



moving  
forward

**2014 QUARTERLY REPORT**

For the three-month period ended March 31, 2014

On behalf of our Board of Directors and the entire AGI team we are pleased to present our Q-1, 2014 financial results. We achieved record Q-1 sales in 2014 of \$86.2m, up 44% over Q-1/13 sales of \$59.9m. We also achieved record Q-1 EBITDA in 2014, at \$13.6m, an increase of 88% over the same period in 2013. This marks the third consecutive quarter of record results. Again they are broadly based, with record sales performance in Western Canada, USA and offshore.

Conditions in Western Canada are ideal from a storage and grain handling perspective. Farmers came off a record crop last fall and we've been running hard to keep up with demand ever since. Our program discipline last fall ensured that only the traditional portion of this business was booked with pre-season discounts and accordingly margins are healthy and on target. We have experienced significant uptake in our AGI bin construction program for larger, flat bottom farm storage. Aeration business is also very brisk, and in stark contrast to Q-1/13 when farmers were busy emptying their bins and in no hurry to consider adding to their storage requirements. While Q-1/14's driver was primarily last year's record volume, lower grain prices combined with an underperforming rail transportation system further underscored the importance of upgrading on farm storage.

A record crop in our largest market, south of the border, resulted in very strong activity both at the farm gate and commercially. At our largest division, Westfield, March 31/14 sales and order backlog were up over 40% compared to 2013, before taking into account the favourable improvement in foreign exchange. We have already dialed up Westfield's production to mid-summer rates in an attempt to clear enough of the backlog to ensure that in-season demand in Q-3 is delivered in a timely fashion. Given this year's late spring, along with another year of large corn planting, we could be in for another strong harvest in the US. Of course Mother Nature will ultimately have her say, but at least the table is set.

Our commercial business in the USA remained strong in Q-1, as the grain infrastructure continues its resizing to new crop production norms. In Canada the removal of the Canadian Wheat Board monopoly is leading to increased commercial activities throughout the prairies as well as at the ports. Our Hi Roller division, our most profitable commercial division, experienced a record Q-1/14. In addition to ongoing North American market strength, Hi Roller has won a number of international contracts for 2014, including several in Russia and Ukraine. Activity continues to come on stream in the region in spite of all the political turmoil. We recognize that some of this business has become vulnerable to the instability, however many of our customers have shown great resolve in continuing to develop their agribusinesses. In Q-1 we shipped \$7.5 million to the region compared to \$2.7 million for the same period last year, and we intend to ship over \$10 million in Q-2 based on today's information. Based on current conditions we expect the remaining \$50 million of our committed business will largely ship in the second half of 2014. As well, we continue to negotiate a number of deals that will most likely push into 2015. Meanwhile our international sales team is working hard in other regions of the world to develop new business (beyond traditional markets in Western Europe and Australia) and our current order backlog includes equipment sales of over \$11 million at four sites in Latin America as well as business in South Africa and Southeast Asia.

Closer to home we have enjoyed a successful launch of the Storm Seed Treater, targeting Western Canadian farmers. Our initial run size of 150 units, representing approximately \$3.7m in sales, allows us to work closely with our customers to ensure a successful launch. Integration of our Rem Grain Vac product line into our Batco facility is complete. We are very impressed with the calibre of our new team and equally impressed with our existing team for their welcoming attitude. Grain vac business has been brisk given the large amount of grain still at the farm gate throughout North America. Batco is experiencing record sales and order backlog levels for this time of year. Thankfully with the new facility fully commissioned, we are much better positioned to meet demand.

All said, we are excited about our prospects for the year. Thank you all for your continued support.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Anderson", written in a cursive style.

Gary Anderson

President/CEO

**AG GROWTH INTERNATIONAL INC.**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**Dated: May 14, 2014**

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, 2013 and the unaudited interim condensed consolidated financial statements of the Company for the three month period ended March 31, 2014. 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", “adjusted payout ratio”, “adjusted profit” and “adjusted diluted profit per share”. A description of these measures and their limitations are discussed below under "Non-IFRS Measures".

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

**SUMMARY OF RESULTS**

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

(thousands of dollars)	Three Months Ended March 31		
	2014	2013	Change
Trade sales <sup>(1)</sup>	\$86,181	\$59,913	\$26,268
Adjusted EBITDA <sup>(1)</sup>	\$13,603	\$7,246	\$6,357
Net Profit	\$1,218	\$3,399	\$(2,181)
Diluted profit per share	\$0.09	\$0.26	\$(0.17)
Adjusted diluted profit per share <sup>(1)(2)</sup>	\$0.52	\$0.08	\$0.44

(1) See “Non-IFRS Measures”

(2) Excludes non-cash losses on foreign exchange translation, the non-cash expense upon redemption of AGI’s 2009 debentures and gains or losses on the sale of property, plant & equipment. See “Diluted Profit per Share” in this Summary of Results and “Profit and Profit per Share” later in this MD&A.

Trade sales and adjusted EBITDA were at record highs in the first quarter of 2014 due to robust demand across all business lines and geographies. Sales in Canada in the first quarter of 2014 increased 39% over the prior year and were 19% higher than the previous record established in 2012. Sales were very strong across all on-farm product lines including grain augers, storage bins and aeration products. In the United States, strong demand for on-farm grain augers as well as

commercial grain handling equipment led to record sales of \$49.2 million, an increase of 32% compared to the first quarter of 2013. International sales of \$13.9 million exceeded the prior year by \$7.8 million as AGI entered 2014 with a higher level of committed business in Eastern Europe and South America. Favourable demand drivers for on-farm and commercial equipment and continued strong gross margins resulted in record adjusted EBITDA in the first quarter and a positive outlook for the balance of 2014 (see “Outlook”).

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

Trade sales were a record \$86.2 million in the first quarter of 2014 as AGI was able to leverage its market leading position and capitalize on favourable demand dynamics including record North American crop production and the continued expansion of the commercial grain handling infrastructure in North America and internationally.

(\$000s)	Three Months Ended March 31		
	2014	2013	Change
Canada	\$23,167	\$16,689	\$6,478
US	49,159	37,217	11,942
International	13,855	6,007	7,848
<b>Total</b>	<b>\$86,181</b>	<b>\$59,913</b>	<b>\$26,268</b>

Sales in Canada in the first quarter of 2014 were a record \$23.3 million, an increase of 39% over 2013 and 19% higher than the previous record established in 2012. A record harvest in 2013 resulted in low levels of inventory throughout AGI’s distribution network and, along with moderating commodity prices and logistical challenges moving grain off the farm, substantially increased the amount of on-farm storage compared to the prior year. Accordingly, sales of on-farm grain handling, storage and aeration products were very strong as AGI’s dealer network rebuilds inventory levels after a successful 2013 harvest.

In the United States, sales in the first quarter of 2014 were \$49.2 million, an increase of 32% compared to 2013. A record corn harvest and an extended harvest season in 2013 generated very strong in-season demand for on-farm portable equipment and resulted in low levels of inventory at the dealer level post-harvest. As a result, dealer participation in the Company’s preseason program increased significantly. Sales of commercial equipment increased substantially compared to the prior year due to continued investment in commercial grain handling infrastructure.

International sales of \$13.9 million in the first quarter of 2014 were \$7.8 million higher than the prior year. International sales in the first quarter of 2014 reflect AGI’s growing global footprint as sales and committed business increased in Ukraine, Latin America and Africa. The Company’s quote book remains at record levels and committed orders for the balance of 2014 significantly exceed those at the same time in 2013.

See also “Outlook”.

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

The Company's gross margin percentage for the three months ended March 31, 2013 was 35.1% (2013 – 35.2%). AGI was able to maintain a strong gross margin percentage despite an increase in input costs due to production volume efficiencies, further investment into lean manufacturing, price increases and the benefit of a weaker Canadian dollar. In addition, AGI's commercial business is largely project based and is quoted at current input costs, mitigating the risk of rising input costs.

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

Adjusted EBITDA for the three months ended March 31, 2014 was \$13.6 million (2013 - \$7.2 million). Record North American crop production in 2013, continued global investment into grain handling infrastructure and AGI's growing international presence contributed to the record adjusted EBITDA achieved in the first quarter of 2014.

**Diluted profit per share**

Diluted profit per share for the three months ended March 31, 2014 was \$0.09 (2013 - \$0.26). Although sales and adjusted EBITDA increased significantly compared to the prior year, profit and profit per share decreased due primarily to a larger non-cash loss on foreign exchange translation that resulted from a weakening Canadian dollar and the non-cash expense on the redemption of AGI's 2009 debentures. In addition, profit and profit per share in 2013 benefited from the gain on the sale of a redundant manufacturing facility.

(thousands of dollars)	Three Months Ended March 31			
	2014		2013	
	Profit	Per Share	Profit	Per Share
Profit and diluted profit per share as reported	\$1,218	\$0.09	\$3,399	\$0.26
Significant reconciling items:				
Non-cash loss on foreign exchange translation	4,825	0.36	2,344	0.18
(2) Non-cash expense on redemption of 2009 debentures	854	0.07	0	0.00
Gain on sale of property, plant and equipment	<u>0</u>	<u>0.00</u>	<u>(4,702)</u>	<u>(0.36)</u>
Adjusted profit and diluted profit per share <sup>(1)</sup>	<u>\$6,897</u>	<u>\$0.52</u>	<u>\$1,041</u>	<u>\$0.08</u>

(1) See "Non-IFRS Measures"

(2) Incremental accretion and finance costs related to the early redemption of the Company's 2009 debentures.

## **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 months ended March 31, 2014 was CAD \$1.10 (2013 - \$1.01).

Our business is also sensitive to fluctuations in input costs, especially steel, a principal raw material in our products, which represented approximately 24% of the Company's production costs in 2013. 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**

### **Overview**

AGI entered 2014 on a very positive note. Record crop production in North America in 2013 resulted in strong demand for on-farm portable grain handling equipment and low post-harvest inventory levels throughout AGI's North American dealer network. In addition, moderating agricultural commodity prices have incentivized farmers to retain more of their 2013 crop on the farm and logistical challenges in Canada have limited the ability of the producer to sell their crop, resulting in higher levels of storage and increased demand for storage, aeration and handling equipment. Accordingly, off-season demand is higher than typical and participation in the Company's annual preseason programs was very strong as dealers rebuild their inventory in advance of the 2014 growing season.

AGI's backlog for portable handling equipment remains at record levels which bodes well for sales in the second quarter of 2014. Demand for on-farm portable handling equipment in the second half of 2014 will be influenced by a number of factors including the volume of grain grown and conditions during harvest. In its 2014 Prospective Plantings report released on March 31, 2014, the USDA projected that U.S. farmers would continue to plant historically high levels of corn and soybean acres with an estimate of 91.7 million corn acres (decrease of 4% from 2013) and 81.5 million soybean acres (increase of 6% from 2013). These levels of planting are supportive of a large crop and demand for on-farm portable grain handling equipment. In addition, in its most recent Crop Progress report, the USDA reported U.S. farmers had planted just 29% of total projected corn acres as at May 4, 2014. Although 2014 planting is more advanced than the extremely late planting season experienced in 2013, progress at this date over the last five years has averaged 42%. A late planting is suggestive of a later harvest which

typically results in increased demand for AGI products as more equipment is replaced during harvest and the Company's in-season sales period is prolonged. Based on current conditions, management expects strong demand for portable equipment in the second half of 2014.

Demand for commercial equipment remains very strong as North American commercial grain handlers continue to focus on efficiencies and expansion of capacity in response to fluctuating agricultural commodity prices and a long-term trend towards higher grain production. In Canada, the dissolution of the Canadian Wheat Board monopoly may stimulate demand for commercial equipment as grain handlers expand their network of inland collection points to compete for supply and invest in capacity and efficiencies at the port. AGI's commercial handling equipment business has also benefited significantly from our continued growth in offshore markets.

AGI's increasing presence in international markets has resulted in record levels of quoting activity and committed international business is significantly higher compared to the prior year. In 2014 management expects to transact significant business in Eastern Europe, particularly Ukraine. Current political volatility in the region, however, has the potential to delay the shipment of committed orders and may defer new business (see "AGI Activity in Ukraine"). AGI expects sales to increase in a number of its international markets, including Latin America where committed business is currently over \$11 million, compared to total sales in 2013 of \$2.4 million. In addition, the Company has obtained new orders in Africa and continues to grow its business in the Asia Pacific region. Based on current conditions, management anticipates overall international sales in 2014 to exceed the record levels achieved in 2013.

AGI's financial results are impacted by the rate of exchange between the Canadian and U.S. dollars. A weaker Canadian dollar positively impacts sales and gross margin percentages when comparing to prior periods. For the year ended December 31, 2013, AGI's average rate of exchange was \$1.03. The Canadian dollar weakened in the latter portion of 2013 and based on the current rate of exchange AGI's financial results in 2014 may benefit from a weaker Canadian dollar compared to 2013. A portion of the Company's 2014 foreign exchange exposure has been hedged through forward foreign exchange contracts (see "Financial Instruments").

On January 20, 2014, AGI redeemed its outstanding 7.0% convertible debentures with cash on hand and proceeds from the December 2013 issuance of 5.25% convertible debentures (see "Capital Structure"). Management expects lower cash interest expense related to outstanding debentures will benefit profit per share in 2014.

Consistent with prior years, sales in 2014, particularly in the second half, will be influenced by weather patterns, crop conditions and the timing of harvest and conditions during harvest. Changes in global macro-economic factors as well as sociopolitical factors in certain local or regional markets, including the ongoing uncertainty and volatility in Ukraine, and the availability of credit and export credit agency support in offshore markets, also may influence sales, primarily of 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. (See also, "Risk and Uncertainties").

## **AGI Activity in Ukraine**

AGI's international growth strategy has been very successful and in recent years offshore sales have increased significantly. In 2013, sales to Russia, Ukraine and Kazakhstan ("RUK") were \$57 million (2012 - \$27 million), with a significant majority of these in Ukraine. AGI currently has accounts receivable in RUK of \$19 million, the value of which are 90% insured by Export Development Canada ("EDC"). We do not believe recent events in Ukraine have resulted in a significantly higher risk related to the collection of these receivables. AGI has no physical assets located in RUK.

Our business in Ukraine, as is the case with most of our new business in emerging markets, is primarily comprised of turn-key projects that bundle our commercial grain handling equipment with large diameter storage bins and are sold to large corporate farms, commercial grain handlers and port facilities. Our customers in Ukraine are predominantly well capitalized entities that either qualify for EDC insurance, direct financing or are able to pay cash in advance of shipment, and they generally transact a significant portion of their business in U.S. dollars and accordingly are largely insulated from volatility in local currencies. We remain in regular contact with our customers in the region and to date there has not been an indication that their capital expenditure plans have been substantially impacted by the recent events and accordingly we continue to ship product to Ukraine.

AGI's plans for 2014 include a continuing significant amount of business in Ukraine and as at the date of this MD&A committed business in RUK approximates \$70 million. Consistent with the prior year, first quarter sales were somewhat constrained as project specifications and customer delivery requirements were finalized and accordingly sales to RUK in Q1 2014 were \$7.5 million. Of the remainder, approximately \$21 million will be shipped in 2014 based on existing export credit agency facilities or cash deposits. Shipment of the final \$42 million of existing committed business is subject to receipt of additional export credit agency support or cash deposits. Accordingly, although the capital expenditure plans of these customers have not been altered by recent events, certain shipments may be delayed due to export credit agency approval or Ukrainian currency controls.

The situation in Ukraine and the region is very fluid. Although at this time our customers have not changed their view with respect to our capital projects this may change if the situation worsens. Our business may also be adversely affected in the event of negative developments with respect to currency controls, trade sanctions or export credit agency support, a deterioration in or expansion of the current political, social or military situation or if the current situation is protracted. (See also, "Risk and Uncertainties - International Sales and Operations").

## DETAILED OPERATING RESULTS

(thousands of dollars)	Three Months Ended March 31	
	2014	2013
Trade sales <sup>(1)</sup>	\$86,181	\$59,913
Loss on FX <sup>(2)</sup>	<u>(1,903)</u>	<u>(366)</u>
Sales	<u>84,278</u>	<u>59,547</u>
Cost of inventories	55,936	38,816
Depreciation/Amortization	<u>1,612</u>	<u>1,392</u>
Cost of sales	<u>57,548</u>	<u>40,208</u>
General and administrative	16,735	13,877
Corporate acquisition activity	135	0
Depreciation and amortization	1,193	1,063
Other operating income	(49)	(4,727)
Finance costs	4,256	3,316
Finance expense (income)	<u>997</u>	<u>734</u>
Profit before income taxes	3,463	5,076
Current income taxes	672	471
Deferred income taxes	<u>1,573</u>	<u>1,206</u>
Profit for the period	<u>\$1,218</u>	<u>\$3,399</u>
Net profit per share		
Basic	<u>\$0.09</u>	<u>\$0.27</u>
Diluted	<u>\$0.09</u>	<u>\$0.26</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 March 31	
	2014	2013
Profit before income taxes	\$3,463	\$5,076
Finance costs	4,256	3,316
Depreciation/amortization in cost of sales	1,612	1,392
Depreciation/ amortization in G&A expenses	<u>1,193</u>	<u>1,063</u>
<b>EBITDA <sup>(1)</sup></b>	<b>10,524</b>	<b>10,847</b>
Loss on foreign exchange in sales <sup>(2)</sup>	1,903	366
Loss on foreign exchange in finance income	1,041	735
Corporate acquisition activity	135	<u>0</u>
Gain on sale of property, plant & equipment	<u>0</u>	<u>(4,702)</u>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b><u>\$13,603</u></b>	<b><u>\$7,246</u></b>

(1) See "Non-IFRS Measures".

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

## ASSETS AND LIABILITIES

(thousands of dollars)	March 31 2014	December 31 2013	March 31 2013
Total assets	\$422,788	\$485,636	\$380,197
Total liabilities	\$207,763	\$288,658	\$193,089

## EXPLANATION OF OPERATING RESULTS

### Trade sales

(\$000s)	Three Months Ended March 31		
	2014	2013	Change
Canada	\$23,167	\$16,689	\$6,478
US	49,159	37,217	11,942
Overseas	13,855	6,007	7,848
<b>Total</b>	<b>\$86,181</b>	<b>\$59,913</b>	<b>\$26,268</b>

## Canada

Sales in Canada in the first quarter of 2014 were \$23.2 million, a 39% increase over the prior year. A record harvest in 2013 resulted in low levels of inventory throughout AGI's distribution network and, along with moderating commodity prices, substantially increased the amount of on-farm storage compared to the prior year. Sales were very strong across all on-farm product lines including grain augers, storage bins and aeration products.

## United States

In the United States, strong demand for on-farm grain augers as well as commercial grain handling equipment led to record sales of \$49.2 million, an increase of 32% compared to the first quarter of 2013. A record corn harvest and an extended harvest season in 2013 generated very strong in-season demand for on-farm portable equipment and resulted in low levels of inventory at the dealer level post-harvest. As a result, dealer participation in the Company's preseason program increased significantly. Sales of commercial equipment increased substantially compared to the prior year due to continued investment in commercial grain handling infrastructure.

## International

International sales of \$13.9 million were \$7.8 million higher than the prior year as AGI entered 2014 with a higher level of committed business compared to 2013. International sales in the first quarter of 2014 reflect AGI's growing global footprint as sales and committed business increased in Ukraine, Latin America and Africa. The Company's quote book remains at record levels and committed orders for the balance of 2014 significantly exceed those at the same time in 2013. See also, "Outlook".

## Gross Profit and Gross Margin

(thousands of dollars)	Three Months Ended March 31	
	2014	2013
Trade sales	\$86,181	\$59,913
Cost of inventories <sup>(1)</sup>	<u>55,936</u>	<u>38,816</u>
Gross Margin	<u>\$30,245</u>	<u>\$21,097</u>
Gross Margin <sup>(1)</sup> (as a % of trade sales)	35.1%	35.2%
Gross Margin <sup>(2)</sup> , excluding goods purchased for resale	36.0%	35.1%

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

(2) As per <sup>(1)</sup> but excluding goods purchased for resale and services provided by third parties. See explanation below.

The Company's gross margin percentage for the quarter ended March 31, 2014 was 35.1%, (2013 – 35.2%). AGI was able to maintain a strong gross margin percentage despite an increase in input costs due to production volume efficiencies, further investment into lean manufacturing, price increases and the benefit of a weaker Canadian dollar. In addition, AGI's commercial business is largely project based and is quoted at current input costs, mitigating the risk of rising input costs.

On an earnings basis, AGI benefits from a weaker Canadian dollar as its U.S. dollar denominated sales significantly exceed costs denominated in that currency. On a gross margin percentage basis however, the benefit of a weaker Canadian dollar relates only to AGI's Canadian divisions that derive U.S. dollar revenues in excess of U.S. dollar costs.

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 quarter ended March 31, 2014 was 36.0% (2012 – 35.1%).

### General and Administrative Expenses

For the three months ended March 31, 2014, selling, general & administrative expenses were \$16.7 million (19% of sales) compared to \$13.9 million (23% of sales) in 2013. The change from 2013 is largely due to the following:

- Sales and marketing expenses increased \$0.8 million due largely to higher sales commissions, additional personnel at the divisional level to support growth as well as continued investment in the Company's international sales team.
- Utility expenses increased \$0.4 million as a result of an unusually cold and long winter.
- Third party commission expense increased \$0.3 million primarily due to higher sales of on-farm distributed products.
- Share based compensation expenses increased \$0.2 million over Q1 2013 as additional awards were granted in August 2013 and January 2014. Based on current participation the expense going forward will approximate \$0.8 million per quarter until awards begin to vest.
- The remaining variance is the result of a number of offsetting factors with no individual variance larger than \$0.3 million.

### EBITDA and Adjusted EBITDA

(thousands of dollars)	Three Months Ended March 31	
	2014	2013
EBITDA <sup>(1)</sup>	\$10,524	\$10,847
Adjusted EBITDA <sup>(1)</sup>	\$13,603	\$7,246

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

The increase in adjusted EBITDA in 2014 was due to a substantial increase in sales, the result of a return to positive market conditions and overseas growth, and a strong operational performance. EBITDA decreased slightly due to a higher loss on foreign exchange in the current year and a large gain on the sale of a redundant manufacturing facility in 2013. See “EBITDA Reconciliation” above for a reconciliation between these measures.

### **Finance Costs**

The Company’s bank indebtedness as at March 31, 2014 was nil (December 31, 2013 – nil; March 31, 2013 – \$1.0 million) and its outstanding long-term debt was \$52.5 million (December 31, 2013 - \$26.4 million; March 31, 2013 - \$35.7 million). In December 2013 upon the issuance of its 2013 debentures, AGI repaid U.S. \$10.5 million of non-amortizing term debt. In January 2014, the redemption of the Company’s 2009 debentures was partially financed through a \$25.0 million draw on the Company’s credit facility.

Long-term debt at March 31, 2014 is primarily comprised of U.S. \$25.0 million of non-amortizing secured notes that bear interest at 6.80% and mature October 29, 2016 and \$25.0 million of non-amortizing debt drawn under the Company’s revolver facility. See “Capital Resources” for a description of the Company's credit facilities. As at March 31, 2014 the Company had outstanding \$86.2 million aggregate principal amount of 5.25% convertible unsecured subordinated debentures that were issued in December 2013 (see “Capital Resources”).

Finance costs for the three months ended March 31, 2014 were \$4.3 million (2013 - \$3.3 million). Finance costs in the current period include a non-cash expense of \$1.2 million resulting from the accelerated amortization of finance fees and accretion related to the redemption of AGI’s 2009 debentures (see “Convertible Debentures”). Finance costs in the current period also include interest of \$0.4 million related to the Company’s 2009 debentures that were redeemed on January 20, 2014.

Finance costs also include non-cash interest related to debenture accretion and the amortization of deferred finance costs related to AGI’s 2013 debentures, stand-by fees and other sundry cash interest.

### **Finance Expense (Income)**

Finance expense in both periods 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 three months ended March 31, 2013 was primarily related to a \$4.7 million gain on the sale of a 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 March 31	
	2014	2013
Depreciation in cost of sales	\$1,491	\$1,325
Depreciation in G&A	<u>162</u>	<u>135</u>
Total Depreciation	<u>\$1,653</u>	<u>\$1,460</u>

Amortization (thousands of dollars)	Three Months Ended March 31	
	2014	2013
Amortization in cost of sales	\$121	\$ 67
Amortization in G&A	<u>1,031</u>	<u>928</u>
Total Amortization	<u>\$1,152</u>	<u>\$995</u>

## Current income tax expense

For the three months ended March 31, 2014 the Company recorded current tax expense of \$0.7 million (2013 – \$0.5 million). Current tax expense relates primarily to Ag Growth U.S. subsidiaries.

## Deferred income tax expense

For the three months ended March 31, 2014, the Company recorded deferred tax expense of \$1.6 million (2013 - \$1.2 million). Deferred tax expense in 2013 relates to the utilization of deferred tax assets plus a decrease in deferred tax liabilities that related to the application of corporate tax rates to reversals of temporary differences between the accounting and tax treatment of depreciable assets and intangible assets.

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 three months ending March 31, 2014, the Company offset \$1.7 million of Canadian tax otherwise payable (2013 - \$0.5 million) through the use of these attributes and since the date of Conversion a cumulative amount of \$29.5 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 \$41.0 million are recorded as an asset on the Company’s balance sheet. See "Risks and Uncertainties – Income Tax Matters".

Effective tax rate (thousands of dollars)	Three Months Ended March 31	
	2014	2013
Current tax expense	\$ 672	\$ 471
Deferred tax expense	<u>1,573</u>	<u>1,206</u>
Total tax	<u>\$2,245</u>	<u>\$ 1,677</u>
Profit before taxes	\$3,463	\$5,076
Total tax %	65%	33%

The Company's effective tax rate for the quarter ending March 31, 2014 was 65% (2013 – 33%). The higher than typical effective rate and the difference from 2013 is primarily related to a non-cash loss on foreign exchange translation in 2014 of \$2.3 million (2013 - \$1.3 million) that is not a deduction for income tax purposes. In addition, AGI realized a taxable gain \$2.3 million on the sale of a redundant manufacturing facility in the first quarter of 2013. Adjusting for these items, AGI's effective tax rate for the three months ended March 31, 2014 was 39% (2013 – 40%).

The adjusted effective tax rate is higher than typical in part because these adjusting items occurred in the first quarter of the fiscal year which due to seasonality has a lower base of profit before taxes. Current tax expense in 2014 as a percentage of profit before taxes increased compared to 2013 as a higher proportion of pre-tax income was attributable to the Company's U.S. subsidiaries.

### **Profit and profit per share**

For the three months ended March 31, 2014, the Company reported net profit of \$1.2 million (2013 - \$3.4 million), basic net profit per share of \$0.09 (2013 - \$0.27), and fully diluted net profit per share of \$0.09 (2013 - \$0.26). Although sales and adjusted EBITDA increased significantly compared to the prior year, profit and profit per share decreased due to non-cash losses on foreign exchange translation and a gain on the sale of a redundant manufacturing facility in 2013, as illustrated below:

(thousands of dollars)	Three Months Ended March 31			
	2014		2013	
	Profit	Per Share	Profit	Per Share
Profit and diluted profit per share as reported	\$1,218	\$0.09	\$3,399	\$0.26
Significant reconciling items:				
Non-cash loss on foreign exchange translation	4,825	0.36	2,344	0.18
(2) Non-cash expense on redemption of 2009 debentures	854	0.07	0	0.00
Gain on sale of property, plant and equipment	<u>0</u>	<u>0.00</u>	<u>(4,702)</u>	<u>(0.36)</u>
Adjusted profit and diluted profit per share <sup>(1)</sup>	<u>\$6,897</u>	<u>\$0.52</u>	<u>\$1,041</u>	<u>\$0.08</u>

(1) See "Non-IFRS Measures"

(2) Incremental accretion and finance costs related to the early redemption of the Company's 2009 debentures.

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

2014					
	Average USD/CAD Exchange Rate	Sales	Profit (loss)	Basic Profit (loss) per Share	Diluted Profit (loss) per Share
Q1	\$1.09	\$84,278	\$1,218	\$0.09	\$0.09
<b>YTD</b>	<b>\$1.09</b>	<b>\$84,278</b>	<b>\$1,218</b>	<b>\$0.09</b>	<b>\$0.09</b>

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
Q4	\$1.04	\$87,473	\$518	\$0.04	\$0.04
<b>YTD</b>	<b>\$1.03</b>	<b>\$356,787</b>	<b>\$22,591</b>	<b>\$1.80</b>	<b>\$1.75</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>

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.
- A widespread drought in the U.S. impacted sales and profit in the third and fourth quarters of 2012 and the first and second quarters of 2013.

#### CASH FLOW AND LIQUIDITY

(thousands of dollars)	Three Months Ended March 31	
	2014	2013
Profit before income taxes	\$3,463	\$5,076
Add charges (deduct credits) to operations not requiring a current cash payment:		
Depreciation/Amortization	2,805	2,455
Translation loss (gain) on FX	4,825	2,344
Non-cash interest expense	1,923	672
Share based compensation	867	714
Loss (gain) on sale of assets	<u>0</u>	<u>(4,702)</u>
	<u>13,883</u>	<u>6,559</u>

Net change in non-cash working capital balances related to operations:		
Accounts receivable	(8,687)	(611)
Inventory	(9,257)	(7,581)
Prepaid expenses and other	(415)	(422)
Accounts payable	1,301	4,812
Customer deposits	(948)	4,089
Provisions	<u>54</u>	<u>0</u>
	<u>(17,952)</u>	<u>287</u>
Income tax paid	<u>(2,064)</u>	<u>(537)</u>
Cash (used in) provided by operations	<u><u>\$(6,133)</u></u>	<u><u>\$6,309</u></u>

For the three months ended March 31, 2014, cash used in operations was \$7.0 million (2013 – \$6.3 million provided). Profit before taxes after adjusting for non-cash items significantly exceeded the prior year due to a substantial increase in sales and adjusted EBITDA. The large increase in accounts receivable in Q1 2014 is reflective of first quarter seasonality during a high growth period and is largely the result of strong preseason sales with extended collection terms. This is in contrast to 2013 when the impact of the U.S. drought muted sales activity in the first half of the fiscal year. In the first quarter of 2014 the Company shipped product for which it had received a deposit in 2013, lowering the customer deposit balance, while in 2013 there was limited shipping however AGI collected deposits for future delivery as the Company's commercial business began showing signs of recovery from the U.S. drought. The movement in accounts payable is primarily the result of timing.

### **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. Working capital movement in the first quarter of 2014 was in line with historical seasonal patterns and requirements for fiscal 2014 are expected to be generally consistent with historical patterns. 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 months ended March 31, 2014 were \$1.4 million (1.7% of trade sales) compared to \$0.4 million (0.6%) in 2013. Maintenance capital expenditures in 2014 relate primarily to purchases of manufacturing equipment and building repairs and were funded through cash on hand and cash from operations.

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 \$0.4 million in the quarter ended March 31, 2014 (2013 - \$0.1 million) that related primarily to equipment to support the acquisition of the Rem GrainVac product line. Maintenance capital expenditures in 2014 are expected to return to a range of 1.0% to 1.5% of sales. Management recently completed a review of its commercial grain handling facilities and plans to invest approximately \$30 million dollars over 2014 and 2015 to provide for a significant increase in capacity and efficiency enhancements. Maintenance and non-maintenance capital expenditures are expected to be financed through bank indebtedness, cash on hand or in the case of significant non-maintenance expenditures through the Company's credit facility (see "Capital Resources").

## Cash Balance

The Company's cash balance at March 31, 2014 was \$9.0 million (December 31, 2013 - \$108.7 million; March 31, 2013 - nil) and its outstanding long-term debt was \$52.5 million (2013 - \$26.4 million). The large cash balance at December 31, 2013 was largely due to the receipt of \$82.8 million net proceeds related to the issuance of AGI's 5.25% convertible debentures in December 2013. The net proceeds formed a component of the funds used to redeem AGI's 7.0% debentures in January 2014 (see "Convertible Debentures").

## CONTRACTUAL OBLIGATIONS (thousands of dollars)

	Total	2014	2015	2016	2017	2018+
Debentures (2013)	86,250	0	0	0	0	86,250
Long-term debt	27,637	4	0	27,633	0	0
Operating leases	6,413	1,230	1,324	1,061	801	1,997
Total obligations	<u>120,300</u>	<u>1,234</u>	<u>1,324</u>	<u>28,694</u>	<u>801</u>	<u>88,247</u>

Debentures (2013) relate to the aggregate principal amount of the 5.25% debentures issued by the Company in December 2013 (see "Convertible Debentures" below). Long-term debt at March 31, 2014 is primarily comprised of U.S. \$25.0 million of non-amortizing secured notes and \$25.0 million of non-amortizing debt drawn under the Company's revolver facility.

## CAPITAL RESOURCES

### Cash

Cash and cash equivalents at March 31, 2014 were \$9.0 million (December 31, 2013 - \$108.7 million; March 31, 2013 – nil). The large cash balance at December 31, 2013 was largely due to the receipt of \$82.8 million net proceeds related to the issuance of AGI's 5.25% convertible debentures in December 2013. The net proceeds formed a component of the funds used to redeem AGI's 7.0% debentures in January 2014 (see "Convertible Debentures").

### 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.

The Company also has a credit facility with a syndicate of Canadian lenders. The table below summarizes amounts committed and drawn (USD converted at \$1.1053) as at March 31, 2014:

(thousands of dollars)	Debt Facilities
Committed Line at as March 31, 2014	\$97,869
Long-term debt drawn under facility	25,000
Bank indebtedness drawn under facility	<u>0</u>
Undrawn at March 31, 2014	<u>\$72,869</u>

Amounts drawn under the facility bear interest at rates of prime plus 0.0% to prime plus 1.0% based on performance calculations and matures on March 8, 2016. 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

#### Debentures (2009)

In 2009 the Company issued \$115 million aggregate principal amount of convertible unsecured subordinated debentures (the "2009 Debentures") at a price of \$1,000 per 2009 Debenture. On and after December 31, 2013, at the option of the Company, the 2009 Debentures could be redeemed at a price equal to their principal amount plus accrued and unpaid interest. In December 2013 the Company announced its intention to redeem the 2009 Debentures effective January 20, 2014. In January 2014, holders of \$19.0 million principal amount of the 2009 Debentures exercised the conversion option and were issued 422,897 common shares. The Company redeemed all remaining outstanding 2009 Debentures on January 20, 2014. The 2009 Debentures traded on the Toronto Stock Exchange ("TSX") under the symbol AFN.DB.

## Debentures (2013)

In December 2013 the Company issued \$86.2 million aggregate principal amount of convertible unsecured subordinated debentures (the "2013 Debentures") at a price of \$1,000 per 2013 Debenture. The 2013 Debentures bear interest at an annual rate of 5.25% payable semi-annually on June 30 and December 31 with the first payment due on June 30, 2014. Each 2013 Debenture is convertible into common shares of the Company at the option of the holder at a conversion price of \$55.00 per common share. The maturity date of the 2013 Debentures is December 31, 2018.

On and after December 31, 2016 and prior to December 31, 2017, the 2013 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, 2017, the 2013 Debentures may be redeemed, in whole or in part, at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity, the Company may, at its option, subject to regulatory approval and provided that no event of default has occurred, elect to satisfy its obligation to pay the principal amount of the 2013 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 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 2013 Debentures by delivering sufficient freely tradeable common shares to satisfy its interest obligation.

The 2013 Debentures trade on the TSX under the symbol AFN.DB.A.

## **COMMON SHARES**

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

	<b># Common Shares</b>
December 31, 2013	12,628,291
Shares issued under Dividend Reinvestment Plan	31,556
Conversion of 2009 Debentures	<u>422,897</u>
March 31, 2014	13,082,744
Shares issued under Dividend Reinvestment Plan in April 2014	<u>10,943</u>
May 14, 2014	<u>13,093,687</u>

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 December 31, 2013, a total of 300,307 common shares related to the LTIP had vested to the participants and 1,766 awards were forfeited. No further awards are available under the LTIP subsequent to 2012.

On May 11, 2012 the shareholders of AGI authorized a new Share Award Incentive Plan (the “2012 SAIP”) which authorizes the Board to grant restricted Share Awards (“RSU’s”) and performance Share Awards (“PSU’s”) to officers, employees or consultants of the Company but not to non-management directors. A total of 465,000 common shares are available for issuance under the 2012 SAIP. As at March 31, 2014, a total of 226,000 RSU’s and 110,000 PSU’s have been granted.

A total of 42,489 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 TSX 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 quarter ended March 31, 2014, AGI declared dividends to shareholders of \$7.8 million (2013 - \$7.7 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 quarter ended March 31, 2014 were financed \$1.3 million by the DRIP [2013 - nil] and \$6.5 million [2013 - \$7.7 million] from cash on hand and cash from operations or 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 gains or losses on the sale of property, plant & equipment. The objective of presenting this measure is to provide a measure of free cash flow. The definition excludes changes in working capital as they are necessary to drive organic growth and have historically been financed by the Company’s operating facility (See “Capital Resources”). Funds from operations should not be construed as an alternative to cash flows from operating, investing, and financing activities as a measure of the Company’s liquidity and cash flows.

(thousands of dollars)	Three Months Ended March 31	
	2014	2013
EBITDA	\$10,524	\$10,847
Share based compensation	867	714
Non-cash interest expense	1,923	672
Translation loss on FX	4,825	2,344
Interest expense	(4,256)	(3,316)
Income taxes paid	(2,064)	(537)
Maintenance CAPEX	(1,425)	(443)
Funds from operations (1)	<u>\$10,394</u>	<u>\$10,281</u>

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

(thousands of dollars)	Three Months Ended March 31	
	2014	2013
Cash provided by operating activities	\$(6,133)	\$6,309
Change in non-cash working capital	17,952	(287)
Maintenance CAPEX	(1,425)	(443)
Gain on sale of assets	<u>0</u>	<u>4,702</u>
Funds from operations (1)	<u>\$10,394</u>	<u>\$10,281</u>
<b>Payout ratio</b>		
Dividends to shareholders	\$7,843	\$7,685
Payout ratio (1)	75%	75%
<b>Adjusted payout ratio</b>		
Dividends to shareholders	\$7,843	\$7,685
Dividends paid under DRIP	<u>(1,389)</u>	<u>0</u>
Dividends paid in cash	<u>\$6,454</u>	<u>\$7,685</u>
Adjusted payout ratio (3)	62%	75%
<b>Rolling four quarter payout ratio</b>	58%	86%

(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 March 31, 2014 was consistent with the prior year as a significant increase in adjusted EBITDA in the current year was largely offset by a \$4.7 million gain on the sale of a redundant manufacturing facility in funds from operations in the first quarter of 2013.

## 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 March 31, 2014, 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>
2014	54,000	\$1.02	\$54,813
2015	65,000	\$1.06	\$69,030
2016	5,000	\$1.12	\$5,592

<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>
2014	500	\$1.33	\$664
2015	500	\$1.52	\$761

The fair value of the outstanding forward foreign exchange contracts in place as at March 31, 2014 was a loss of \$8.7 million. Consistent with prior periods, the Company has elected to apply hedge accounting for these contracts and the unrealized loss has been recognized in other comprehensive income for the period ended March 31, 2014.

Subsequent to March 31, 2014, the Company entered into foreign exchange forward contracts for settlements in 2016 totalling U.S. \$6.0 million at an average rate of \$1.11.

## 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, 2013 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. The classification of assets into cash generating units requires significant judgment and interpretations with respect to the integration between assets, the nature of products, the way in which management allocates resources and other relevant factors. 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***

Our success depends substantially on the health of the agricultural industry. The performance of the agricultural industry, including the grain handling, storage and conditioning business, is cyclical. Sales of agricultural equipment generally are related to the health of the agricultural industry, which is affected by farm income, farm input costs, debt levels and land values, all of which reflect levels of agricultural commodity prices, acreage planted, crop yields, agricultural product demand, including crops used as renewable energy sources such as ethanol, government policies and government subsidies. Sales also are influenced by economic conditions, interest rate and exchange rate levels, and the availability of distributor and customer financing. Trends in the agricultural industry, such as farm consolidations, may affect the agricultural equipment market. In addition, weather conditions, such as floods, heat waves or droughts, can affect farmers’ buying decisions. Downturns in the agricultural industry due to these or other factors could vary by market and are likely to result in decreases in demand for agricultural equipment, which would adversely affect our sales, growth, results of operations and financial condition.

To the extent that the agricultural industry declines or experiences a downturn, this is likely to have a negative impact on the grain handling, storage and conditioning business, and the business of AGI. Among other things, the agricultural sector has in recent years benefited from an increase in crop production and investment in agricultural infrastructure including outside of North America. To the extent crop production declines or economic conditions result in a decrease in agricultural investment including in offshore markets, this is likely to have a negative impact on the agricultural industry in those markets and the business of AGI. In addition, if the ethanol industry declines or experiences a downturn, due to changes in governmental policies or otherwise, this is may have a negative impact on the demand for and prices of certain crops which may 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, political instability or other factors affecting economic conditions generally.

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

Decreased crop yields due to poor or unusual weather conditions, natural disasters or 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***

Our products include various materials and components purchased from others, some or all of which may be subject to wide price variation. Consistent with industry practice, AGI seeks to manage its exposure to material and component price volatility by planning and negotiating significant purchases on an annual basis, and through the alignment of material input pricing with the terms of contractual sales commitments. AGI endeavours to pass through to customers, most, if not all, material and component price volatility. There can be no assurance, however, that industry conditions will allow AGI to continue to reduce its exposure to volatility of production costs by passing through price increases to its customers. A significant increase in the price of any component or material, such as steel, could adversely affect our profitability.

### ***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 regularly enters 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. Conversely, to the extent that we enter into hedging arrangements, we potentially forego the benefits that might result from favourable fluctuations in currency exchange rates.

### ***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 in existing or new markets. 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, including the acquisition of businesses or the development of manufacturing capabilities outside of North America, may involve a number of special risks including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances, unanticipated market dynamics in new agricultural markets, added political and economic risk in other jurisdictions, risks associated with new market development outside of North America, and legal liabilities, some or all of which could have a material adverse effect on AGI's performance. In emerging markets some of these (and other) risks can be greater than they might be elsewhere. 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 (approximately \$92 million or 26% in 2013) the majority of which are in emerging markets such as countries in Eastern Europe, including most significantly Ukraine and also Russia, as well as countries in Central and South America, the Middle East and Southeast Asia. An important component of AGI's strategy is to increase its offshore sales and operations in the future. Sales and operations outside of North America, particularly in emerging markets, are subject to various additional risks, including: currency exchange rate fluctuations; foreign economic conditions; trade barriers; competition with North American and international manufacturers and suppliers; exchange controls; restrictions on dividends and the repatriation of funds; national and regional labour strikes; political risks; limitations on foreign investment; sociopolitical instability; fraud; risk of trade embargoes and sanctions prohibiting sales to specific persons or countries; 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; unfavourable political or economic climate limiting or eliminating support from export credit agencies; changes in laws and policies governing operations of foreign-based companies; as well as risks of loss due to civil strife and acts of war.

There is no guarantee that one or more of these factors will not materially adversely affect AGI's offshore sales and operations in the future, which could have a material adverse effect on AGI's results of operations and financial condition.

There have also been instances of political turmoil and other instability in some of the countries in which AGI operates, including most recently in Ukraine, which has and is currently experiencing political changes, civil unrest and military action, which are contributing to significant economic uncertainty and volatility. AGI continues to closely monitor the political, economic and military situation in Ukraine, and will seek to take actions to mitigate its exposure to potential risk events. However, the situation in Ukraine is rapidly developing and AGI has no way to predict outcome of the situation. Continued unrest, military activities, or broader – based trade sanctions or embargoes, should they be implemented, could have a material adverse effect on our sales in Ukraine and Russia and other countries in the region, and a material adverse effect on our sales, growth, results of operations and financial condition.

### ***Anti-Corruption Laws***

The Company's business practices must comply with the Corruption of Public Foreign Officials Act (Canada) and other applicable similar laws. These anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence government officials or private individuals for the purpose of obtaining or retaining a business advantage regardless of whether those practices are legal or culturally expected in a particular jurisdiction. These risks can be more acute in emerging markets. Recently, there has been a substantial increase in the global enforcement of anti-corruption laws. If violations of these laws were to occur, they could subject us to fines and other penalties as well as increased compliance costs and could have an adverse effect on AGI's reputation, business and results of operations and financial condition.

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

Prices of agricultural 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 agricultural 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 agricultural equipment business is highly seasonal, which causes our quarterly results and our cash flow to fluctuate during the year. Our sales historically have been higher in the second and third calendar quarters compared with the first and fourth quarters and our cash flow has been lower in the first three quarters of each calendar year, which 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 in North America. 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.

AGI often enters into supply agreements with customers outside of North America. These contracts may include penalties for non-performance including in relation to product quality, late delivery and in some cases project assembly services. In addition, contractual commitments negotiated with foreign customers conducted in languages other than English may increase the likelihood of disputes with respect to agreed upon commitments. In the event AGI fails to perform to the standards of its contractual commitments it could suffer a negative financial impact which in some cases could be material.

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

AGI's credit facility matures on March 8, 2016 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 customers do 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.

AGI obtains insurance for certain of its accounts receivables outside of North America while assuming a percentage of the risk, most often 10% of the insured amount. In the event that AGI is unable to collect on its accounts receivables outside of North America, the Company will incur financial losses related to the uninsured portion.

***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; Canada Revenue Agency Review Regarding Conversion***

Income tax provisions, including current and deferred income tax assets and liabilities, and income tax filing positions require estimates and interpretations of income tax rules and regulations of the various jurisdictions in which AGI operates and judgments as to their interpretation and application to AGI's specific situation. The amount and timing of reversals of temporary differences also depends 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. In November 2013 the Company received a proposal letter from the Canada Revenue Agency (the "CRA") which advises of the CRA's intention to challenge the tax consequences of the Conversion. While the Company is confident in its tax filing position, there is a risk that the CRA could successfully challenge the tax consequences of the Conversion or prior transactions of any of the entities involved in the Conversion. Therefore, it is possible that additional taxes could be payable by AGI and the ultimate value of AGI's income tax assets and liabilities could change in the future and that changes to these amounts could have a material adverse effect on AGI's consolidated financial statements and financial position. Further, in the event of a reassessment of any of AGI's tax filings by a taxation authority including the CRA, AGI would be required to deposit cash equal to 50% of the tax liability claimed with the relevant taxation authority in order to file an objection against such reassessment, the amount of which deposit could be significant. See also "Explanation of Operating Results – Deferred income tax expense".

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

The Company is authorized to issue an unlimited number of common shares for such consideration and on such terms and conditions as shall be established by the Directors without the approval of any shareholders, except as may be 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 2013 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.

### **Information Systems, Privacy and Data Protection**

Security breaches and other disruptions to AGI's information technology infrastructure could interfere with AGI's operations and could compromise AGI's and its customers' and suppliers' information, exposing AGI to liability that would cause AGI's business and reputation to suffer. In the ordinary course of business, AGI relies upon information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including supply chain, manufacturing, distribution, invoicing and collection of payments from dealers or other purchasers of AGI equipment. AGI uses information technology systems to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements.

Additionally, AGI collects and stores sensitive data, including intellectual property, proprietary business information and the proprietary business information of AGI's customers and suppliers, as well as personally identifiable information of AGI's customers and employees, in data centers and on information technology networks. The secure operation of these information technology networks and the processing and maintenance of this information is critical to AGI's business operations and strategy. Despite security measures and business continuity plans, AGI's information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attacks by hackers or breaches due to employee error or malfeasance or other

disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer viruses, telecommunication or utility failures or natural disasters or other catastrophic events. The occurrence of any of these events could compromise AGI's networks, and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disrupt operations, and damage AGI's reputation, which could adversely affect AGI's business.

## **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, 2014. These changes were made in accordance with the applicable transitional provisions.

### **IAS 32 Financial Instruments: Presentation**

The amendments to IAS 32 clarify the guidance as to when an entity has a legally enforceable right to set off financial assets and financial liabilities, and, clarify when a settlement mechanism provides for net settlement. The application of IAS 32 has not materially impacted the interim financial statements.

### **IFRIC 21 Levies**

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executor contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The application of IFRIC 21 has not materially impacted the interim 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, 2018. The revised version of IFRS 9 introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. 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.

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

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

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

There have been no material changes in AGI's internal controls over financial reporting that occurred in the three month period ended March 31, 2014, 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", "trade sales", "adjusted profit", and "adjusted diluted profit per share". 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. These measurements are non-IFRS measurements. 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.

References to “adjusted profit” and “adjusted diluted profit per share” are to profit for the period and diluted profit per share adjusted for gains on the sale of property, plant and equipment, non-cash foreign exchange losses and non-cash expenses related to the accelerated amortization of accretion and finance costs upon redemption of AGI’s 2009 debentures.

## **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. 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 planting, crop yields, crop conditions, the timing of harvest and conditions during harvest, seasonality, industry cyclicality, volatility of production costs, agricultural 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.**

March 31, 2014

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

	As at March 31, 2014 \$	As at December 31, 2013 \$
<b>ASSETS [note 13]</b>		
<b>Current assets</b>		
Cash and cash equivalents	8,977	108,731
Restricted cash [notes 5 and 12[a]]	250	112
Accounts receivable [note 10]	69,763	58,578
Inventory	68,453	57,546
Prepaid expenses and other assets	3,513	2,225
Income taxes recoverable	1,543	9
	<u>152,499</u>	<u>227,201</u>
<b>Non-current assets</b>		
Property, plant and equipment, net	89,874	88,416
Goodwill [note 8]	70,238	65,322
Intangible assets, net [note 7]	77,229	71,487
Available-for-sale investment	2,000	2,000
Income taxes recoverable	5,538	5,487
Deferred tax asset [note 15]	23,014	23,327
	<u>267,893</u>	<u>256,039</u>
Assets held for sale	2,396	2,396
<b>Total assets</b>	<u>422,788</u>	<u>485,636</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	32,253	30,872
Customer deposits	18,022	18,651
Dividends payable [note 11[d]]	2,617	2,525
Acquisition, transaction and financing costs payable [note 5]	250	—
Income taxes payable	154	151
Current portion of long-term debt [note 13]	4	5
Current portion of derivative instruments [note 16]	6,002	3,348
Convertible unsecured subordinated debentures	—	113,360
Provisions	3,564	3,400
	<u>62,866</u>	<u>172,312</u>
<b>Non-current liabilities</b>		
Long-term debt [note 13]	52,463	26,367
Due to vendor	639	615
Convertible unsecured subordinated debentures [note 14]	78,332	77,987
Derivative instruments [note 16]	2,692	1,144
Deferred tax liability [note 15]	10,771	10,233
	<u>144,897</u>	<u>116,346</u>
<b>Total liabilities</b>	<u>207,763</u>	<u>288,658</u>
<b>Shareholders' equity [note 11]</b>		
Common shares	179,704	158,542
Accumulated other comprehensive income	6,757	3,365
Equity component of convertible debentures	4,480	8,240
Contributed surplus	8,936	4,984
Retained earnings	15,148	21,847
<b>Total shareholders' equity</b>	<u>215,025</u>	<u>196,978</u>
<b>Total liabilities and shareholders' equity</b>	<u>422,788</u>	<u>485,636</u>
Commitments and contingencies [note 21]		

See accompanying notes

On behalf of the Board of Directors:



Bill Lambert  
Director



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]

	<b>Three-month period ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	<b>\$</b>	<b>\$</b>
<b>Sales</b>	<b>84,278</b>	59,547
Cost of goods sold <i>[note 6[d]]</i>	<b>57,548</b>	40,208
<b>Gross profit</b>	<b>26,730</b>	19,339
<b>Expenses</b>		
Selling, general and administrative <i>[note 6[e]]</i>	<b>18,063</b>	14,940
Other operating income <i>[note 6[a]]</i>	<b>(49)</b>	(4,727)
Finance costs <i>[note 6[c]]</i>	<b>4,256</b>	3,316
Finance expense <i>[note 6[b]]</i>	<b>997</b>	734
	<b>23,267</b>	14,263
Profit before income taxes	<b>3,463</b>	5,076
Income tax expense <i>[note 15]</i>		
Current	<b>672</b>	471
Deferred	<b>1,573</b>	1,206
	<b>2,245</b>	1,677
<b>Profit for the period</b>	<b>1,218</b>	3,399
<b>Profit per share - basic</b> <i>[note 19]</i>	<b>0.09</b>	0.27
<b>Profit per share - diluted</b> <i>[note 19]</i>	<b>0.09</b>	0.26

*See accompanying notes*

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

	<b>Three-month period ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	<b>\$</b>	<b>\$</b>
Profit for the period	<b>1,218</b>	3,399
Other comprehensive income		
Items that may be reclassified subsequently to profit or (loss)		
Change in fair value of derivatives designated as cash flow hedges	<b>(4,525)</b>	(1,656)
Loss (gains) on derivatives designated as cash flow hedges recognized in net earnings in the current period	<b>323</b>	(244)
Income tax relating to items that may be reclassified	<b>1,116</b>	505
Exchange difference on translating foreign operations	<b>6,478</b>	2,393
<b>Other comprehensive income for the period</b>	<b>3,392</b>	998
<b>Total comprehensive income for the period</b>	<b>4,610</b>	4,397

*See accompanying notes*

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

Three-month period ended March 31, 2014

	Common shares \$	Equity component of convertible debentures \$	Contributed surplus \$	Retained earnings \$	Cash flow hedge reserve \$	Foreign currency reserve \$	Total equity \$
<b>As at January 1, 2014</b>	158,542	8,240	4,984	21,847	(3,306)	6,671	196,978
Profit for the period	—	—	—	1,218	—	—	1,218
Other comprehensive income (loss)	—	—	—	—	(3,086)	6,478	3,392
Share-based payment transactions [note 12]	749	—	192	—	—	—	941
Dividend reinvestment plan	—	—	—	—	—	—	—
transactions [notes 11[d] and 11[e]]	1,389	—	—	—	—	—	1,389
Dividends to shareholders [note 11[d]]	—	—	—	(7,843)	—	—	(7,843)
Dividends on share-based compensation awards [note 11[d]]	—	—	—	(74)	—	—	(74)
Redemption of 2009 convertible unsecured subordinated debentures [note 14]	19,024	(3,760)	3,760	—	—	—	19,024
<b>As at March 31, 2014</b>	<b>179,704</b>	<b>4,480</b>	<b>8,936</b>	<b>15,148</b>	<b>(6,392)</b>	<b>13,149</b>	<b>215,025</b>

See accompanying notes

**Ag Growth International Inc.**

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

[in thousands of Canadian dollars]

Three-month period ended March 31, 2013

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

See accompanying notes

**Ag Growth International Inc.**

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

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

	<b>Three-month period ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Profit before income taxes for the period	3,463	5,076
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	1,653	1,460
Amortization of intangible assets	1,152	995
Translation loss on foreign exchange	4,825	2,344
Non-cash component of interest expense	1,923	672
Share-based compensation	867	714
Gain on sale of property, plant and equipment	—	(4,702)
Net change in non-cash working capital balances related to operations <i>[note 9]</i>	(17,952)	287
Income tax paid	(2,064)	(537)
<b>Cash provided by (used in) operating activities</b>	<b>(6,133)</b>	<b>6,309</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(1,796)	(587)
Acquisition of REM product line <i>[note 5]</i>	(13,144)	—
Deposits related to property, plant and equipment	(873)	(741)
Transfer to cash held in trust and restricted cash	(250)	(18)
Proceeds from sale of property, plant and equipment, net	56	10
Development of intangible assets	(298)	(421)
<b>Cash used in investing activities</b>	<b>(16,305)</b>	<b>(1,757)</b>
<b>FINANCING ACTIVITIES</b>		
Increase of bank indebtedness	—	995
Repayment of long-term debt	(1)	(1)
Redemption of convertible unsecured unsubordinated debentures, net	(95,861)	—
Issuance of long-term debt	25,000	—
Dividends paid in cash	(6,454)	(7,685)
Dividend reinvestment plan costs incurred	—	(32)
<b>Cash used in financing activities</b>	<b>(77,316)</b>	<b>(6,723)</b>
<b>Net decrease in cash and cash equivalents during the period</b>	<b>(99,754)</b>	<b>(2,171)</b>
Cash and cash equivalents, beginning of period	108,731	2,171
<b>Cash and cash equivalents, end of period</b>	<b>8,977</b>	<b>—</b>
<b>Supplemental cash flow information</b>		
Interest paid	1,184	612

See accompanying notes

## **Ag Growth International Inc.**

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

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

March 31, 2014

## **1. ORGANIZATION**

The unaudited interim condensed consolidated financial statements of Ag Growth International Inc. ["Ag Growth Inc."] for the three-month period ended March 31, 2014 were authorized for issuance in accordance with a resolution of the directors on May 13, 2014. 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 Inc. conducts business in the grain handling, storage and conditioning market.

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

The accounting policies applied by the Company in these unaudited interim condensed financial statements are the same as those applied by the Company in its audited annual consolidated financial statements as at and for the year ended December 31, 2013, except for the adoption of new standards and interpretations effective as of January 1, 2014. As required by IAS 34, the nature and effect of these changes are disclosed below.

### **Offsetting Financial Assets and Liabilities ["IAS 32"]**

The amendments to IAS 32 clarify the guidance as to when an entity has a legally enforceable right to set off financial assets and financial liabilities, and, clarify when a settlement mechanism provides for net settlement. The application of IAS 32 has not materially impacted the unaudited interim condensed financial statements.

**Ag Growth International Inc.**

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

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

March 31, 2014

**Levies ["IFRIC 21"]**

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executor contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The application of IFRIC 21 has not materially impacted the unaudited interim condensed financial statements.

These unaudited interim condensed consolidated financial statements do not include all the information and notes required by IFRS for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the Company's fiscal year ended December 31, 2013, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

**[b] Basis of preparation**

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

Accounting measurements at interim dates, rather than at year-end, inherently involve a greater reliance on estimates. In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments of a normal recurring nature to present fairly the unaudited interim condensed consolidated financial position of the Company as at March 31, 2014.

**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. AGI'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, AGI's use of its bank revolver is typically highest in the first and second quarters, begins to decline in the third quarter as collections of accounts receivable increase, and is repaid in the third or fourth quarter of each year.

**Ag Growth International Inc.**

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

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

March 31, 2014

**5. BUSINESS COMBINATION**

Effective February 3, 2014, the Company acquired the assets related to the REM Grain Vac product line ["Grain Vac"]. The acquisition of Grain Vac provides the Company with a complementary product line.

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

	<u>\$</u>
Accounts receivable	2,257
Inventory	1,650
Property, plant and equipment	120
Intangible assets	
Distribution network	2,566
Brand name	1,838
Intellectual property	1,266
Order backlog	35
Non-compete agreements	114
Goodwill	3,811
Accounts payable and accrued liabilities	(80)
Customer deposits	(319)
Provisions	(110)
Purchase consideration	<u>13,148</u>

**Ag Growth International Inc.**

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

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

March 31, 2014

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

The goodwill of \$3,811 comprises the value of expected synergies arising from the acquisition. Goodwill is expected to be deductible for income tax purposes.

From the date of acquisition, Grain Vac has contributed to the 2014 results \$299 of revenue and the purchase consideration in the amount of \$13,148 was paid in cash. The impacts on the cash flows on the acquisition of Grain Vac are as follows:

	<u>\$</u>
Purchase consideration	13,148
Local taxes	246
Cash held in trust	<u>(250)</u>
Purchase consideration transferred	<u>13,144</u>

The acquisition of Grain Vac was an asset purchase and as such the Company does not have access to the books and records of Grain Vac for any periods prior to the acquisition date of February 3, 2014. Therefore, the impact on revenues and profit of the Company from the acquisition of Grain Vac at the beginning of 2014 cannot be reported. The Company has also integrated Grain Vac with one of its divisions. Therefore, the operating results of Grain Vac cannot be separately reported from the date of acquisition.

The consideration transferred of \$13,144 was paid in cash. The impact on the cash flow on the acquisition of Grain Vac are as follows:

	<u>\$</u>
Transaction costs of the acquisition paid in 2013	119
Transaction costs of the acquisition paid in 2014	32
Purchase consideration transferred	<u>13,144</u>
Net cash flow on acquisition	<u>13,295</u>

As at March 31, 2014, the Company had cash held in trust of \$250 relating to the acquisition of Grain Vac.

**Ag Growth International Inc.**

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

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

March 31, 2014

**6. OTHER EXPENSES (INCOME)**

	<b>Three-month period ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	\$	\$
<b>[a] Other operating income</b>		
Net gain on disposal of property, plant and equipment	—	(4,702)
Other	(49)	(25)
	<u>(49)</u>	<u>(4,727)</u>
<b>[b] Finance (income) expense</b>		
Interest income from banks	(44)	(1)
Loss on foreign exchange	1,041	735
	<u>997</u>	<u>734</u>
<b>[c] Finance costs</b>		
Interest on overdrafts and other finance costs	86	16
Interest, including non-cash interest, on debts and borrowings	717	671
Interest, including non-cash interest, on convertible debentures <i>[note 14]</i>	3,453	2,629
	<u>4,256</u>	<u>3,316</u>
<b>[d] Cost of goods sold</b>		
Depreciation	1,491	1,325
Amortization of intangible assets	121	67
Warranty provision	64	—
Cost of inventories recognized as an expense	55,872	38,816
	<u>57,548</u>	<u>40,208</u>
<b>[e] Selling, general and administrative expenses</b>		
Depreciation	162	135
Amortization of intangible assets	1,031	928
Minimum lease payments recognized as an operating lease expense	421	286
Selling, general and administrative	16,449	13,591
	<u>18,063</u>	<u>14,940</u>
<b>[f] Employee benefits expense</b>		
Wages and salaries	23,009	18,373
Share-based payment transaction expense <i>[note 12]</i>	867	714
Pension costs	619	562
	<u>24,495</u>	<u>19,649</u>
Included in cost of goods sold	16,204	12,231
Included in selling general and administrative expense	8,291	7,418
	<u>24,495</u>	<u>19,649</u>

**Ag Growth International Inc.**

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

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

March 31, 2014

**7. INTANGIBLE ASSETS**

	\$
<b>Balance, January 1, 2013</b>	72,777
Internal development	886
Acquisition	332
Amortization	(4,039)
Exchange differences	1,531
<b>Balance, December 31, 2013</b>	71,487
Internal development	298
Acquisition <i>[note 5]</i>	5,819
Amortization	(1,152)
Exchange differences	777
<b>Balance, March 31, 2014</b>	<b>77,229</b>

**8. GOODWILL**

	March 31, 2014	December 31, 2013
	\$	\$
<b>Balance, beginning of period</b>	<b>65,322</b>	63,399
Acquisition <i>[note 5]</i>	3,811	—
Exchange differences	1,105	1,923
<b>Balance, end of period</b>	<b>70,238</b>	65,322

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

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

	March 31, 2014	March 31, 2013
	\$	\$
Accounts receivable	(8,687)	(611)
Inventory	(9,257)	(7,581)
Prepaid expenses and other assets	(415)	(422)
Accounts payable and accrued liabilities	1,301	4,812
Customer deposits	(948)	4,089
Provisions	54	—
	<b>(17,952)</b>	287

**Ag Growth International Inc.**

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

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

March 31, 2014

**10. ACCOUNTS RECEIVABLE**

As is typical in the agriculture sector, AGI 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:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	\$	\$
Total accounts receivable	<b>70,594</b>	58,389
Less allowance for doubtful accounts	<b>(831)</b>	(811)
<b>Total accounts receivable, net</b>	<b>69,763</b>	58,578
<b>Of which</b>		
Neither impaired nor past due	<b>41,063</b>	39,217
Not impaired and past the due date as follows		
Within 30 days	<b>13,953</b>	10,943
31 to 60 days	<b>6,551</b>	2,541
61 to 90 days	<b>2,354</b>	1,616
Over 90 days	<b>6,673</b>	5,072
Less allowance for doubtful accounts	<b>(831)</b>	(811)
<b>Total accounts receivable, net</b>	<b>69,763</b>	58,578

**Ag Growth International Inc.**

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

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

March 31, 2014

**11. EQUITY**

**[a] Common shares**

**Authorized**

Unlimited number of voting common shares without par value

**Issued**

13,082,744 common shares

	<b>Number</b>	<b>Amount</b>
	<b>#</b>	<b>\$</b>
<b>Balance, January 1, 2013</b>	12,473,755	153,447
Exercise of grants under DDCP	5,395	193
Settlement of LTIP - vested shares	57,351	2,286
Forfeiture of LTIP awards	1,766	—
Dividend reinvestment plan costs	—	(32)
Dividend reinvestment shares issued from treasury	74,793	2,648
<b>Balance, December 31, 2013</b>	12,613,060	158,542
Settlement of LTIP obligation - vested shares <i>[note 12[d]]</i>	<b>15,231</b>	<b>749</b>
Convertible unsecured subordinated debentures	<b>422,897</b>	<b>19,024</b>
Dividend reinvestment shares issued from treasury	<b>31,556</b>	<b>1,389</b>
<b>Balance, March 31, 2014</b>	<b>13,082,744</b>	<b>179,704</b>

The 12,613,060 common shares as at December 31, 2013 are net of 15,231 common shares with a stated value of \$749 that are being held by the Company under the terms of the LTIP until vesting conditions are met. There are no shares being held by the Company under the terms of the LTIP as at March 31, 2014.

**Ag Growth International Inc.**

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

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

March 31, 2014

**[b] Contributed surplus**

	<b>Three-month period ended March 31, 2014</b>	<b>Year ended December 31, 2013</b>
	\$	\$
<b>Balance, beginning of period</b>	<b>4,984</b>	4,108
Equity-settled director compensation	<b>82</b>	303
Obligation under LTIP	—	131
Obligation under 2012 SAIP	<b>785</b>	2,650
Exercise of grants under DDCP	—	(193)
Settlement of LTIP obligation - vested shares	<b>(749)</b>	(2,286)
Dividends on 2012 SAIP	<b>74</b>	188
Forfeiture of LTIP awards	—	83
Redemption of 2009 convertible unsecured subordinated debentures	<b>3,760</b>	—
<b>Balance, end of period</b>	<b>8,936</b>	4,984

**[c] Accumulated other comprehensive (income) loss**

Accumulated other comprehensive loss is comprised of the following:

**Cash flow hedge reserve**

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

**Foreign currency translation reserve**

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

**Available-for-sale reserve**

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

**Ag Growth International Inc.**

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

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

March 31, 2014

**[d] Dividends paid and proposed**

In the three-month period ended March 31, 2014, the Company declared dividends of \$7,843 or \$0.60 per common share [2013 - \$7,685 or \$0.60 per common share] and dividends on share compensation awards of \$74 [2013 - nil]. In the three-month period ended March 31, 2014, 31,556 common shares were issued to shareholders from treasury under the dividend reinvestment plan [the "DRIP"]. In the three-month period ended March 31, 2014, dividends paid to shareholders were financed \$6,454 [2013 - \$7,685] from cash on hand and \$1,389 [2013 - nil] by the DRIP.

AGI's dividend policy is to pay cash dividends on or about the 15th of each month to shareholders of record on the last business day of the previous month. The Company's current monthly dividend rate is \$0.20 per common share. Subsequent to March 31, 2014, the Company declared dividends of \$0.20 per common share on April 30, 2014.

**[e] Dividend reinvestment plan**

On March 5, 2013, the Company announced the adoption of 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.

**[f] Shareholder protection rights plan**

On December 20, 2010, the Company's Board of Directors adopted a Shareholders' Protection Rights Plan [the "Rights Plan"]. Specifically, the Board of Directors has implemented the Rights Plan by authorizing the issuance of one right [a "Right"] in respect of each common share [the "Common Shares"] of the Company. If a person or a Company, acting jointly or in concert, acquires [other than pursuant to an exemption available under the Rights Plan] beneficial ownership of 20 percent or more of the Common Shares, Rights [other than those held by such acquiring person which will become void] will separate from the Common Shares and permit the holder thereof to purchase that number of Common Shares having an aggregate market price [as determined in accordance with the Rights Plan] on the date of consummation or occurrence of such acquisition of Common Shares equal to four times the exercise price of the Rights for an amount in cash equal to the exercise price. The exercise price of the Rights pursuant to the Rights Plan is \$150 per Right.

**Ag Growth International Inc.**

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

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

March 31, 2014

**12. SHARE-BASED COMPENSATION PLANS**

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

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

The amount owing to participants is recorded as an equity award in contributed surplus as the award is settled with participants with treasury shares purchased in the open market. The expense is recorded in the different unaudited interim condensed consolidated statement of income lines by function depending on the role of the respective management member. During the three-month period ended March 31, 2014, AGI expensed nil [2013 - \$52] for the LTIP. Additionally, there is nil [December 31, 2013 - \$112] 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 AGI approved a Share Award Incentive Plan [the "2012 SAIP"] which authorizes the Board to grant restricted Share Awards ["Restricted Awards"] and Performance Share Awards ["Performance Awards"] [collectively, the "Share Awards"] to persons who are officers, employees or consultants of the Company and its affiliates. Share Awards may not be granted to Non-Management Directors.

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

**Ag Growth International Inc.**

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

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

March 31, 2014

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 March 31, 2014, 226,000 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-month period ended March 31, 2014, AGI expensed \$785 for the 2012 SAIP [2013 - \$578].

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

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

For the three-month period ended March 31, 2014, an expense of \$82 [2013 - \$84] was recorded for the share grants, and a corresponding amount has been recorded to contributed surplus. The share grants were measured with the contractual agreed amount of service fees for the respective period.

**Ag Growth International Inc.**

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

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

March 31, 2014

The total number of common shares issuable pursuant to the DDCP shall not exceed 70,000, subject to adjustment in lieu of dividends, if applicable. For the three-month period ended March 31, 2014, 1,781 common shares were granted under the DDCP and as at March 31, 2014, a total of 42,489 common shares had been granted under the DDCP and 7,503 common shares had been issued.

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

For the three-month period ended March 31, 2014, an expense of \$867 [2013 - \$714] was recognized for employee and Director services rendered.

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

	<b>2012 SAIP</b>	
	<b>Restricted awards</b>	<b>Performance awards</b>
	<b>#</b>	<b>#</b>
<b>Outstanding, January 1, 2013</b>	—	—
Granted	214,000	110,000
<b>Balance, December 31, 2013</b>	214,000	110,000
Granted	<b>12,000</b>	—
<b>Balance, March 31, 2014</b>	<b>226,000</b>	<b>110,000</b>

There is no exercise price on the 2012 SAIP awards.

A summary of the status of the rights to shares to be issued under the LTIP is presented below:

	<b>Three-month period ended March 31, 2014</b>	<b>Year ended December 31, 2013</b>
	<b>Shares</b>	<b>Shares</b>
	<b>#</b>	<b>#</b>
<b>Outstanding, beginning of period</b>	<b>15,231</b>	74,348
Vested	<b>(15,231)</b>	(57,351)
Forfeited	—	(1,766)
<b>Outstanding, end of period</b>	<b>—</b>	<b>15,231</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]

March 31, 2014

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

	<b>Interest rate %</b>	<b>Maturity</b>	<b>March 31, 2014 \$</b>	<b>December 31, 2013 \$</b>
<b>Current portion of interest-bearing loans and borrowings</b>				
GMAC loans	0.0	2014	<u>4</u>	<u>5</u>
<b>Total current portion of interest-bearing loans and borrowings</b>			<u>4</u>	<u>5</u>
<b>Non-current interest-bearing loans and borrowings</b>				
Series A secured notes [U.S. dollar denominated]	6.8	2016	<u>27,633</u>	26,590
Term debt	3.0	2016	<u>25,000</u>	—
<b>Total non-current interest-bearing loans and borrowings</b>			<u>52,633</u>	26,590
			<u>52,637</u>	26,595
Less deferred financing costs			<u>170</u>	223
<b>Total interest-bearing loans and borrowings</b>			<u>52,467</u>	26,372

**[a] Bank indebtedness**

AGI has operating facilities of \$10 million and U.S. \$2.0 million. The facilities bear interest at prime to prime plus 1.0% per annum based on performance calculations. The effective interest rate during the three-month period ended March 31, 2014 on AGI's Canadian dollar operating facility was 3.0% [2013 - 3.0%], and on its U.S. dollar operating facility was 3.3% [2013 - 3.3%]. As at March 31, 2014, there was nil outstanding under these facilities [December 31, 2013 - nil]. The facilities mature March 8, 2016.

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.

**Ag Growth International Inc.**

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

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

March 31, 2014

**[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.

AGI has revolver facilities of \$63.0 million and U.S. \$20.5 million. The facilities bear interest at prime to prime plus 1.0% per annum based on calculations. The effective interest rate for the three month period ended 2014 on AGI's Canadian dollar revolver facility was 3.0% [2013 - 3.0%] and on its U.S. dollar revolver facility was 3.3% [2013 - 3.3%]. As at March 31, 2014, there was \$25 million [December 31, 2013 - nil] outstanding under these facilities. The facilities mature March 8, 2016.

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

**[c] Covenants**

AGI 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 AGI to maintain a debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] ratio of less than 2.5 and to provide debt service coverage of a minimum of 1.0. The covenant calculations exclude the convertible unsecured subordinated debentures from the definition of debt. As at March 31, 2014 and December 31, 2013, AGI was in compliance with all financial covenants.

**Ag Growth International Inc.**

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

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

March 31, 2014

**14. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES**

	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>2013</b>	<b>2009</b>	<b>2013</b>	<b>2009</b>
	<b>Debentures</b>	<b>Debentures</b>	<b>Debentures</b>	<b>Debentures</b>
	\$	\$	\$	\$
Principal amount	<b>86,250</b>	—	86,250	114,885
Equity component	<b>(4,480)</b>	—	(4,480)	(7,475)
Accretion	<b>220</b>	—	29	6,538
Financing fees, net of amortization	<b>(3,658)</b>	—	(3,812)	(588)
<b>Convertible unsecured subordinated debentures</b>	<b>78,332</b>	—	77,987	113,360

In 2009, the Company issued convertible unsecured subordinated debentures in the aggregate principal amount of \$115 million [the "2009 Debentures"]. The maturity date of the 2009 Debentures was December 31, 2014 and accordingly as at December 31, 2013, they were classified as current liabilities. In the three-month period ended March 31, 2014, holders of \$19.0 million principal amount of the 2009 Debentures exercised the conversion option and were issued 422,897 common shares. The Company fully redeemed all remaining outstanding 2009 Debentures on January 20, 2014. In the three-month period ended March 31, 2014, the Company recorded interest expense on the 7.0% coupon of \$440 and expensed all remaining unamortized accretion and finance fee balances in the amounts of \$937 and \$588, respectively.

On December 17, 2013, the Company issued convertible unsecured subordinated debentures in the aggregate principal amount of \$75 million, and on December 24, 2013, the underwriters exercised in full their over-allotment option and the Company issued an additional \$11.2 million of debentures [the "2013 Debentures"]. The net proceeds of the offering, after payment of the underwriters' fee of \$3.5 million and expenses of the offering of \$0.6 million, were approximately \$82.2 million. The 2013 Debentures were issued at a price of \$1,000 per debenture and bear interest at an annual rate of 5.25% payable semi-annually on June 30 and December 31 in each year commencing June 30, 2014. The maturity date of the 2013 Debentures is December 31, 2018.

**Ag Growth International Inc.**

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

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

March 31, 2014

Each 2013 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 2013 Debenture, at a conversion price of \$55 per common share being a conversion rate of approximately 18.1818 common shares per \$1,000 principal amount of 2013 Debentures. No conversion options were exercised during the three-month period ended March 31, 2014 [year ended December 31, 2013 - nil]. As at March 31, 2014, AGI has reserved 1,568,182 common shares for issuance upon conversion of the 2013 Debentures.

The 2013 Debentures are not redeemable before December 31, 2016. On and after December 31, 2016 and prior to December 31, 2017, the 2013 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, 2017, the 2013 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 2013 Debentures by issuing and delivering common shares. The Company may also elect to satisfy its obligations to pay interest on the 2013 Debentures by delivering common shares. The Company does not expect to exercise the option to satisfy its obligations to pay interest by delivering common shares and as a result the potentially dilutive impact has been excluded from the calculation of fully diluted earnings per share [note 19]. The number of any shares issued will be determined based on market prices at the time of issuance.

The Company presents and discloses its financial instruments in accordance with the substance of its contractual arrangement. Accordingly, upon issuance of the 2013 Debentures, the Company recorded a liability of \$86,250, less related offering costs of \$3,847. The liability component has been accreted using the effective interest rate method, and during the three-month period ended March 31, 2014, the Company recorded accretion of \$192 [2013 - nil], non-cash interest expense relating to financing costs of \$164 [2013 - nil] and interest expense on the 5.25% coupon of \$1,132 [2013 - nil]. The estimated fair value of the holder's option to convert the 2013 Debentures to common shares in the total amount of \$4,480 has been separated from the fair value of the liability and is included in shareholders' equity, net of income tax of \$1,134, and its pro rata share of financing costs of \$211.

**Ag Growth International Inc.**

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

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

March 31, 2014

**15. INCOME TAXES**

The major components of income tax expense for the three-month periods ended March 31, 2014 and 2013 are as follows:

**Unaudited interim condensed consolidated statements of income**

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>Current tax expense</b>		
Current income tax charge	<b>672</b>	471
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	<b>1,573</b>	1,206
<b>Income tax expense reported in the unaudited interim condensed consolidated statement of income</b>	<b>2,245</b>	1,677

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

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>Deferred tax related to items charged or credited directly to other comprehensive income during the period</b>		
Unrealized loss on derivatives and available-for-sale investment	<b>(1,116)</b>	(505)
Exchange differences on translation of foreign operations	<b>394</b>	190
<b>Income tax charged directly to other comprehensive income</b>	<b>(722)</b>	(315)

**Ag Growth International Inc.**

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

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

March 31, 2014

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

	<b>As at March 31, 2014</b>	<b>As at December 31, 2013</b>
	\$	\$
Inventories	(88)	(88)
Property, plant and equipment and other assets	(13,055)	(12,730)
Intangible assets	(13,364)	(13,202)
Deferred financing costs	(15)	(168)
Accruals and long-term provisions	1,778	1,730
Tax loss carryforwards expiring between 2020 to 2029	8,082	9,897
Investment tax credits	(1,123)	(1,123)
Canadian exploration expenses	29,176	29,176
Capitalized development expenditures	(796)	(779)
Convertible debentures	(1,134)	(1,431)
SAIP liability	383	307
Equity impact LTIP	90	312
Other comprehensive income	2,309	1,193
<b>Net deferred tax assets</b>	<b>12,243</b>	<b>13,094</b>
 <b>Reflected in the statement of unaudited interim condensed consolidated financial position as follows</b>		
Deferred tax assets	23,014	23,327
Deferred tax liabilities	(10,771)	(10,233)
<b>Deferred tax assets, net</b>	<b>12,243</b>	<b>13,094</b>

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences, loss carryforwards and investment tax credits become deductible. Based on the analysis of taxable temporary differences and future taxable income, the management of the Company is of the opinion that there is convincing evidence available for the probable realization of all deductible temporary differences of the Company's tax entities incurred in its Finnish operations other than losses [2,163 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, 2013.

## **Ag Growth International Inc.**

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

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

March 31, 2014

As at March 31, 2014, there was no recognized deferred tax liability [December 31, 2013 - 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, 2013 - \$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 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 to a corporate entity. 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 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 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 effect on these unaudited interim condensed consolidated financial statements.

There are no income tax consequences to the Company attached to the payment of dividends in either 2014 or 2013 by the Company to its shareholders.

#### **16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

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

AGI'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.

## **Ag Growth International Inc.**

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

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

March 31, 2014

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 AGI is exposed are discussed below. Financial instruments affected by market risk include trade accounts receivable and payable, available-for-sale investment and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at March 31, 2014 and December 31, 2013.

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 as at March 31, 2014 and December 31, 2013, including the effect of hedge accounting.

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2014

- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at March 31, 2014 and December 31, 2013 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, AGI enters into foreign exchange forward contracts and denominates a portion of its debt in U.S. dollars. As at March 31, 2014, AGI's U.S. dollar denominated debt totaled \$27.6 million [December 31, 2013 - \$26.6 million] and the Company has entered into the following foreign exchange forward contracts to sell U.S. dollars and Euros in order to hedge its foreign exchange risk on revenue:

Settlement dates	Face value	Average rate
	U.S. \$	Cdn \$
April - December 2014	54,000	1.02
January - December 2015	65,000	1.06
January - 2016	5,000	1.12

  

Settlement dates	Face value	Average rate
	Euro	Cdn \$
August - December 2014	500	1.33
January - December 2015	500	1.52

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

**Ag Growth International Inc.**

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

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

March 31, 2014

AGI's sales denominated in U.S. dollars for the three-month period ended March 31, 2014 were U.S. \$55.1 million, and the total of its cost of goods sold and its selling, general and administrative expenses denominated in that currency were U.S. \$33.7 million. Accordingly, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$5.5 million increase or decrease in sales and a total increase or decrease of \$3.4 million in its cost of goods sold and its selling, general and administrative expenses. In relation to AGI's foreign exchange hedging contracts, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a \$1.2 million increase or decrease in the foreign exchange gain and a \$13.7 million increase or decrease to other comprehensive income.

The counterparty to the contracts are three multinational commercial banks and therefore credit risk of counterparty non-performance is remote. Realized gains or losses are included in net earnings, and for the three-month period ended March 31, 2014, the Company realized a loss on its foreign exchange contracts of \$323 [2013 - gain of \$244].

The open foreign exchange forward contracts as at March 31, 2014 are as follows:

	Notional amount of currency sold	Notional Canadian dollar equivalent		
		Contract amount	Cdn \$ equivalent	Unrealized loss
	\$	\$	\$	\$
U.S. dollar contracts	124,000	1.04	129,435	(8,581)
Euro contracts	1,000	1.42	1,424	(113)

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.

## **Ag Growth International Inc.**

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

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

March 31, 2014

The cash flow hedges of the expected future sales were assessed to be highly effective and a net unrealized loss of \$8,694 [2013 - unrealized loss of \$285], with a deferred tax asset of \$2,309 [2013 - \$76] relating to the hedging instruments, is included in accumulated other comprehensive income.

#### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Furthermore, as AGI 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. AGI's Series A secured notes and convertible unsecured subordinated debentures outstanding as at March 31, 2014 and December 31, 2013 are at a fixed rate of interest. As at March 31, 2014, outstanding \$25,000 term debt was 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 \$15 to long-term interest expense.

#### **Credit risk**

Credit risk is the risk that a customer will fail to perform an obligation or fail to pay amounts due, causing a financial loss. A substantial portion of AGI'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. AGI 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 are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk. The Company regularly monitors customers for changes in credit risk. Trade receivables from international customers are often insured for events of non-payment through third-party export insurance. In cases where the credit quality of a customer does not meet the Company's requirements, a cash deposit is received before goods are shipped.

At March 31, 2014, the Company had three customer [December 31, 2013 - three customers] that accounted for approximately 36% [December 31, 2013 - 28%] 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.

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2014

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

#### Liquidity risk

Liquidity risk is the risk AGI will encounter difficulties in meeting its financial liability obligations. AGI manages its liquidity risk through cash and debt management. In managing liquidity risk, AGI 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. AGI believes it has sufficient funding through the use of these facilities to meet foreseeable borrowing requirements.

#### [b] Fair value

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

	March 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Loans and receivables				
Cash and cash equivalents	8,977	8,977	108,731	108,731
Restricted cash	250	250	112	112
Accounts receivable	69,763	69,763	58,578	58,578
Available-for-sale investment	2,000	2,000	2,000	2,000
<b>Financial liabilities</b>				
Other financial liabilities				
Interest-bearing loans and borrowings	52,467	54,445	26,372	28,602
Trade payables and provisions	35,817	35,817	34,272	34,272
Dividends payable	2,617	2,617	2,525	2,525
Due to vendor	639	639	615	615
Acquisition, transaction and financing costs payable	250	250	—	—
Derivative instruments	8,694	8,694	4,492	4,492
Convertible unsecured subordinated debentures	78,332	76,493	191,347	197,576

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.

## **Ag Growth International Inc.**

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

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

March 31, 2014

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

- Cash and cash equivalents, restricted cash, accounts receivable, dividends payable, finance lease obligations, acquisition, transaction and financing costs payable, accounts payable, due to vendor and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Company enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts and one option embedded in a convertible debt agreement. The most frequently applied valuation technique includes forward pricing, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties and foreign exchange spot and forward rates.
- The fair value of financial instruments that are traded in an active market at each reporting date are determined by reference to quoted market prices. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques that are recognized by market participants. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

#### **Fair value ["FV"] hierarchy**

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

##### ***Level 1***

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

##### ***Level 2***

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

**Ag Growth International Inc.**

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

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

March 31, 2014

**Level 3**

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

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

	March 31, 2014			December 31, 2013		
	Level 1 \$	Level 2 \$	Level 3 \$	Level 1 \$	Level 2 \$	Level 3 \$
<b>Financial assets</b>						
Cash and cash equivalents	8,977	—	—	108,731	—	—
Restricted cash	250	—	—	112	—	—
Accounts receivable	69,763	—	—	58,578	—	—
Available-for-sale investment	—	2,000	—	—	2,000	—
<b>Financial liabilities</b>						
Interest-bearing loans and borrowings	—	54,445	—	—	28,602	—
Trade payables and provisions	35,817	—	—	34,272	—	—
Dividends payable	2,617	—	—	2,525	—	—
Due to vendor	639	—	—	615	—	—
Acquisition, transaction and financing costs payable	250	—	—	—	—	—
Derivative instruments	—	8,694	—	—	4,492	—
Convertible unsecured subordinated debentures	—	76,493	—	—	197,576	—

During the reporting periods ended March 31, 2014 and December 31, 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

At March 31, 2014, AGI has \$250 of restricted cash, which is classified as a current asset [note 5].

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

**Ag Growth International Inc.**

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

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

March 31, 2014

**17. CAPITAL DISCLOSURE AND MANAGEMENT**

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

AGI manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company is not subject to any externally imposed capital requirements other than financial covenants in its credit facilities and as at March 31, 2014 and December 31, 2013, all of these covenants were complied with *[note 13]*.

The Board of Directors does not establish quantitative capital structure targets for management, but rather promotes sustainable and profitable growth. 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.

**Ag Growth International Inc.**

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

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

March 31, 2014

**18. RELATED PARTY DISCLOSURES**

**Relationship between parent and subsidiaries**

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

**Other relationships**

Burnet, Duckworth & Palmer LLP ["BDP"] provides legal services to the Company and a Director of AGI is a partner of BDP. The total cost of these legal services in the three-month period ended March 31, 2014 was \$50 [2013 - \$19] and this amount is included in accounts payable and accrued liabilities as at March 31, 2014. These transactions are measured at the fair value and were incurred during the normal course of business.

**19. PROFIT PER SHARE**

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

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2014

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

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	\$	\$
Net profit attributable to shareholders for basic and diluted profit per share	<b>1,218</b>	3,399
Basic weighted average number of shares	<b>12,991,016</b>	12,531,106
Dilutive effect of DDCP	<b>33,226</b>	16,997
Dilutive effect of LTIP	—	30,326
Dilutive effect of PSU	<b>110,000</b>	110,000
Dilutive effect of RSU	<b>223,000</b>	150,000
Diluted weighted average number of shares	<b>13,357,242</b>	12,838,429
Profit per share - basic	<b>0.09</b>	0.27
Profit per share - diluted	<b>0.09</b>	0.26

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.

Both the 2009 and 2013 convertible unsecured subordinated debentures were excluded from the calculation of the above diluted net profit per share because their effect is anti-dilutive.

## 20. REPORTABLE BUSINESS SEGMENT

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

## Ag Growth International Inc.

### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2014

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

	Revenue		Property, plant and equipment, goodwill, intangible assets and available-for-sale investment	
	Three-month period ended March 31, 2014 \$	Three-month period ended March 31, 2013 \$	As at March 31, 2014 \$	As at December 31, 2013 \$
Canada	23,167	16,689	153,544	144,095
United States	47,256	36,851	76,378	74,010
International	13,855	6,007	9,419	9,120
	<b>84,278</b>	59,547	<b>239,341</b>	227,225

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

## 21. COMMITMENTS AND CONTINGENCIES

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

As of the reporting date, the Company has entered into commitments to purchase property, plant and equipment of \$1,646 for which deposits of \$873 were made as at March 31, 2014.

### [b] Letters of credit

As at March 31, 2014, the Company has outstanding letters of credit in the amount of \$11,269 [December 31, 2013 - \$9,201].

**Ag Growth International Inc.**

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

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

March 31, 2014

**[c] Operating leases**

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

	\$
Remaining within the current year	1,230
After current year but not more than five years	4,257
	<u>5,487</u>

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

During the three-month period ended March 31, 2014, the Company recognized an expense of \$411 [2013 - \$286] for leasing contracts. This amount relates only to minimum lease payments.

**[d] Legal actions**

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

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## **DIRECTORS**

Gary Anderson, President, Chief Executive Officer & Director  
Janet Giesselman, Compensation & Human Resources Committee Chair  
Bill Lambert, Chairman of the Board of Directors  
Bill Maslechko, Director  
Mac Moore, Governance Committee Chair  
David White, CA, ICD.D, Audit Committee Chair

## **OFFICERS**

Gary Anderson, President, Chief Executive Officer & Director  
Steve Sommerfeld, CA, Executive Vice President & Chief Financial Officer  
Dan Donner, Senior Vice President, Sales & Marketing  
Paul Franzmann, CA, Senior Vice President, Operations  
Tim Close, Vice President, Strategic Planning & Development  
Ron Braun, Vice President, Portable Grain Handling  
Paul Brisebois, Vice President, Marketing  
Shane Knutson, Vice President, International Sales  
Gurcan Kocdag, Vice President, Storage & Conditioning  
Craig Nimegeers, Vice President, Engineering  
Nicolle Parker, Vice President, Finance & Integration  
Tom Zant, Vice President, Commercial Products Group  
Eric Lister, Q.C., Counsel