Management expects to enter 2014 with excellent backlogs both domestically and overseas and remains very optimistic as regards the Company's prospects for the upcoming year, growth in sales to offshore markets including that the Company expects fourth quarter international sales to significantly exceed the prior year and that management expects international sales in 2014 to exceed the record levels anticipated to be achieved in the current year, the impact of crop conditions in our market areas, the impact of current economic conditions on the demand for our products, future sales and adjusted EBITDA, and the payment of dividends. Such forward-looking statements reflect our current beliefs and are based on information currently available to us, including certain key expectations and assumptions concerning anticipated grain production in our market areas, financial performance, business prospects, strategies, product pricing, regulatory developments, tax laws, the sufficiency of budgeted capital expenditures in carrying out planned activities, foreign exchange rates and the cost of materials, labour and services. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from results discussed in the forward-looking statements, including changes in international, national and local business conditions, weather patterns, crop yields, crop conditions, the timing of harvest and conditions during harvest, seasonality, industry cyclicality, volatility of production costs, commodity prices, foreign exchange rates, competition and the cost and availability of capital for our customers. These risks and uncertainties are described under "Risks and Uncertainties" in our MD&A and in our most recently filed Annual Information Form. These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. We cannot assure readers that actual results will be consistent with these forward-looking statements and we undertake no obligation to update such statements except as expressly required by law.*

**AG GROWTH INTERNATIONAL INC.**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**Dated: November 13, 2013**

This Management’s Discussion and Analysis (“MD&A”) should be read in conjunction with the audited consolidated financial statements and accompanying notes of Ag Growth International Inc. (“AGI”, the “Company”, “we”, “our” or “us”) for the year ended December 31, 2012 and the unaudited interim condensed consolidated financial statements of the Company for the three and nine-month periods ended September 30, 2013. Results are reported in Canadian dollars unless otherwise stated.

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

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

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

**SUMMARY OF RESULTS**

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

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Trade sales (1)	\$116,537	\$83,465	\$270,332	\$254,717
Adjusted EBITDA (1)	\$23,330	\$12,531	\$47,282	\$44,757
Net Profit	\$12,718	\$6,501	\$22,073	\$20,624
Diluted profit per share	\$0.95	\$0.52	\$1.71	\$1.64

(1) See “Non-IFRS Measures”.

AGI’s record third quarter results reflect its significant market share in North American portable grain handling, the strength of its leading commercial grain handling brands and an increasing presence in international markets. Sales, adjusted EBITDA and net profit per share all increased substantially over the prior period as the Company benefited from favourable crop conditions in North America and continued investment in commercial grain handling infrastructure both domestically and overseas. International sales surged in the third quarter, increasing 76% compared to the prior year. Based on current conditions in North America and strong momentum

in its international business, management retains a very positive outlook for the balance of 2013 and fiscal 2014 (see "Outlook").

**Trade Sales** (see "Non-IFRS Measures")

(\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	Change	2013	2012	Change
Canada	\$18,488	\$17,998	3%	\$58,277	\$64,112	(9%)
US	57,866	42,699	36%	144,825	136,100	6%
International	40,183	22,768	76%	67,230	54,505	23%
<b>Total</b>	<b>\$116,537</b>	<b>\$83,465</b>	<b>40%</b>	<b>\$270,332</b>	<b>\$254,717</b>	<b>6%</b>

Trade sales in Canada increased 3% over a very strong 2012 comparative as excellent crop conditions resulted in strong demand for portable handling equipment. For the nine months ended September 30, 2013, trade sales decreased against a record 2012 comparative due primarily to slower than anticipated sales of storage and aeration equipment that was in part the result of Canadian farmers capitalizing on high commodity prices and selling their harvested 2012 crop rather than storing it, resulting in higher than typical on farm storage capacity entering 2013.

In the United States, a large number of planted acres and favourable growing conditions resulted in a return to positive market sentiment and a significant increase in demand for both portable and commercial grain handling equipment. As expected, the Company's distribution network responded to the potential for a large crop and began increasing inventory levels in advance of a late corn harvest, which as at September 30, 2013 was just 12% complete (compared to 52% complete in 2012 and a five year average of 23%). Commercial sales were strong across all product categories including bucket elevators, aeration and the Company's highest capacity self-enclosed belt conveyors. The 36% increase in third quarter trade sales was large enough to offset the significant impact of the 2012 drought on first half demand, resulting in a 6% increase in trade sales in the nine month period ended September 30, 2013 compared to the prior year.

International sales increased 76% compared to the third quarter of 2012 and 23% year-to-date. As at September 30, 2013, the Company's sales plus order backlog in offshore markets was 65% higher than at the same time in 2012 and management expects fourth quarter sales to significantly exceed the previous year. Sales in 2013 included \$28 million of AGI manufactured equipment related to the previously announced contract in Ukraine. In addition to the large Ukrainian contract, significant projects in 2013 include sales to large farms, commercial operations and port facilities in Ukraine, Turkey, Australia and Romania.

**Gross Margin** (see "Non-IFRS Measures")

The Company's gross margin percentage for the three months ended September 30, 2013 was 32.8%, compared to 30.5% in 2012. As a proportion of total sales the Company's highest margin products in portable grain handling decreased compared to 2012, however the Company's consolidated gross margin percentage increased due to efficiencies related to higher production volumes and recent operational initiatives. For the nine months ended September 30, 2013, gross

margin was 33.3%, compared to 32.9% in 2012, as margin gains in the third quarter contributed to higher year-to-date margins.

**Adjusted EBITDA** (see "Non-IFRS Measures")

Adjusted EBITDA for the three months ended September 30, 2013 was a record \$23.3 million and represents a \$10.8 million increase over the drought impacted 2012 comparative. The record adjusted EBITDA achieved in the third quarter of 2013 was the result of strong sales and margins across all business lines. Adjusted EBITDA for the nine months ended September 30, 2013 increased to \$47.3 million from \$44.8 million in 2012 as strong third quarter adjusted EBITDA more than offset the significant challenges faced in the first half related to the impact of the 2012 U.S. drought.

**Diluted profit per share**

Diluted profit per share for the three and nine months ended September 30, 2013 was \$0.95 and \$1.71, respectively (2012 - \$0.52 and \$1.64). The significant increase in the third quarter compared to 2012 was primarily the result of record adjusted EBITDA. For the nine month period the increase compared to 2012 was less significant due to the impact of the 2012 drought on first half results and a non-cash loss on foreign exchange on the translation of U.S. dollar denominated debt in 2013 of \$1.2 million (2012 – gain of \$1.2 million). In the first quarter of 2013 the Company sold its production facility in Saskatoon, SK, which was made redundant through reallocation of production to other AGI facilities, for a gain of \$4.7 million.

**CORPORATE OVERVIEW**

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

Our business is sensitive to fluctuations in the value of the Canadian and U.S. dollars as a result of our exports from Canada to the U.S. and as a result of earnings derived from our U.S. based divisions. Fluctuations in currency impact our results even though we engage in currency hedging with the objective of partially mitigating our exposure to these fluctuations. The Company's average rate of foreign exchange per USD \$1.00 in the three and nine month periods ended September 30, 2013 was CAD \$1.04 and \$1.03, respectively (2012 - \$1.00 in both periods).

Our business is also sensitive to fluctuations in input costs, especially steel, a principal raw material in our products, which represented approximately 26% of the Company's production costs in 2012. Short-term fluctuations in the price of steel impact our financial results even though we strive to partially mitigate our exposure to such fluctuations through the use of long-term purchase contracts, bidding commercial projects based on current input costs and passing input costs on to customers through sales price increases.

## OUTLOOK

AGI's primary demand driver is the volume of grains grown, followed by the magnitude of on-farm storage, commodity prices and conditions during harvest. The industry environment currently is suggestive of very high levels of demand as North American farmers are expected to harvest a record crop, moderating commodity prices may incentivize producers to store more grain on the farm, resulting in increased use of handling equipment, and a late harvest in the U.S. has led to a prolonged in-season sales period.

Sales of portable handling equipment have benefited from these demand drivers and strong on-farm demand is anticipated to continue as the U.S. harvest progresses well into the fourth quarter of 2013. Management anticipates low levels of inventory throughout the Company's distribution network post-harvest will lead to strong dealer participation in pre-season programming, increasing demand later in the fourth quarter but more significantly in the first half of 2014. Demand for commercial equipment remains very strong as the U.S. commercial grain handling infrastructure continues to expand and focus on efficiencies in response to a long-term trend towards higher grain production. The Company's commercial backlog entering the fourth quarter was its highest on record and the current backlog and ongoing quoting activity suggests strong commercial demand will continue into 2014.

International sales surged in the third quarter of 2013 and based on outstanding orders the Company expects fourth quarter international sales to significantly exceed the prior year. AGI's increasing presence in new markets across the globe has resulted in record levels of quoting activity and a substantial amount of business committed for 2014. As at September 30, 2013, sales plus order backlog in these recently targeted markets were 65% higher than at the same time in 2012. Accordingly, management expects international sales in 2014 to exceed the record levels anticipated to be achieved in the current year.

On balance, strong North American demand for portable and commercial grain handling equipment and continued strength in offshore markets is anticipated to drive record results in the fourth quarter of 2013. As a result, adjusted EBITDA for fiscal 2013, despite significant headwinds in the first half related to the 2012 U.S. drought, is expected to approach record levels. Management expects to enter 2014 with excellent backlogs both domestically and overseas and remains very optimistic regarding the Company's prospects for the upcoming year.

Consistent with prior years, demand in 2014, particularly in the second half, will be influenced by weather patterns, crop conditions, the timing of harvest and conditions during harvest. Changes in global macro-economic factors, including the availability of credit in new markets, also may influence demand, primarily for commercial grain handling and storage products. Results may also be impacted by changes in steel and other material input costs and the rate of exchange between the Canadian and U.S. dollars.

## DETAILED OPERATING RESULTS

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Trade sales <sup>(1)</sup>	\$116,537	\$83,465	\$270,332	\$254,717
(Loss) gain on FX <sup>(2)</sup>	<u>(90)</u>	<u>390</u>	<u>(1,018)</u>	<u>(392)</u>
Sales	<u>116,447</u>	<u>83,855</u>	<u>269,314</u>	<u>254,325</u>
Cost of inventories	78,363	58,026	180,190	170,901
Depreciation/Amortization	<u>1,447</u>	<u>1,509</u>	<u>4,262</u>	<u>4,401</u>
Cost of sales	<u>79,810</u>	<u>59,535</u>	<u>184,452</u>	<u>175,302</u>
General and administrative	14,964	12,932	43,177	39,156
Depreciation/Amortization	1,072	1,014	3,200	3,104
Other operating expense (income)	(16)	23	(4,729)	(53)
Finance costs	3,382	3,273	10,040	9,800
Finance expense (income)	<u>(807)</u>	<u>(1,254)</u>	<u>1,192</u>	<u>(1,167)</u>
Profit before income taxes	18,042	8,332	31,982	28,183
Current income taxes	3,519	879	5,963	3,655
Deferred income taxes	<u>1,805</u>	<u>952</u>	<u>3,946</u>	<u>3,904</u>
Profit for the period	<u>\$12,718</u>	<u>\$6,501</u>	<u>\$22,073</u>	<u>\$20,624</u>
Net profit per share				
Basic	<u>\$1.01</u>	<u>\$0.52</u>	<u>\$1.76</u>	<u>\$1.65</u>
Diluted	<u>\$0.95</u>	<u>\$0.52</u>	<u>\$1.71</u>	<u>\$1.64</u>

(1) See "Non-IFRS Measures".

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

## EBITDA RECONCILIATION

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Profit before income taxes	\$18,042	\$8,332	\$31,982	\$28,183
Finance costs	3,382	3,273	10,040	9,800
Depreciation/amortization in cost of sales	1,447	1,509	4,262	4,401
Depreciation/ amortization in G&A expenses	<u>1,072</u>	<u>1,014</u>	<u>3,200</u>	<u>3,104</u>
<b>EBITDA <sup>(1)</sup></b>	<b>23,943</b>	<b>14,128</b>	<b>49,484</b>	<b>45,488</b>
Loss (gain) on foreign exchange in sales <sup>(2)</sup>	90	(390)	1,018	392
Loss (gain) on foreign exchange in finance income	(807)	(1,254)	1,193	(1,183)
Corporate acquisition activity	103	0	253	0
Loss (gain) on sale of property, plant & equipment	<u>1</u>	<u>47</u>	<u>(4,666)</u>	<u>60</u>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b><u>\$23,330</u></b>	<b><u>\$12,531</u></b>	<b><u>\$47,282</u></b>	<b><u>\$44,757</u></b>

(1) See “Non-IFRS Measures”.

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

## ASSETS AND LIABILITIES

(thousands of dollars)	September 30 2013	December 31 2012	September 30 2012
Total assets	\$409,256	\$370,482	\$389,372
Total liabilities	\$213,659	\$180,786	\$189,137

## EXPLANATION OF OPERATING RESULTS

### Trade sales

(\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	Change	2013	2012	Change
Canada	\$18,488	\$17,998	3%	\$58,277	\$64,112	(9%)
US	57,866	42,699	36%	144,825	136,100	6%
Overseas	40,183	22,768	76%	67,230	54,505	23%
<b>Total</b>	<b>\$116,537</b>	<b>\$83,465</b>	<b>40%</b>	<b>\$270,332</b>	<b>\$254,717</b>	<b>6%</b>

### Canada

Trade sales in Canada increased 3% over a very strong 2012 comparative as excellent crop conditions resulted in strong demand for portable handling equipment. For the nine months ended September 30, 2013, trade sales decreased against a record 2012 comparative due primarily to slower than anticipated sales of storage and aeration equipment that was in part the result of Canadian farmers capitalizing on high commodity prices and selling their harvested 2012 crop rather than storing it, resulting in higher than typical on farm storage capacity entering 2013.

### United States

In the United States, a large number of planted acres and favourable growing conditions resulted in a return to positive market sentiment and a significant increase in demand for both portable and commercial grain handling equipment. As expected, the Company's distribution network responded to the potential for a large crop and began increasing inventory levels in advance of a late corn harvest, which as at September 30, 2013 was just 12% complete (compared to 52% complete in 2012 and a five year average of 23%). Commercial sales were strong across all product categories including bucket elevators, aeration and the Company's highest capacity self-enclosed belt conveyors. The 36% increase in third quarter trade sales was large enough to offset the significant impact of the 2012 drought on first half demand, resulting in a 6% increase in trade sales in the nine month period ended September 30, 2013 compared to the prior year.

### International

International sales increased 76% compared to the third quarter of 2012 and 23% year-to-date. As at September 30, 2013, the Company's sales plus order backlog in offshore markets was 65% higher than at the same time in 2012 and management expects fourth quarter sales to significantly exceed the previous year. Sales in 2013 included \$28 million related to the previously announced contract in Ukraine as all AGI manufactured equipment was shipped prior to September 30, 2013. In addition to the large Ukrainian contract, significant projects in 2013 include sales to large farms, commercial operations and port facilities in Ukraine, Turkey, Australia and Romania.

AGI will often provide complete grain storage and handling systems when selling internationally and these projects may include equipment not currently manufactured by the Company or services not provided by the Company. AGI considers itself to be acting as an agent with respect to passing through certain of these goods and services and in these cases the pass-through is not

treated as a sale but rather the net contribution to AGI is recorded as Other Income. In the fourth quarter, it is anticipated \$11 million related to the previously announced \$42 million Ukrainian contract will be accounted for in this manner.

### Gross Profit and Gross Margin

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Trade sales	\$116,537	\$83,465	\$270,332	\$254,717
Cost of inventories <sup>(1)</sup>	<u>78,363</u>	<u>58,026</u>	<u>180,190</u>	<u>170,901</u>
Gross Margin	<u>\$38,174</u>	<u>\$25,439</u>	<u>\$90,142</u>	<u>\$83,816</u>
Gross Margin <sup>(1)</sup> (as a % of trade sales)	32.8%	30.5%	33.3%	32.9%

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

The Company's gross margin percentage for the three months ended September 30, 2013 was 32.8%, compared to 30.5% in 2012. As a proportion of total sales the Company's highest margin products in portable grain handling decreased compared to 2012, however the Company's consolidated gross margin percentage increased due to efficiencies related to higher production volumes and recent operational initiatives. For the nine months ended September 30, 2013, gross margin was 33.3%, compared to 32.9% in 2012, as margin gains in the third quarter contributed to higher year-to-date margins.

AGI will often provide complete grain storage and handling systems when selling internationally and these projects may include equipment not currently manufactured by the Company or services not provided by the Company. AGI outsources this equipment and the services and passes through the cost to the customer at a low gross margin percentage. Excluding these items, the Company's gross margin for the three and nine month periods ended September 30, 2013 was 34.4% in both periods (2012 – 31.3% and 33.6%).

## General and Administrative Expenses

For the three and nine months ended September 30, 2013, selling, general & administrative expenses were \$15.0 million (13% of sales) and \$43.2 million (16% of sales), compared to \$12.9 million (16% of sales) and \$39.2 million (15% of sales) in the respective periods in 2012. The change from 2012 is largely due to the following:

- Sales and marketing expenses increased \$0.8 million and \$1.0 million in the three and nine month periods due largely to an increase in performance based incentives compared the drought impacted results of 2012 as well as increased investment in the Company's international sales team.
- Share based compensation expense increased \$0.7 million and \$1.8 million in the three and nine month periods due to implementation of the 2012 Share Award Incentive Plan. Based on current participation, which includes 31 employees, the expense going forward will be \$0.75 million per quarter until awards begin to vest on January 1, 2016.
- Outside commission expense decreased \$0.4 million and \$0.8 million in the three and nine month periods due to a change in territorial and customer sales mix.
- The remaining variance is the result of a number of offsetting factors with no individual variance larger than \$0.5 million.

## EBITDA and Adjusted EBITDA

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
EBITDA <sup>(1)</sup>	\$23,943	\$14,128	\$49,484	\$45,488
Adjusted EBITDA <sup>(1)</sup>	\$23,330	\$12,531	\$47,282	\$44,757

(1) See the EBITDA reconciliation table above and "Non-IFRS Measures".

EBITDA and Adjusted EBITDA in 2013 increased compared to 2012 due to record results in the third quarter as sales demand increased substantially in response to a return to positive sentiment in the market. See "EBITDA Reconciliation" above for a reconciliation between these measures.

## Finance Costs

The Company's bank indebtedness as at September 30, 2013 was \$3.7 million (December 31, 2012 – nil; September 30, 2012 - \$1.1 million) and its outstanding long-term debt was \$36.3 million (December 31, 2012 - \$34.9 million; September 30, 2012 - \$35.0 million). Long-term debt at September 30, 2013 is primarily comprised of U.S. \$25.0 million aggregate principal amount of non-amortizing secured notes that bear interest at 6.80% and mature October 29, 2016 and U.S. \$10.5 million of non-amortizing term debt, net of deferred financing costs of \$0.2 million. See "Capital Resources" for a description of the Company's credit facilities.

Finance costs for the three and nine months ended September 30, 2013 were \$3.4 million and \$10.0 million, respectively (2012 - \$3.3 million and \$9.8 million). In addition to the instruments noted above, at September 30, 2013 the Company had outstanding \$114.9 million aggregate principal amount of convertible unsecured subordinated debentures (December 31, 2012 and June

30, 2012 - \$114.9 million). The Debentures bear interest at an annual rate of 7.0% and mature December 31, 2014. See “Capital Resources”.

Finance costs also include non-cash interest related to debenture accretion, the amortization of deferred finance costs, stand-by fees and other sundry cash interest.

### Finance Expense (Income)

Finance expense (income) relates primarily to the non-cash gain or loss on the translation of the Company’s U.S. dollar denominated long-term debt at the rate of exchange in effect at the end of the quarter.

### Other Operating Expense (Income)

Other operating income in the current year is primarily the result of a gain on the sale of the production facility in Saskatoon, SK, made redundant through reallocation of production to other AGI facilities.

### Depreciation and amortization

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

Depreciation (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Depreciation in cost of sales	\$1,373	\$1,417	\$4,052	\$4,194
Depreciation in G&A	<u>125</u>	<u>150</u>	<u>395</u>	<u>440</u>
Total Depreciation	<u>\$1,498</u>	<u>\$1,567</u>	<u>\$4,447</u>	<u>\$4,634</u>

Amortization (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Amortization in cost of sales	\$74	\$92	\$210	\$207
Amortization in G&A	<u>947</u>	<u>864</u>	<u>2,805</u>	<u>2,664</u>
Total Amortization	<u>\$1,021</u>	<u>\$956</u>	<u>\$3,015</u>	<u>\$2,871</u>

### Current income tax expense

For the three and nine months ended September 30, 2013 the Company recorded current tax expense of \$3.5 million and \$6.0 million respectively (2012 – \$0.9 million and \$3.7 million). Current tax expense relates primarily to AGI U.S. subsidiaries.

## Deferred income tax expense

For the three and nine months ended September 30, 2013, the Company recorded deferred tax expense of \$1.8 million and \$3.9 million respectively (2012 - \$1.0 million and – \$3.9 million). Deferred tax expense in 2013 relates to the utilization of deferred tax assets plus a decrease in deferred tax liabilities that related to the application of corporate tax rates to reversals of temporary differences between the accounting and tax treatment of depreciable assets, intangible assets, and deferred financing fees.

Upon conversion to a corporation from an income trust in June 2009 (the “Conversion”) the Company received certain tax attributes that may be used to offset tax otherwise payable in Canada. The Company’s Canadian taxable income is based on the results of its divisions domiciled in Canada, including the corporate office, and realized gains on foreign exchange. For the nine month period ending September 30, 2013, the Company offset \$3.5 million of Canadian tax otherwise payable (2012 - \$1.9 million) through the use of these attributes and since the date of Conversion a cumulative amount of \$27.0 million has been utilized. Utilization of these tax attributes is recognized in deferred income tax expense on the Company’s income statement and the unused tax attributes of \$43.5 million are recorded as an asset on the Company’s balance sheet. See "Risks and Uncertainties – Income Tax Matters".

Effective tax rate	Three Months Ended September 30		Nine Months Ended September 30	
(thousands of dollars)				
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Current tax expense	\$3,519	\$879	\$5,963	\$3,655
Deferred tax expense	<u>1,805</u>	<u>952</u>	<u>3,946</u>	<u>3,904</u>
Total tax	<u>\$5,324</u>	<u>\$1,831</u>	<u>\$ 9,909</u>	<u>\$7,559</u>
Profit before taxes	\$18,042	\$8,332	\$31,982	\$28,183
Total tax %	29.5%	22.0%	31.0%	26.8%

The Company’s effective tax rate for the three and nine months ended September 30, 2013 was 30% and 31%, respectively (2012 – 22% and 27%). In the current three and nine month periods the Company recorded a non-cash foreign exchange gain (loss) of \$1.5 million and (\$2.2) million (2012 - \$1.9 million and \$2.1 million) that impacts profit before taxes but is not included in the calculation of current or deferred tax expense. In addition, the current three and nine month periods includes a new share based compensation expense that is not deductible for tax purposes. The nine month period also includes the non-taxable portion of the gain on sale of the Saskatoon property of \$2.3 million.

## Profit and profit per share

For the three and nine months ended September 30, 2013, the Company reported net profit of \$12.7 million and \$22.1 million, respectively (2012 - \$6.5 million and \$20.6 million), basic net profit per share of \$1.01 and \$1.76 (2012 - \$0.52 and \$1.65), and fully diluted net profit per share of \$0.95 and \$1.71 (2012 - \$0.52 and \$1.64). The significant increase in the third quarter compared to 2012 was primarily the result of the record adjusted EBITDA in the third quarter of

the current year. For the nine month period the increase compared to 2012 was less significant due to the impact of the 2012 drought on first half results and a non-cash foreign exchange loss on the translation of U.S. dollar denominated debt in 2013 of \$1.2 million (2012 – gain of \$1.2 million). In the first quarter of 2013 the Company sold its production facility in Saskatoon, SK, made redundant through reallocation of production to other AGI facilities, for a gain of \$4.7 million.

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

2013					
	Average USD/CAD Exchange Rate	Sales	Profit (loss)	Basic Profit (loss) per Share	Diluted Profit (loss) per Share
Q1	\$1.01	\$59,547	\$3,399	\$0.27	\$0.26
Q2	\$1.02	\$93,320	\$5,956	\$0.47	\$0.46
Q3	\$1.04	\$116,447	\$12,718	\$1.01	\$0.95
<b>YTD</b>	<b>\$1.03</b>	<b>\$269,314</b>	<b>\$22,073</b>	<b>\$1.76</b>	<b>\$1.71</b>

2012					
	Average USD/CAD Exchange Rate	Sales	Profit (loss)	Basic Profit (loss) per Share	Diluted Profit (loss) per Share
Q1	\$1.00	\$72,355	\$5,299	\$0.42	\$0.42
Q2	\$1.01	98,115	8,824	\$0.71	\$0.70
Q3	\$1.00	83,855	6,501	\$0.52	\$0.52
Q4	\$1.00	60,017	(3,436)	(\$0.28)	(\$0.27)
<b>Fiscal 2012</b>	<b>\$1.00</b>	<b>\$314,342</b>	<b>\$17,188</b>	<b>\$1.38</b>	<b>\$1.37</b>

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

Interim period sales and profit historically reflect seasonality. The third quarter is typically the strongest primarily due to the timing of construction of commercial projects and high in-season demand at the farm level. Due to the seasonality of AGI's working capital movements, cash provided by operations will typically be highest in the fourth quarter. The seasonality of AGI's business may be impacted by a number of factors including weather and the timing and quality of harvest in North America.

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

- Sales, gain (loss) on foreign exchange, profit, and profit per share in all periods are impacted by the rate of exchange between the Canadian and U.S. dollars.
- Sales, net profit and profit per share are impacted by the acquisition of Airlanco in October 2011.
- A widespread drought in the U.S. impacted sales and profit in the third and fourth quarters of 2012 and the first half of 2013.

## CASH FLOW AND LIQUIDITY

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Profit before income taxes	\$18,042	\$8,332	\$31,982	\$28,183
Add charges (deduct credits) to operations not requiring a current cash payment:				
Depreciation/Amortization	2,519	2,523	7,462	7,505
Translation loss (gain) on FX	(2,010)	(3,345)	3,738	(2,684)
Non-cash interest expense	698	645	2,055	1,881
Share based compensation	812	306	2,237	887
Loss (gain) on sale of assets	<u>1</u>	<u>47</u>	<u>(4,666)</u>	<u>60</u>
	<u>20,062</u>	<u>8,508</u>	<u>42,808</u>	<u>35,832</u>
Net change in non-cash working capital balances related to operations:				
Accounts receivable	(15,756)	3,121	(37,945)	(12,214)
Inventory	7,624	5,504	(725)	184
Prepaid expenses and other	184	598	(512)	578
Accounts payable	3,044	177	13,796	3,064
Customer deposits	(1,453)	(788)	9,057	(2,884)
Provisions	<u>234</u>	<u>(261)</u>	<u>348</u>	<u>13</u>
	<u>(6,123)</u>	<u>8,351</u>	<u>(15,981)</u>	<u>(11,259)</u>
Settlement of SAIP obligation	0	0	0	(1,495)
Income tax paid	<u>(2,636)</u>	<u>(2,031)</u>	<u>(4,209)</u>	<u>(3,004)</u>
Cash provided by operations	<u>\$11,303</u>	<u>\$14,828</u>	<u>\$22,618</u>	<u>\$20,074</u>

For the three months ended September 30, 2013, cash provided by operations was \$11.3 million (2012 – \$14.9 million) as a significant increase in profit before taxes was offset by increased use of working capital that related primarily to extended accounts receivable terms on international projects. For the nine months ended September 30, 2013, cash generated from operations was \$22.6 million (2012 - \$20.1 million). The increase in cash generated compared to 2012 is largely the result of an increase in profit before taxes offset by increased use of working capital.

### **Working Capital Requirements**

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

### **Capital Expenditures**

Maintenance capital expenditures in the three and nine months ended September 30, 2013 were \$0.8 million (0.7% of trade sales) and \$1.7 million (0.6% of trade sales), respectively, compared to \$0.7 million (0.8%) and \$3.1 million (1.2%) in the comparable periods in 2012. Maintenance capital expenditures in 2013 relate primarily to purchases of manufacturing equipment and building repairs and were funded through cash on hand, cash from operations and bank indebtedness.

AGI defines maintenance capital expenditures as cash outlays required to maintain plant and equipment at current operating capacity and efficiency levels. Non-maintenance capital expenditures encompass other investments, including cash outlays required to increase operating capacity or improve operating efficiency. AGI had non-maintenance capital expenditures of \$1.8 million and \$10.5 million in the three and nine months ended September 30, 2013, respectively (2012 - \$0.3 million and \$1.1 million) that related primarily to an investment in facilities and equipment to support growth in the portable conveyor market. Non-maintenance capital expenditures in 2012 relate primarily to investments in equipment to support growth at the Company's commercial divisions. Maintenance capital expenditures in 2013 are expected to approximate 2012 levels and non-maintenance capital expenditures are expected to increase due to the \$9.5 million investment in Swift Current, SK, noted above which was financed primarily through the sale of a redundant facility in Saskatoon, SK and through a combination of cash on hand and bank indebtedness. The new facility is expected to be operational in the fourth quarter of 2013 at which time the existing facility in Swift Current, SK will be listed for sale.

## Cash Balance

The Company's cash position increased \$1.9 million in the quarter ended September 30, 2013 (2012 – \$6.0 million) and decreased \$5.8 million (2012 - \$7.9 million) in the nine months then ended. Due to the seasonality of its business, the Company typically draws on its operating line in the first half of a fiscal year and the operating line begins to decrease in the third quarter. AGI has typically fully repaid its operating line balance by early in the fourth quarter and that was the case in 2013.

## CONTRACTUAL OBLIGATIONS (thousands of dollars)

	Total	2013	2014	2015	2016	2017+
Debtures	114,885	0	114,885	0	0	0
Long-term debt	36,548	0	10,836	0	25,712	0
Operating leases	4,315	354	1,141	827	585	1,408
Total obligations	<u>155,748</u>	<u>354</u>	<u>126,862</u>	<u>827</u>	<u>26,297</u>	<u>1,408</u>

Debtures relate to the aggregate principal amount of debtures issued by the Company in October 2009 (see "Convertible Debtures" below). Long-term debt at September 30, 2013 is comprised of U.S. \$25.0 million aggregate principal amount of secured notes issued through a note purchase and private shelf agreement and U.S. \$10.5 million non-amortizing term debt, net of deferred financing costs. The operating leases relate primarily to vehicle, equipment, warehousing and facility leases and were entered into in the normal course of business.

## CAPITAL RESOURCES

### Cash

Cash and cash equivalents at September 30, 2013 were nil (December 31, 2012 - \$2.2 million; September 30, 2012 – nil). Due to the seasonality of its business the Company typically draws on its operating line in the first half of a fiscal year and the operating line begins to decrease in the third quarter. AGI has typically fully repaid its operating line balance by early in the fourth quarter and that was the case in 2013.

### Debt Facilities

On October 29, 2009, the Company issued US \$25.0 million aggregate principal amount of secured notes through a note purchase and private shelf agreement. The notes are non-amortizing, bear interest at 6.80% and mature October 29, 2016. Under the note purchase agreement, AGI is subject to certain financial covenants, including a maximum leverage ratio and a minimum debt service ratio. The Company is in compliance with all financial covenants.

On March 9, 2012, the Company renewed its credit facility with its existing lenders. The committed lines under the facility are unchanged under the new facility. The table below summarizes amounts committed and drawn (USD converted at \$1.0285) as at September 30, 2013 and November 13, 2013:

	<b>Debt Facilities</b>
Committed Line at as September 30, 2013	\$71,141
Long-term debt	10,830
Bank indebtedness	<u>3,652</u>
Undrawn at September 30, 2013	56,659
Repaid subsequent to September 30, 2013	<u>(3,652)</u>
Undrawn at November 13, 2013	<u>\$60,311</u>

The credit facility includes lender approval to expand the facility by an additional \$25 million, bears interest at rates of prime plus 0.0% to prime plus 1.0% (superseded facility – prime plus 0.50% to prime plus 1.50%) based on performance calculations and matures on the earlier of March 8, 2016 or three months prior to maturity date of the Debentures, unless refinanced on terms acceptable to the lenders. AGI is subject to certain financial covenants, including a maximum leverage ratio and a minimum debt service ratio, and is in compliance with all financial covenants.

### **Convertible Debentures**

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

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. The Company expects to refinance the Debentures prior to their December 31, 2014 maturity date. As at December 31, 2013, the Debentures are expected to be categorized as a current liability.

On redemption or at maturity, the Company may, at its option, subject to regulatory approval and provided that no event of default has occurred, elect to satisfy its obligation to pay the principal amount of the Debentures, in whole or in part, by issuing and delivering for each \$100 due that number of freely tradeable common shares obtained by dividing \$100 by 95% of the volume

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

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

## COMMON SHARES

The following common shares were issued and outstanding at the dates indicated:

	# Common Shares
December 31, 2011	12,545,996
Shares issued under DDCP	<u>2,107</u>
December 31, 2012	12,548,103
Shares issued under Dividend Reinvestment Plan	<u>48,766</u>
September 30, 2013	12,596,869
Shares issued under Dividend Reinvestment Plan	<u>8,605</u>
November 13, 2013	<u>12,605,474</u>

On November 17, 2011, AGI commenced a normal course issuer bid for up to 994,508 common shares, representing 10% of the Company’s “public float” of common shares at that time. The normal course issuer bid terminated on November 20, 2012 and no common shares were purchased under the normal course issuer bid.

AGI has granted 220,000 share awards under its 2007 share award incentive plan. In fiscal 2010 a total of 140,000 share awards vested and the equivalent number of common shares was issued to the participants. The remaining share awards vested as to 40,000 each on January 1, 2011 and January 1, 2012, however no common shares were issued on these vesting dates as the participants were compensated in cash rather than common shares. No additional share awards are available under this share award incentive plan.

The administrator of the LTIP has acquired 317,304 common shares to satisfy its obligations with respect to awards under the LTIP for fiscal 2007, 2008, 2009 and 2010. There was no LTIP award related to fiscal 2011 or fiscal 2012. The common shares purchased are held by the administrator until such time as they vest to the LTIP participants. As at September 30, 2013, a total of 300,307 common shares related to the LTIP had vested to the participants. No further awards are available under the LTIP subsequent to 2012.

On May 11, 2012 the shareholders of AGI authorized a new Share Award Incentive Plan (the “2012 SAIP”) which authorizes the Board to grant restricted Share Awards (“RSU’s”) and performance Share Awards (“PSU’s”) to officers, employees or consultants of the Company but not to non-management directors. A total of 465,000 common shares are available for issuance

under the 2012 SAIP. As at September 30, 2013, a total of 213,000 RSU's and 110,000 PSU's have been granted.

A total of 36,977 deferred grants of common shares are outstanding under the Company's Director's Deferred Compensation Plan.

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

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

## **DIVIDENDS**

In the three and nine months ended September 30, 2013, AGI declared dividends to shareholders of \$7.6 million and \$22.6 million, respectively (2012 - \$7.5 million and \$22.6 million). AGI's policy is to pay monthly dividends. The Company's Board of Directors reviews financial performance and other factors when assessing dividend levels. An adjustment to dividend levels may be made at such time as the Board determines an adjustment to be appropriate. 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, and through the Company's dividend reinvestment plan. Dividends in the three and nine months ended September 30, 2013 were financed \$1.0 million and \$1.7 million, respectively, through the DRIP with the remainder financed by cash on hand and bank indebtedness.

## **FUNDS FROM OPERATIONS AND PAYOUT RATIO**

Funds from operations ("FFO"), defined under "Non-IFRS Measures", is cash flow from operating activities before the net change in non-cash working capital balances related to operations and stock-based compensation, less maintenance capital expenditures and adjusted for the gain or loss on the sale of property, plant & equipment. The objective of presenting this measure is to provide a measure of free cash flow. The definition excludes changes in working capital as they are necessary to drive organic growth and have historically been financed by the Company's operating facility (See "Capital Resources"). Funds from operations should not be construed as an alternative to cash flows from operating, investing, and financing activities as a measure of the Company's liquidity and cash flows.

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
EBITDA	\$23,943	\$14,128	\$49,484	\$45,488
Share based compensation	812	306	2,237	887
Non-cash interest expense	698	645	2,055	1,881
Translation (gain) loss on FX	(2,010)	(3,345)	3,738	(2,684)
Interest expense	(3,382)	(3,273)	(10,040)	(9,800)
Income taxes paid	(2,636)	(2,031)	(4,209)	(3,004)
Maintenance CAPEX	<u>(811)</u>	<u>(692)</u>	<u>(1,749)</u>	<u>(3,144)</u>
Funds from operations (1)	<u>\$16,614</u>	<u>\$5,738</u>	<u>\$41,516</u>	<u>\$29,624</u>

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

(thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Cash provided by (used in) operating activities	\$11,303	\$14,828	\$22,618	\$20,074
Change in non-cash working capital	6,123	(8,351)	15,981	11,259
Settlement of SAIP option	0	0	0	1,495
Maintenance CAPEX	(811)	(692)	(1,749)	(3,144)
Gain (loss) on sale of assets	<u>(1)</u>	<u>(47)</u>	<u>4,666</u>	<u>(60)</u>
Funds from operations (1)	<u>\$16,614</u>	<u>\$5,738</u>	<u>\$41,516</u>	<u>\$29,624</u>
<b>Payout ratio</b>				
Dividends to shareholders	\$7,552	\$7,527	\$22,617	\$22,582
Payout ratio (1)	46%	131%	55%	76%
<b>Adjusted payout ratio</b>				
Dividends to shareholders	\$7,552	\$7,527	\$22,617	\$22,582
Dividends paid under DRIP	<u>(1,001)</u>	<u>0</u>	<u>(1,664)</u>	<u>0</u>
Dividends paid in cash	<u>\$6,551</u>	<u>\$7,527</u>	<u>\$20,953</u>	<u>\$22,582</u>
Adjusted payout ratio (3)	39%	131%	50%	76%

(1) See “Non-IFRS Measures”.

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

(3) See “Non-IFRS Measures”.

The Company's payout ratio for the quarter ended September 30, 2013 was significantly lower than the same period in 2012 due to record results in the current period being compared against a drought impacted Q3 2012. The payout ratio for the nine month period also decreased considerably from the prior year, however the decrease was not as significant due to the carryover impact of the 2012 drought on first half 2013 results. Funds from operations for the nine month period in 2013 benefited from a \$4.7 million gain on the sale of the redundant production facility in Saskatoon, SK.

## FINANCIAL INSTRUMENTS

### Foreign exchange contracts

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. dollars and to a lesser extent to variations in exchange rates between the Euro and the Canadian dollar. AGI has entered into foreign exchange contracts with three Canadian chartered banks to partially hedge its foreign currency exposure and as at September 30, 2013, had outstanding the following foreign exchange contracts:

<b>Forward Foreign Exchange Contracts</b>			
<b>Settlement Dates</b>	<b>Face Amount USD (000's)</b>	<b>Average Rate CAD</b>	<b>CAD Amount (000's)</b>
2013	22,000	1.03	22,576
2014	65,000	1.02	66,204
2015	29,000	1.05	30,436

<b>Forward Foreign Exchange Contracts</b>			
<b>Settlement Dates</b>	<b>Face Amount Euros (000's)</b>	<b>Average Rate CAD</b>	<b>CAD Amount (000's)</b>
2013	300	1.32	396
2014	500	1.33	664

The fair value of the outstanding forward foreign exchange contracts in place as at September 30, 2013 was a loss of \$1.4 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 September 30, 2013.

Subsequent to September 30, 2013, the Company entered into foreign exchange forward contracts for settlements in 2015 totalling U.S. \$15.0 million at an average rate of \$1.0554.

## **CRITICAL ACCOUNTING ESTIMATES**

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

AGI believes the accounting policies that are critical to its business relate to the use of estimates regarding the recoverability of accounts receivable and the valuation of inventory, intangibles, goodwill, convertible debentures and deferred income taxes. AGI's accounting policies are described in the notes to its December 31, 2012 audited financial statements.

### **Allowance for Doubtful Accounts**

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

### **Valuation of Inventory**

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

### **Goodwill and Intangible Assets**

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

### **Deferred Income Taxes**

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

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

AGI should only recognize the future benefit of tax-loss carryforwards where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. We are required to make significant estimates and assumptions regarding future revenues and profit, and our ability to implement certain tax planning strategies, in order to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to significant uncertainty and if changed could materially affect our assessment of the ability to fully realize the benefit of the deferred income tax assets. Deferred tax asset balances would be reduced and additional income tax expense recorded in the applicable accounting period in the event that circumstances change and we, based on revised estimates and assumptions, determined that it was no longer probable that those deferred tax assets would be fully realized. See “Risks and Uncertainties – Income Tax Matters”.

## **RISKS AND UNCERTAINTIES**

The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently consider immaterial also may impair operations. If any of the following risks actually occur, our business, results of operations and financial condition, and the amount of cash available for dividends could be materially adversely affected. See also “Risks and Uncertainties” in AGI’s most recent Annual Information Form, which is available on SEDAR ([www.sedar.com](http://www.sedar.com)).

### ***Industry Cyclicity and General Economic Conditions***

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

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

### ***Risk of Decreased Crop Yields***

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

### ***Potential Volatility of Production Costs***

Various materials and components are purchased in connection with AGI’s manufacturing process, some or all of which may be subject to wide price variation. Consistent with past and current practices within the industry, AGI seeks to manage its exposure to material and component price volatility by planning and negotiating significant purchases on an annual basis, and endeavours to pass through to customers, most, if not all, of the price volatility. There can be

no assurance that industry dynamics will allow AGI to continue to reduce its exposure to volatility of production costs by passing through price increases to its customers.

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

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

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

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

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

A portion of AGI's sales are generated in overseas markets and AGI anticipates increasing its offshore sales and operations in the future. Sales and operations outside of North America, particularly in emerging markets, are subject to various risks, including: currency exchange rate fluctuations; foreign economic conditions; trade barriers; competition with North American and international manufacturers and suppliers; exchange controls; national and regional labour strikes; political risks and risks of increases in duties; taxes and changes in tax laws; expropriation of property, cancellation or modification of contract rights, unfavourable legal climate for the collection of unpaid accounts; changes in laws and policies governing operations of foreign-based companies, as well as risks of loss due to civil strife and acts of war. Further, the Company's business practices in these foreign countries must comply with the Corruption of Public Foreign Officials Act (Canada) and other applicable similar laws. If violations of these laws were to occur, they could subject us to fines and other penalties as well as increased compliance costs. There is no guarantee that one or more of these factors will not materially adversely affect AGI's offshore sales and operations in the future.

### ***Commodity Prices, International Trade and Political Uncertainty***

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

### ***Competition***

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

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

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

### ***Business Interruption***

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

### ***Litigation***

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

### ***Dependence on Key Personnel***

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

### ***Labour Costs and Shortages and Labour Relations***

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

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

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

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

AGI's credit facility matures on the earlier of March 8, 2016 or three months prior to the maturity of the Debentures and is renewable at the option of the lenders. There can be no guarantee the Company will be able to obtain alternate financing and no guarantee that future credit facilities will have the same terms and conditions as the existing facility. This may have an adverse effect on the Company, its ability to pay dividends and the market value of its common shares. In addition, the business of the Company may be adversely impacted in the event that the Company's customer base does not have access to sufficient financing. Sales related to the construction of commercial grain handling facilities, sales to developing markets, and sales to North American farmers may be negatively impacted.

### ***Interest Rates***

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

### ***Uninsured and Underinsured Losses***

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

### ***Cash Dividends are not Guaranteed***

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

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

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

### ***AGI May Issue Additional Common Shares Diluting Existing Shareholders' Interests***

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

### ***Leverage, Restrictive Covenants***

The degree to which AGI is leveraged could have important consequences to the shareholders, including: (i) the ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) a material portion of AGI's cash flow from operations may need to be dedicated to payment of the principal of and interest on indebtedness, thereby reducing funds available for future operations and to pay dividends; (iii) certain of the borrowings under the Company's credit facility may be at variable rates of interest, which exposes AGI to the risk of increased interest rates; and (iv) AGI may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. AGI's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The ability of AGI to pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing its

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

## **CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING CHANGES**

The Company has adopted the following new and revised standards along with any consequential amendments effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

### **IAS 19 Employee Benefits**

On June 16, 2011, the IASB revised IAS 19, Employee Benefits. The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013 and the Company has determined that the adoption of these amendments did not result in any material impact on its consolidated financial statements.

### **IFRS 9 Financial Instruments**

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

### **IFRS 10 Consolidated Financial Statements**

IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and Standing Interpretations Committee ("SIC")-12, Consolidation – Special Purpose Entities. IFRS10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries.

#### **IFRS 12 Disclosure of Interests in Other Entities**

In May 2011, IFRS 12 was issued. It requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual reporting periods beginning on or after January 1, 2013. The Company assessed the impact of IFRS 12 and where applicable, additional disclosure relating to interests in subsidiaries will be included in the annual consolidated financial statements.

#### **IFRS 13 Fair Value Measurement**

IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS**

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

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

There have been no material changes in AGI's internal controls over financial reporting that occurred in the three month period ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## NON-IFRS MEASURES

In analyzing our results, we supplement our use of financial measures that are calculated and presented in accordance with IFRS, with a number of non-IFRS financial measures including “EBITDA”, “Adjusted EBITDA”, “gross margin”, “funds from operations”, “payout ratio”, “adjusted payout ratio” and “trade sales”. A non-IFRS financial measure is a numerical measure of a company's historical performance, financial position or cash flow that excludes (includes) amounts, or is subject to adjustments that have the effect of excluding (including) amounts, that are included (excluded) in the most directly comparable measures calculated and presented in accordance with IFRS. Non-IFRS financial measures are not standardized; therefore, it may not be possible to compare these financial measures with other companies' non-IFRS financial measures having the same or similar businesses. We strongly encourage investors to review our consolidated financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

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

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

Management believes that the Company's financial results may provide a more complete understanding of factors and trends affecting our business and be more meaningful to management, investors, analysts and other interested parties when certain aspects of our financial results are adjusted for the gain (loss) on foreign exchange and other operating expenses and income. This measurement is a non-IFRS measurement. Management uses the non-IFRS adjusted financial results and non-IFRS financial measures to measure and evaluate the performance of the business and when discussing results with the Board of Directors, analysts, investors, banks and other interested parties.

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

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

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

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

## **FORWARD-LOOKING STATEMENTS**

This MD&A contains forward-looking statements that reflect our expectations regarding the future growth, results of operations, performance, business prospects, and opportunities of the Company. Forward-looking statements may contain such words as “anticipate”, “believe”, “continue”, “could”, “expects”, “intend”, “plans”, “will” or similar expressions suggesting future conditions or events. In particular, the forward looking statements in this MD&A include statements relating to our business and strategy, including our outlook for our financial and operating performance including that the industry environment currently is suggestive of very high levels of demand as North American farmers are expected to harvest a record crop, moderating commodity prices may incentivize producers to store more grain on the farm, resulting in increased use of handling equipment, that strong on-farm demand is anticipated to continue as the U.S. harvest progresses well into the fourth quarter of 2013, that management anticipates low levels of inventory throughout the Company’s distribution network post-harvest will lead to strong dealer participation in preseason programming, increasing demand later in the fourth quarter but more significantly in the first half of 2014, that the current backlog and ongoing quoting activity suggests strong commercial demand will continue into 2014, that strong North American demand for portable and commercial grain handling equipment and continued strength in offshore markets is anticipated to drive record results in the fourth quarter of 2013, that adjusted EBITDA for fiscal 2013, despite significant headwinds in the first half related to the 2012 U.S. drought, is expected to approach record levels, that. Management expects to enter 2014 with excellent backlogs both domestically and overseas and remains very optimistic as regards the Company’s prospects for the upcoming year, growth in sales to offshore markets including that the Company expects fourth quarter international sales to significantly exceed the prior year and that management expects international sales in 2014 to exceed the record levels anticipated to be achieved in the current year, the benefits of the expansion of the Company’s grain storage product line, the future contribution of that plant to our operating and financial performance, the effect of crop conditions in our market areas, the effect of current economic conditions and macroeconomic trends on the demand for our products, expectations regarding pricing for agricultural commodities, our working capital and capital expenditure requirements, capital resources, future sales and adjusted EBITDA, the payment of dividends and that the Company expects to refinance the Debentures prior to their December 31, 2014 maturity date.. 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 grain production in our market areas, financial performance, business prospects, strategies, product pricing, regulatory developments, tax laws, the sufficiency of budgeted capital expenditures in carrying out planned activities, foreign exchange rates and the cost of materials, labour and

services. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from results discussed in the forward-looking statements, including changes in international, national and local business conditions, weather patterns, crop yields, crop conditions, the timing of harvest and conditions during harvest, seasonality, industry cyclicality, volatility of production costs, commodity prices, the cost and availability of capital, foreign exchange rates, and competition. These risks and uncertainties are described under “Risks and Uncertainties” in this MD&A and in our most recently filed Annual Information Form. These factors should be considered carefully, and readers should not place undue reliance on the Company’s forward-looking statements. We cannot assure readers that actual results will be consistent with these forward-looking statements and we undertake no obligation to update such statements except as expressly required by law.

### **ADDITIONAL INFORMATION**

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

Unaudited Interim Condensed Consolidated  
Financial Statements

**Ag Growth International Inc.**  
September 30, 2013

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

	As at September 30, 2013 \$	As at December 31, 2012 \$
<b>ASSETS [note 12]</b>		
<b>Current assets</b>		
Cash and cash equivalents	—	2,171
Restricted cash [note 11 [a]]	76	34
Accounts receivable [note 9]	89,801	51,856
Inventory	59,238	58,513
Prepaid expenses and other assets	2,157	1,645
Income taxes recoverable	—	900
Current portion of derivative instruments [note 15]	—	1,377
	<b>151,272</b>	<b>116,496</b>
<b>Non-current assets</b>		
Property, plant and equipment, net	88,222	80,854
Goodwill [note 7]	64,348	63,399
Intangible assets, net [note 6]	71,751	72,777
Available-for-sale investment	2,000	2,000
Derivative instruments [note 15]	—	234
Deferred tax asset [note 14]	30,562	33,621
	<b>256,883</b>	<b>252,885</b>
Assets held for sale	1,101	1,101
<b>Total assets</b>	<b>409,256</b>	<b>370,482</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness [notes 4 and 12[a]]	3,652	—
Accounts payable and accrued liabilities	31,147	17,351
Customer deposits	14,040	4,983
Dividends payable [note 10[d]]	2,519	2,510
Income taxes payable	999	—
Current portion of long-term debt [note 12]	6	7
Current portion of derivative instruments [note 15]	833	—
Provisions	2,768	2,420
	<b>55,964</b>	<b>27,271</b>
<b>Non-current liabilities</b>		
Long-term debt [note 12]	36,265	34,916
Convertible unsecured subordinated debentures [note 13]	111,453	109,558
Derivative instruments [note 15]	535	—
Deferred tax liability [note 14]	9,442	9,041
	<b>157,695</b>	<b>153,515</b>
<b>Total liabilities</b>	<b>213,659</b>	<b>180,786</b>
<b>Shareholders' equity [note 10]</b>		
Common shares	157,365	153,447
Accumulated other comprehensive loss	(60)	(2,590)
Equity component of convertible debentures	5,105	5,105
Contributed surplus	4,207	4,108
Retained earnings	28,980	29,626
<b>Total shareholders' equity</b>	<b>195,597</b>	<b>189,696</b>
<b>Total liabilities and shareholders' equity</b>	<b>409,256</b>	<b>370,482</b>
Commitments and contingencies [note 20]		

See accompanying notes

On behalf of the Board of Directors:

(signed) Bill Lambert  
Director

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

**Ag Growth International Inc.**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
STATEMENTS OF INCOME**

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

	Three-month period ended		Nine-month period ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	\$	\$	\$	\$
<b>Sales</b>	<b>116,447</b>	83,855	<b>269,314</b>	254,325
Cost of goods sold <i>[note 5[d]]</i>	<b>79,810</b>	59,535	<b>184,452</b>	175,302
<b>Gross margin</b>	<b>36,637</b>	24,320	<b>84,862</b>	79,023
<b>Expenses</b>				
Selling, general and administrative <i>[note 5[e]]</i>	<b>16,036</b>	13,946	<b>46,377</b>	42,260
Other operating expense (income) <i>[note 5[a]]</i>	<b>(16)</b>	23	<b>(4,729)</b>	(53)
Finance costs <i>[note 5[c]]</i>	<b>3,382</b>	3,273	<b>10,040</b>	9,800
Finance expense (income) <i>[note 5[b]]</i>	<b>(807)</b>	(1,254)	<b>1,192</b>	(1,167)
	<b>18,595</b>	15,988	<b>52,880</b>	50,840
Profit before income taxes	<b>18,042</b>	8,332	<b>31,982</b>	28,183
Income tax expense <i>[note 14]</i>				
Current	<b>3,519</b>	879	<b>5,963</b>	3,655
Deferred	<b>1,805</b>	952	<b>3,946</b>	3,904
	<b>5,324</b>	1,831	<b>9,909</b>	7,559
<b>Profit for the period</b>	<b>12,718</b>	6,501	<b>22,073</b>	20,624
<b>Profit per share - basic</b> <i>[note 18]</i>	<b>1.01</b>	0.52	<b>1.76</b>	1.65
<b>Profit per share - diluted</b> <i>[note 18]</i>	<b>0.95</b>	0.52	<b>1.71</b>	1.64

*See accompanying notes*

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

	<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>	<b>September 30, 2013</b>	<b>September 30, 2012</b>
	\$	\$	\$	\$
Profit for the period	<b>12,718</b>	6,501	<b>22,073</b>	20,624
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit or loss				
Change in fair value of derivatives designated as cash flow hedges	<b>2,611</b>	3,133	<b>(3,093)</b>	3,566
Loss on derivatives designated as cash flow hedges recognized in net earnings in the current period	<b>432</b>	537	<b>110</b>	889
Income tax relating to items that may be reclassified	<b>(809)</b>	(974)	<b>792</b>	(1,182)
Exchange differences on translating of foreign operations	<b>(2,756)</b>	(4,505)	<b>4,721</b>	(4,377)
Income tax effect on available-for-sale financial assets	—	—	—	106
<b>Other comprehensive income (loss) for the period</b>	<b>(522)</b>	(1,809)	<b>2,530</b>	(998)
<b>Total comprehensive income for the period</b>	<b>12,196</b>	4,692	<b>24,603</b>	19,626

*See accompanying notes*

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

Nine-month period ended September 30, 2013

	<b>Common shares</b>	<b>Equity component of convertible debentures</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Cash flow hedge</b>	<b>Foreign currency reserve</b>	<b>Available-for- sale reserve</b>	<b>Total equity</b>
	\$	\$	\$	\$	\$	\$	\$	\$
<b>As at January 1, 2013</b>	<b>153,447</b>	<b>5,105</b>	<b>4,108</b>	<b>29,626</b>	<b>1,179</b>	<b>(3,769)</b>	<b>—</b>	<b>189,696</b>
Profit for the period	—	—	—	22,073	—	—	—	22,073
Other comprehensive income (loss)	—	—	—	—	(2,191)	4,721	—	2,530
Share-based payment transactions <i>[notes 10 and 11]</i>	3,950	—	99	—	—	—	—	4,049
Dividends to shareholders <i>[note 10[d]]</i>	—	—	—	(22,617)	—	—	—	(22,617)
Dividend reinvestment plan costs <i>[note 10[e]]</i>	(32)	—	—	—	—	—	—	(32)
Dividends on share based compensation awards	—	—	—	(102)	—	—	—	(102)
<b>As at September 30, 2013</b>	<b>157,365</b>	<b>5,105</b>	<b>4,207</b>	<b>28,980</b>	<b>(1,012)</b>	<b>952</b>	<b>—</b>	<b>195,597</b>

*See accompanying notes*

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

Nine-month period ended September 30, 2012

	<b>Common shares</b>	<b>Equity component of convertible debentures</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Cash flow hedge</b>	<b>Foreign currency reserve</b>	<b>Available-for- sale reserve</b>	<b>Total equity</b>
	\$	\$	\$	\$	\$	\$	\$	\$
<b>As at January 1, 2012</b>	<b>151,039</b>	<b>5,105</b>	<b>5,341</b>	<b>42,549</b>	<b>(1,340)</b>	<b>(1,123)</b>	<b>588</b>	<b>202,159</b>
Profit for the period	—	—	—	<b>20,624</b>	—	—	—	<b>20,624</b>
Other comprehensive income (loss)	—	—	—	—	<b>3,273</b>	<b>(4,377)</b>	<b>106</b>	<b>(998)</b>
Share-based payment transactions <i>[notes 10 and 11]</i>	<b>2,355</b>	—	<b>(1,323)</b>	—	—	—	—	<b>1,032</b>
Dividends to shareholders <i>[note 10[d]]</i>	—	—	—	<b>(22,582)</b>	—	—	—	<b>(22,582)</b>
<b>As at September 30, 2012</b>	<b>153,394</b>	<b>5,105</b>	<b>4,018</b>	<b>40,591</b>	<b>1,933</b>	<b>(5,500)</b>	<b>694</b>	<b>200,235</b>

*See accompanying notes*

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

	<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>	<b>September 30, 2013</b>	<b>September 30, 2012</b>
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Profit before income taxes	<b>18,042</b>	8,332	<b>31,982</b>	28,183
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	<b>1,498</b>	1,567	<b>4,447</b>	4,634
Amortization of intangible assets	<b>1,021</b>	956	<b>3,015</b>	2,871
Translation (gain) loss on foreign exchange	<b>(2,010)</b>	(3,345)	<b>3,738</b>	(2,684)
Non-cash component of interest expense	<b>698</b>	645	<b>2,055</b>	1,881
Stock-based compensation	<b>812</b>	306	<b>2,237</b>	887
Loss (gain) on sale of property, plant and equipment	<b>1</b>	47	<b>(4,666)</b>	60
Net change in non-cash working capital balances related to operations <i>[note 8]</i>	<b>(6,123)</b>	8,351	<b>(15,981)</b>	(11,259)
Settlement of SAIP obligation	—	—	—	(1,495)
Income taxes paid	<b>(2,636)</b>	(2,031)	<b>(4,209)</b>	(3,004)
<b>Cash provided by operating activities</b>	<b>11,303</b>	14,828	<b>22,618</b>	20,074
<b>INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment	<b>(2,561)</b>	(957)	<b>(12,250)</b>	(4,232)
Transfer from restricted cash	<b>(14)</b>	—	<b>(42)</b>	1,760
Proceeds from sale of property, plant and equipment	<b>97</b>	22	<b>6,040</b>	69
Development of intangible assets	<b>(418)</b>	(353)	<b>(1,199)</b>	(1,101)
Transaction and financing costs paid	—	—	—	(1,446)
<b>Cash used in investing activities</b>	<b>(2,896)</b>	(1,288)	<b>(7,451)</b>	(4,950)
<b>FINANCING ACTIVITIES</b>				
Increase (decrease) in bank indebtedness	<b>(1,853)</b>	(5,970)	<b>3,652</b>	1,067
Repayment of long-term debt	<b>(3)</b>	(2)	<b>(5)</b>	(5)
Repayment of obligations under finance leases	—	(41)	—	(131)
Dividends paid in cash <i>[note 10[d]]</i>	<b>(6,551)</b>	(7,527)	<b>(20,953)</b>	(22,582)
Dividend reinvestment plan costs incurred	—	—	<b>(32)</b>	—
Finance costs incurred	—	—	—	(312)
<b>Cash used in financing activities</b>	<b>(8,407)</b>	(13,540)	<b>(17,338)</b>	(21,963)
<b>Net decrease in cash and cash equivalents during the period</b>	—	—	<b>(2,171)</b>	(6,839)
Cash and cash equivalents, beginning of period	—	—	<b>2,171</b>	6,839
<b>Cash and cash equivalents, end of period</b>	—	—	—	—
<b>Supplemental cash flow information</b>				
Interest paid	<b>662</b>	606	<b>5,944</b>	5,873

See accompanying notes

## **Ag Growth International Inc.**

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

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

September 30, 2013

## **1. ORGANIZATION**

The unaudited interim condensed consolidated financial statements of Ag Growth International Inc. ["Ag Growth Inc."] for the three- and nine-month periods ended September 30, 2013 were authorized for issuance in accordance with a resolution of the directors on November 12, 2013. Ag Growth International Inc. is a listed company incorporated and domiciled in Canada, whose shares are publicly traded at the Toronto Stock Exchange. The registered office is located at 198 Commerce Drive, Winnipeg, Manitoba, Canada.

## **2. OPERATIONS**

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

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

## **3. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION**

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

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

The Company adopted IFRS 10, 11, 12, 13, IAS 1 and IAS 19 on January 1, 2013. There was no material impact to the Company's unaudited interim condensed consolidated financial statements as a result of the adoption of these standards. There were no changes to the Company's operating segments during the three, six- and nine-month period ended September 30, 2013.

These unaudited interim condensed consolidated financial statements do not include all the information and notes required by IFRS for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the Company's fiscal year ended December 31, 2012, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Ag Growth International Inc.**

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

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

September 30, 2013

**[b] Basis of preparation**

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

Accounting measurements at interim dates, rather than at year-end, inherently involve a greater reliance on estimates. In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments of a normal recurring nature to present fairly the consolidated financial position of the Company as at September 30, 2013.

**4. SEASONALITY OF BUSINESS**

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

**Ag Growth International Inc.**

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

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

September 30, 2013

**5. OTHER EXPENSES (INCOME)**

	<u>Three-month period ended</u>		<u>Nine-month period ended</u>	
	<u>September 30, 2013</u>	<u>September 30, 2012</u>	<u>September 30, 2013</u>	<u>September 30, 2012</u>
	\$	\$	\$	\$
<b>[a] Other operating expense (income)</b>				
Net loss (gain) on disposal of property, plant and equipment	1	47	(4,666)	60
Other	(17)	(24)	(63)	(113)
	<b>(16)</b>	<b>23</b>	<b>(4,729)</b>	<b>(53)</b>
<b>[b] Finance expense (income)</b>				
Interest expense (income) to (from) banks	—	—	(1)	16
Loss (gain) on foreign exchange	(807)	(1,254)	1,193	(1,183)
	<b>(807)</b>	<b>(1,254)</b>	<b>1,192</b>	<b>(1,167)</b>
<b>[c] Finance costs</b>				
Interest on overdrafts and other finance costs	89	39	128	113
Interest, including non-cash interest, on debts and borrowings	638	634	1,985	1,906
Interest, including non-cash interest, on convertible debentures [note 13]	2,655	2,602	7,927	7,778
Finance charges payable (receivable) under finance lease contracts	—	(2)	—	3
	<b>3,382</b>	<b>3,273</b>	<b>10,040</b>	<b>9,800</b>
<b>[d] Cost of goods sold</b>				
Depreciation	1,373	1,417	4,052	4,194
Amortization of intangible assets	74	92	210	207
Warranty (recovery) provision	240	(261)	348	13
Cost of inventories recognized as an expense	78,123	58,287	179,842	170,888
	<b>79,810</b>	<b>59,535</b>	<b>184,452</b>	<b>175,302</b>

**Ag Growth International Inc.**

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

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

September 30, 2013

	<u>Three-month period ended</u>		<u>Nine-month period ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>[e] Selling, general and administrative expenses</b>				
Selling, general and administrative	<b>14,294</b>	12,667	<b>41,662</b>	38,395
Amortization of intangible assets	<b>947</b>	864	<b>2,805</b>	2,664
Depreciation	<b>125</b>	150	<b>395</b>	440
Minimum lease payments recognized as an operating lease expense	<b>567</b>	265	<b>1,262</b>	761
Corporate acquisition activity	<b>103</b>	—	<b>253</b>	—
	<b>16,036</b>	13,946	<b>46,377</b>	42,260
<b>[f] Employee benefits expense</b>				
Wages and salaries	<b>22,312</b>	18,032	<b>61,833</b>	57,821
Share-based payment transaction expenses [note 11[e]]	<b>812</b>	306	<b>2,237</b>	887
Pension costs	<b>555</b>	477	<b>1,624</b>	1,521
	<b>23,679</b>	18,815	<b>65,694</b>	60,229
Included in cost of goods sold	<b>16,004</b>	12,988	<b>43,114</b>	41,229
Included in general and administrative expenses	<b>7,675</b>	5,827	<b>22,580</b>	19,000
	<b>23,679</b>	18,815	<b>65,694</b>	60,229

**Ag Growth International Inc.**

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

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

September 30, 2013

**6. INTANGIBLE ASSETS**

	\$
<b>Balance, January 1, 2012</b>	75,510
Internal development	1,616
Amortization	(3,849)
Exchange differences	(500)
<b>Balance, December 31, 2012</b>	72,777
Internal development	1,199
Amortization	(3,015)
Exchange differences	790
<b>Balance, September 30, 2013</b>	71,751

**7. GOODWILL**

	<b>September 30,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>
	\$	\$
<b>Balance, beginning of period</b>	<b>63,399</b>	65,876
Exchange differences	<b>949</b>	(587)
Impairment of goodwill	—	(1,890)
<b>Balance, end of period</b>	<b>64,348</b>	63,399

**Ag Growth International Inc.**

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

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

September 30, 2013

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

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

	<u>Three-month period ended</u>		<u>Nine-month period ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Accounts receivable	<b>(15,756)</b>	3,121	<b>(37,945)</b>	(12,214)
Inventory	<b>7,624</b>	5,504	<b>(725)</b>	184
Prepaid expenses and other assets	<b>184</b>	598	<b>(512)</b>	578
Accounts payable and accrued liabilities	<b>3,044</b>	177	<b>13,796</b>	3,064
Customer deposits	<b>(1,453)</b>	(788)	<b>9,057</b>	(2,884)
Provisions	<b>234</b>	(261)	<b>348</b>	13
	<b>(6,123)</b>	8,351	<b>(15,981)</b>	(11,259)

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2013

#### 9. ACCOUNTS RECEIVABLE

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

	September 30, 2013	December 31, 2012
	\$	\$
Total accounts receivable	<b>90,393</b>	52,449
Less allowance for doubtful accounts	<b>(592)</b>	(593)
<b>Total accounts receivable, net</b>	<b>89,801</b>	51,856
<b>Of which</b>		
Neither impaired nor past due	<b>61,878</b>	33,672
Not impaired and past the due date as follows:		
Within 30 days	<b>14,446</b>	9,709
31 to 60 days	<b>5,715</b>	4,095
61 to 90 days	<b>1,901</b>	1,932
Over 90 days	<b>6,453</b>	3,041
Less allowance for doubtful accounts	<b>(592)</b>	(593)
<b>Total accounts receivable, net</b>	<b>89,801</b>	51,856

**Ag Growth International Inc.**

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

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

September 30, 2013

**10. EQUITY**

**[a] Common shares**

**Authorized**

Unlimited voting common shares without par value

**Issued**

12,579,872 common shares

	<b>Shares #</b>	<b>Amount \$</b>
<b>Balance, January 1, 2012</b>	12,411,620	151,039
Exercise of grants under DDCP	2,107	53
Settlement of LTIP obligation - vested shares <i>[note 11[e]]</i>	60,028	2,355
<b>Balance, December 31, 2012</b>	12,473,755	153,447
Settlement of LTIP obligation - vested shares <i>[note 11[e]]</i>	57,351	2,286
Dividend reinvestment plan costs <i>[note 10[e]]</i>	—	(32)
Dividend reinvestment shares issued from treasury <i>[note 10[e]]</i>	48,766	1,664
<b>Balance, September 30, 2013</b>	<b>12,579,872</b>	<b>157,365</b>

The 12,579,872 common shares as at September 30, 2013 are net of 16,997 common shares with a stated value of \$786 that are being held by the Company under the terms of the LTIP until vesting conditions are met.

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

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2013

#### [b] Contributed surplus

	Nine-month period ended September 30, 2013 \$	Year ended December 31, 2012 \$
<b>Balance, beginning of period</b>	<b>4,108</b>	5,341
Equity-settled director compensation	<b>233</b>	324
Obligation under LTIP	<b>156</b>	850
Obligation under 2012 SAIP <i>[note 11 [b]]</i>	<b>1,847</b>	—
Exercise of grants under DDCP <i>[note 11[c]]</i>	—	(53)
Equity-settled share based compensation	<b>106</b>	—
Settlement of LTIP obligation - vested shares <i>[note 11[a]]</i>	<b>(2,243)</b>	(2,354)
<b>Balance, end of period</b>	<b>4,207</b>	4,108

#### [c] Accumulated other comprehensive income

Accumulated other comprehensive income is comprised of the following:

##### Cash flow hedge reserve

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

##### Foreign currency translation reserve

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

##### Available-for-sale reserve

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

**Ag Growth International Inc.**

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

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

September 30, 2013

**[d] Dividends paid and proposed**

In the three-month period ended September 30, 2013, the Company declared dividends of \$7,552 or \$0.60 per common share [2012 - \$7,527 or \$0.60 per common share]. In the nine-month period ended September 30, 2013, the Company declared dividends of \$22,617 or \$1.80 per common share [2012 - \$22,582 or \$1.80 per common share] and dividends on share based compensation awards of \$137 [2012 - nil]. For the three- and nine-month period ended September 30, 2013, 48,766 common shares were issued to shareholders from treasury under the dividend reinvestment plan [the "DRIP"]. In the three-month period ended September 30, 2013, \$1,001 of dividends were financed by the DRIP [2012 – nil]. In the nine-month period ended September 31, 2013, \$1,644 of dividends were financed by the DRIP [2012 – nil].

Ag Growth's dividend policy is to pay cash dividends on or about the 15th day of each month to shareholders of record on the last business day of the previous month and the Company's current monthly dividend rate is \$0.20 per common share. Subsequent to September 30, 2013, the Company declared dividends of \$0.20 per common share to shareholders of record on October 31, 2013.

**[e] Dividend reinvestment plan**

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

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

##### **[a] Long-term incentive plan ["LTIP"]**

The LTIP is a compensation plan that awards common shares to key management based on the Company's operating performance. Pursuant to the LTIP, the Company establishes the amount to be allocated to management based upon the amount by which distributable cash, as defined in the LTIP, exceeds a predetermined threshold. The service period commences January 1st of the year the award is generated and ends at the end of the fiscal year. The award vests on a graded scale over an additional three-year period from the end of the respective performance year. The LTIP provides for immediate vesting in the event of retirement, death, termination without cause or in the event the participant becomes disabled. The cash awarded under the plan formula is used to purchase Ag Growth common shares at market prices. All vested awards are settled with participants in common shares purchased by the administrator of the plan and there is no cash settlement alternative.

The amount owing to participants is recorded as an equity award in contributed surplus as the award is settled with participants with treasury shares purchased in the open market. The expense is recorded in the unaudited interim condensed consolidated statement of income items by function depending on the role of the respective management member. During the three- and nine-month periods ended September 30, 2013, \$52 and \$157 [2012 - \$212 and \$637] were expensed in the LTIP. Additionally, there is \$76 [2012 - \$34] in restricted cash related to the LTIP. Further awards under the LTIP ceased, effective for the fiscal 2012 year.

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

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

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

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A total of 465,000 common shares are available for issuance under the 2012 SAIP. At the discretion of the Board, the 2012 SAIP provides for cumulative adjustments to the number of common shares to be issued pursuant to Share Awards on each date that dividends are paid on the common shares. The 2012 SAIP provides for accelerated vesting in the event of a change of control, retirement, death or termination without cause.

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

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

Each Performance Award requires the Company to deliver to the holder at the Company's discretion either the number of common shares designated in the Performance Award multiplied by a Payout Multiplier or the equivalent amount in cash after the third and prior to the fourth anniversary date of the grant. The Payout Multiplier is determined based on an assessment of the achievement of pre-defined measures in respect of the applicable period. The Payout Multiplier may not exceed 200%.

The Company intends to settle the share award by common shares.

As at September 30, 2013, 213,000 Restricted Awards and 110,000 Performance Awards have been granted. The Company has accounted for the Share Awards as equity-settled plans. The fair values of the Restricted Awards and the Performance Awards were based on the share price as at the grant date and the assumption that there will be no forfeitures. In addition, the expense of the Performance Awards is based on the probability of achieving 100% of the Payout Multiplier. During the three- and nine-month period ended September 30, 2013, AG Growth expensed \$691 and \$1,847 for the 2012 SAIP [2012 - nil and nil].

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**[c] Directors' Deferred Compensation Plan ["DDCP"]**

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

For the three- and nine-month periods ended September 30, 2013, an expense of \$68 and \$233 [2012 - \$94 and \$250] was recorded for the share grants, and a corresponding amount has been recorded to contributed surplus. The share grants were measured with the contractual agreed amount of service fees for the respective period.

The total number of common shares issuable pursuant to the DDCP shall not exceed 70,000 subject to adjustment in lieu of dividends, if applicable. For the three- and nine-month period ended September 30, 2013, a total of 1,839 and 6,680 common shares were granted under the DDCP, respectively, and as at September 30, 2013, a total of 39,084 common shares had been granted under the DDCP and 2,107 common shares had been issued.

**[d] Stock option plan**

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

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

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

For the three- and nine-month periods ended September 30, 2013, an expense of \$812 and \$2,237 [2012 - \$306 and \$887] was recognized for employee and Director services rendered.

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

	<b>2007 SAIP #</b>	<b>2012 SAIP</b>	
		<b>Restricted awards #</b>	<b>Performance awards #</b>
<b>Outstanding, January 1, 2012</b>	40,000	—	—
Exercised	(40,000)	—	—
<b>Balance, December 31, 2012</b>	—	—	—
Granted	—	213,000	110,000
<b>Balance, September 30, 2013</b>	—	<b>213,000</b>	<b>110,000</b>

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

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

	<b>Nine-month period ended September 30, 2013</b>	<b>Year ended December 31, 2012</b>
	<b>Shares #</b>	<b>Shares #</b>
<b>Outstanding, beginning of period</b>	<b>74,348</b>	134,376
Vested	(57,351)	(60,028)
<b>Outstanding, end of period</b>	<b>16,997</b>	74,348

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

	<b>Interest rate %</b>	<b>Maturity</b>	<b>September 30, 2013 \$</b>	<b>December 31, 2012 \$</b>
<b>Current portion of interest-bearing loans and borrowings</b>				
GMAC loans	0.0	2014	<u>6</u>	<u>7</u>
<b>Total current portion of interest-bearing loans and borrowings</b>			<u><b>6</b></u>	<u><b>7</b></u>
<b>Non-current interest-bearing loans and borrowings</b>				
Series A secured notes [U.S. dollar denominated]	6.8	2016	<b>25,712</b>	24,872
Term debt [U.S. dollar denominated]	3.8	2014	<b>10,830</b>	10,475
GMAC loans	0.0	2014	<u>—</u>	<u>7</u>
<b>Total non-current interest-bearing loans and borrowings</b>			<u><b>36,542</b></u>	<u>35,354</u>
			<b>36,548</b>	35,361
Less deferred financing costs			<u>277</u>	<u>438</u>
<b>Total interest-bearing loans and borrowings</b>			<u><b>36,271</b></u>	<u>34,923</u>

**[a] Bank indebtedness**

Ag Growth has operating facilities of \$10.0 million and U.S. \$2.0 million and may also draw on its term loan facility for general operating purposes. The operating and term loan facilities bear interest at prime to prime plus 1.0% per annum based on performance calculations. The effective interest rate during the nine-month period ended September 30, 2013 on Ag Growth's Canadian dollar operating facility was 3.0% [2012 - 3.1%] and on its U.S. dollar operating facility was 3.4% [2012 - 3.4%]. As at September 30, 2013, there was \$3.7 [December 31, 2012 - nil] outstanding under these facilities. The facilities mature March 8, 2016 or 90 days prior to the maturity date of the convertible unsecured debentures, unless refinanced on terms acceptable to the lenders.

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

**[b] Long-term debt**

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

Term loans bear interest at rates of prime to prime plus 1.0% based on performance calculations. As at September 30, 2013, term loans of U.S. \$10,530 were outstanding [December 31, 2012 - U.S. \$10,530]. Ag Growth's credit facility provides for term loans of up to \$38,000 and U.S. \$20,500 and includes lender approval to increase the size of the facility by \$25 million.

The facilities mature on the earlier of March 8, 2016 or 90 days prior to maturity date of convertible unsecured subordinated debentures [note 13], unless refinanced on terms acceptable to the lenders.

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

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#### [c] Covenants

Ag Growth is subject to certain financial covenants in its credit facility agreements which must be maintained to avoid acceleration of the termination of the agreement. The financial covenants require Ag Growth to maintain a debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] ratio of less than 2.5 and to provide debt service coverage of a minimum of 1.0. The covenant calculations exclude the convertible unsecured subordinated debentures from the definition of debt. As at September 30, 2013 and December 31, 2012, Ag Growth was in compliance with all financial covenants.

#### 13. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

	September 30, 2013	December 31, 2012
	\$	\$
Principal amount	114,885	114,885
Equity component	(7,475)	(7,475)
Accumulated accretion	5,371	4,211
Financing fees, net of amortization	(1,328)	(2,063)
<b>Convertible unsecured subordinated debentures</b>	<b>111,453</b>	<b>109,558</b>

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

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Each Debenture is convertible into common shares of the Company at the option of the holder at any time on the earlier of the maturity date and the date of redemption of the Debenture, at a conversion price of \$44.98 per common share, being a conversion rate of approximately 22.2321 common shares per \$1,000 principal amount of Debentures. In the nine-month period ended September 30, 2013, no Debentures were exercised [year ended December 31, 2012 - no Debentures were exercised]. As at September 30, 2013, Ag Growth has reserved 2,554,136 common shares for issuance upon conversion of the Debentures.

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

On redemption or at maturity, the Company may, at its option, elect to satisfy its obligation to pay the principal amount of the Debentures by issuing and delivering common shares. The Company may also elect to satisfy its obligations to pay interest on the Debentures by delivering common shares. The Company does not expect to exercise the option to satisfy its obligations to pay interest by delivering common shares and as a result the potentially dilutive impact has been excluded from the calculation of fully diluted earnings per share [note 18]. The number of any shares issued will be determined based on market prices at the time of issuance.

The Company presents and discloses its financial instruments in accordance with the substance of its contractual arrangement. Accordingly, upon issuance of the Debentures, the Company recorded a liability of \$107,525, less related offering costs of \$4,735. The liability component has been accreted using the effective interest rate method, and during the nine-month period ended September 30, 2013, the Company recorded an accretion expense of \$1,161 [2012 - \$1,070], non-cash interest expense related to financing costs of \$735 [2012 - \$678] and interest expense on the 7% coupon of \$6,031 [2012 - \$6,031]. The estimated fair value of the holder's option to convert Debentures to common shares in the amount of \$7,475 has been separated from the fair value of the liability and is included in shareholders' equity at \$5,105, net of income tax of \$2,041, and its pro rata share of financing costs of \$329.

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**14. INCOME TAXES**

The major components of income tax expense for the nine-month periods ended September 30, 2013 and 2012 are as follows:

**Unaudited interim condensed consolidated statements of income**

	<b>2013</b>	<b>2012</b>
	\$	\$
<b>Current tax expense</b>		
Current income tax charge	<b>5,963</b>	3,655
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	<b>3,946</b>	3,904
<b>Income tax expense reported in the interim condensed consolidated statements of income</b>	<b>9,909</b>	7,559

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

	<b>2013</b>	<b>2012</b>
	\$	\$
<b>Deferred tax related to items charged or credited directly to other comprehensive income during the period</b>		
Unrealized loss (gain) on derivatives and available-for- sale investment	<b>(792)</b>	1,182
Exchange differences on translation of foreign operations	<b>305</b>	(306)
<b>Income tax charged directly to other comprehensive income</b>	<b>(487)</b>	876

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

	As at September 30, 2013 \$	As at December 31, 2012 \$
Inventories	(88)	(88)
Property, plant and equipment and other assets	(11,919)	(11,549)
Intangible assets	(13,042)	(12,909)
Deferred financing costs	(139)	(117)
Accruals and long-term provisions	1,502	1,453
Tax loss carryforwards expiring between 2020 to 2029	10,892	14,831
Investment tax credit carryforwards expiring between 2025 and 2030	5,266	4,880
Canadian exploration expenses	29,176	29,198
Capitalized development expenditures	(874)	(707)
Convertible debentures	(559)	(868)
PSU liability	223	—
Equity impact LTIP	319	885
Other comprehensive income	363	(429)
<b>Net deferred tax assets</b>	<b>21,120</b>	<b>24,580</b>
<b>Reflected in the statement of financial position as follows</b>		
Deferred tax assets	30,562	33,621
Deferred tax liabilities	(9,442)	(9,041)
<b>Deferred tax assets, net</b>	<b>21,120</b>	<b>24,580</b>

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences, loss carryforwards and investment tax credits become deductible. Based on the analysis of taxable temporary differences and future taxable income, the management of the Company is of the opinion that there is convincing evidence available for the probable realization of all deductible temporary differences of the Company's tax entities other than losses incurred in its Finnish operations [519 Euros]. Accordingly, the Company has recorded a deferred tax asset for all other deductible temporary differences as of the reporting date and as at December 31, 2012.

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The Company has recorded accumulated tax losses related to its Finnish operations of 2,341 Euros. Based on historical results on an expectation of future profits, a deferred tax asset has been recognized for these losses as it is probable they will be utilized.

At September 30, 2013, there was no recognized deferred tax liability [December 31, 2012 - nil] for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries. The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries for which a deferred tax asset has not been recognized, aggregate to \$622 [December 31, 2012 - \$622].

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

There are no income tax consequences attached to the payment of dividends in either 2013 or 2012 by the Company to its shareholders.

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**15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK  
MANAGEMENT**

**[a] Management of risks arising from financial instruments**

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

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

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

**Market risk**

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

The sensitivity analyses in the following sections relate to the position as at September 30, 2013 and December 31, 2012.

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

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

- The unaudited interim condensed consolidated statements of financial position sensitivity relates to derivatives.
- The sensitivity of the relevant unaudited interim condensed consolidated statements of income item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at September 30, 2013 and December 31, 2012, including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at September 30, 2013 and December 31, 2012 for the effects of the assumed underlying changes.

#### **Foreign currency risk**

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

A significant part of the Company's sales are transacted in U.S. dollars and as a result fluctuations in the rate of exchange between the U.S. and Canadian dollar can have a significant effect on the Company's cash flows and reported results. To mitigate exposure to the fluctuating rate of exchange, Ag Growth enters into foreign exchange forward contracts and denominates a portion of its debt in U.S. dollars. As at September 30, 2013, Ag Growth's U.S. dollar denominated debt totalled U.S. \$35.5 million [2012 - U.S. \$35.5 million] and the Company has entered into the following foreign exchange forward contracts to sell U.S. dollars in order to hedge its foreign exchange risk:

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Settlement dates	Face value	Average rate
	U.S. \$	Cdn. \$
October - December 2013	22,000	1.03
January - December 2014	65,000	1.02
January - August 2015	29,000	1.05

  

Settlement dates	Face value	Average rate
	Euro	Cdn. \$
October - December 2013	300	1.32
January - December 2014	500	1.33

Subsequent to September 30, 2013, the Company entered into a number of foreign exchange forward contracts with settlement dates in 2015 totalling \$8 million at an average rate of \$1.05.

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

Ag Growth's sales denominated in U.S. dollars for the nine-month period ended September 30, 2013 were U.S. \$191 million, and the total of its cost of goods sold and its selling, general and administrative expenses denominated in that currency were U.S. \$116 million. Accordingly, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$19 million increase or decrease in sales and a total increase or decrease of \$12 million in its cost of goods sold and its selling, general and administrative expenses. In relation to Ag Growth's foreign exchange hedging contracts, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in an increase or decrease in the foreign exchange gain of \$4 million and an increase or decrease to other comprehensive income of \$4 million.

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The counterparty to the contracts are three multinational commercial banks and therefore credit risk of counterparty non-performance is remote. Realized gains or losses are included in net income for the period and for the three- and nine-month periods ended September 30, 2013, the Company realized a loss on its foreign exchange contracts of \$432 and \$110 [2012 - loss of \$537 and \$889], respectively.

The open foreign exchange forward contracts as at September 30, 2013 are as follows:

	Notional amount of currency sold	Notional Canadian dollar equivalent		
		Contract amount \$	Cdn \$ equivalent \$	Unrealized loss \$
U.S.\$	116,000	1.03	119,216	1,304
Euro	800	1.32	1,055	64

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

The cash flow hedges of the expected future sales were assessed to be highly effective and a net unrealized loss of \$1,368, with a deferred tax asset of \$363 relating to the hedging instruments, is included in other comprehensive income (loss).

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Furthermore, as Ag Growth regularly reviews the denomination of its borrowings, the Company is subject to changes in interest rates that are linked to the currency of denomination of the debt. Ag Growth's Series A secured notes and convertible unsecured subordinated debentures outstanding at September 30, 2013 and December 31, 2012. The Company had \$10,530 of U.S. dollar term debt at a floating rate of interest. A 10% increase or decrease in the Company's interest rate would result in an increase or decrease of \$27 to long-term interest expense.

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#### **Credit risk**

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

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

At September 30, 2013, the Company had two customers [December 31, 2012 - two customers] that accounted for approximately 46% [December 31, 2012 - 17%] of all receivables owing. The requirement for an impairment is analyzed at each reporting date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The Company does not hold collateral as security.

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

#### **Liquidity risk**

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

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**[b] Fair value**

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

	September 30, 2013		December 31, 2012	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
<b>Financial assets</b>				
Loans and receivables				
Cash and cash equivalents	—	—	2,171	2,171
Restricted cash	76	76	34	34
Accounts receivable	89,901	89,901	51,856	51,856
Available-for-sale investment	2,000	2,000	2,000	2,000
Derivative instruments	—	—	1,611	1,611
<b>Financial liabilities</b>				
Other financial liabilities				
Bank indebtedness	3,652	3,652	—	—
Interest-bearing loans and borrowings	36,271	38,650	34,923	38,082
Trade payables and provisions	33,915	33,915	19,771	19,771
Dividends payable	2,519	2,519	2,510	2,510
Convertible unsecured subordinated debentures	111,453	109,509	109,558	113,501
Derivative instruments	1,368	1,368	—	—

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

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

- Cash and cash equivalents, restricted cash, accounts receivable, bank indebtedness, dividends payable, finance lease obligations, transaction and financing costs payable, accounts payable and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

#### 16. CAPITAL DISCLOSURE AND MANAGEMENT

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

Ag Growth manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company is not subject to any externally imposed capital requirements other than financial covenants in its credit facilities and as at September 30, 2013 and December 31, 2012, all of these covenants were complied with *[note 12]*.

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

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**17. RELATED PARTY DISCLOSURES**

**Other relationships**

Burnet, Duckworth & Palmer LLP ["BDP"] provides legal services to the Company and a Director of Ag Growth is a partner of BDP. The total cost of these legal services in the nine-month period ended September 30, 2013 was \$0.05 million [2012 - \$0.1 million]. Included in accounts payable and accrued liabilities as at September 30, 2013 is \$0.02 [December 31, 2012 - \$0.1 million] owing to BDP. These transactions are measured at the exchange amount and were incurred during the normal course of business.

**18. PROFIT PER SHARE**

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

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

	<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>	<b>September 30, 2013</b>	<b>September 30, 2012</b>
	\$	\$	\$	\$
Net profit attributable to shareholders for basic and diluted profit per share	<b>12,718</b>	6,501	<b>22,073</b>	20,624
Interest expense on convertible debentures	<b>1,942</b>	—	—	—
Numerator for diluted profit per share	<b>14,660</b>	6,501	<b>22,073</b>	20,624
Basic weighted average number of shares	<b>12,566,245</b>	12,471,648	<b>12,545,617</b>	12,471,648
Dilutive effect of DDCP	<b>35,158</b>	27,185	<b>32,815</b>	25,194
Dilutive effect of LTIP	<b>16,997</b>	74,348	<b>16,997</b>	74,348
Dilutive effect of PSU	<b>110,000</b>	—	<b>110,000</b>	—
Dilutive effect of RSU	<b>182,186</b>	—	<b>171,231</b>	—
Dilutive effect on convertible debentures	<b>2,554,134</b>	—	—	—
Diluted weighted average number of shares	<b>15,464,720</b>	12,573,181	<b>12,876,660</b>	12,571,190
Basic profit per share	<b>1.01</b>	0.52	<b>1.76</b>	1.65
Diluted profit per share	<b>0.95</b>	0.52	<b>1.71</b>	1.64

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

In the three- and nine-month periods ended September 30, 2012 and in the nine-month period ended September 30, 2013, the convertible unsecured subordinated debentures were excluded from the calculation of the above diluted net profit per share because their effect was anti-dilutive.

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**19. REPORTABLE BUSINESS SEGMENT**

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

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

	Revenue				Property, plant and equipment, goodwill, intangible assets and available for sale investments	
	Three-month period ended		Nine-month period ended		As at	As at
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013	December 31, 2012
	\$	\$	\$	\$	\$	\$
Canada	<b>18,488</b>	17,998	<b>58,277</b>	64,112	<b>145,779</b>	148,781
United States	<b>57,776</b>	43,089	<b>143,807</b>	135,708	<b>71,775</b>	61,954
International	<b>40,183</b>	22,768	<b>67,230</b>	54,505	<b>8,767</b>	8,295
	<b>116,447</b>	83,855	<b>269,314</b>	254,325	<b>226,321</b>	219,030

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

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**20. COMMITMENTS AND CONTINGENCIES**

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

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

**[b] Letters of credit**

As at September 30, 2013, the Company has outstanding letters of credit in the amount of \$11,839 [December 31, 2012 - \$1,354].

**[c] Operating leases**

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

	\$
Within one year	1,216
After one year	3,099
	<u>4,315</u>

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

During the three- and nine-month periods ended September 30, 2013, the Company recognized an expense of \$567 and \$1,262 [2012 - \$242 and \$761] for leasing contracts. This amount relates only to minimum lease payments.

**[d] Legal actions**

The Company is involved in various legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.