AG GROWTH

Ag Growth Income Fund

Quarterly Report

For the Initial Period Ended June 30, 2004

TO OUR UNITHOLDERS:

On behalf of the Board of Trustees and our management. We would like to welcome our new unitholders to the Ag Growth Income Fund. This is our first quarterly report and it encompasses the results of operations of Ag Growth from the date we acquired Ag Growth on May 18th, 2004 to June 30th, 2004.

Ag Growth has grown aggressively since its beginnings in 1992. We are excited to embark on the next stage of development for Ag Growth. The current management team has overseen a successful organic growth strategy, has integrated two significant acquisitions, and has completed the income trust offering with a market capitalization of approximately $100,000,000.

Our focus is on growth and is balanced with an entrenched culture of prudent cost controls and cash management. These are skills that were honed and lessons learned during the past decade and will not be lost as Ag Growth moves forward. Our strong margins are a testament to our philosophy and culture. We do not chase growth for growth's sake. Growth is only pursued in the context of accretive opportunities grounded with a strong strategic fit.

We have been fortunate to have had the backing of strong financial partners to help nurture and facilitate growth. We continue to enjoy the expertise of these private equity partners as they have retained a substantial stake in Ag Growth. We also welcome an exceptional slate of independent trustees who constitute a majority of the board. These new trustees bring multifaceted experience to Ag Growth which we are confident will ensure a high standard of governance practices as well as sound operational input to management.

Our business, like any other, is challenged by external factors that affect the performance of the sector. Fiscal years 2002 and 2003 were plagued with an unprecedented number of events including the dramatic appreciation of the Canadian dollar, widespread drought in most of our core markets, and the mad cow crisis. These challenges were an opportunity to test the resilience of our operations and we are pleased to have passed this test with flying colours, continuing to produce significant cash flow. We priced the Initial Public Offering with these variables factored in.

We are pleased that our expectations for a rebound in industry fundamentals are being realized as we enter our first quarter as a publicly traded trust. Shipments in the quarter were at a rate not experienced since before the devastating drought season of 2002-2003. Order backlogs and underlying demand remain strong as we enter the third quarter, traditionally our strongest quarter of the year. Without major deterioration in crop conditions over the coming months, we expect to have a solid second half of the year.

Macro-economic factors are lining up for continued improvements in agricultural industry fundamentals. The sector has been engulfed in a difficult environment since 1997-1998 when oversupply of most grains became the dominant theme. Low commodity prices triggered a retrenchment in the agricultural sector which, combined with recent droughts, resulted in one of the most extended secular troughs the industry has seen since the 1930's.

Since 1999 demand for grains has outstripped supply. The supply demand balance has tipped and triggered a strengthening in grain prices similar to that experienced by other commodities. Although grain prices are not the fundamental revenue driver for Ag Growth, strong prices entice farmers to maximize output of grains. The more grain they grow the more grain handling equipment we sell.

Given the continued cooperation of the weather, we expect the operating environment for the foreseeable future to be more positive than any period since the mid 1990's.

Again, we welcome all new unitholders to the Ag Growth Income Fund and thank you for your current and continued support as we build value together.

Sincerely,

Rod Senft
Chairman of the Board of Trustees
Ag Growth Income Fund
August 12, 2004

Rob Stenson
President and Chief Executive Officer
Ag Growth Income Fund
August 12, 2004

AG GROWTH INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 11, 2004

This Management's Discussion and Analysis should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes ("Interim Financial Statements") of Ag Growth Income Fund for the initial period ended June 30, 2004. Results are reported in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles.

OVERVIEW OF THE FUND

Ag Growth Income Fund [the "Fund"] is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust made as at March 24, 2004. The Fund was established to acquire approximately 72% of the partnership units of AGX Holdings Limited Partnership ["AGHLP"] which, in turn, acquired, directly and indirectly, all of the securities and assets of Ag Growth Industries Inc. ["Ag Growth"], which conducts business in the grain handling, storage and conditioning equipment market. On June 2, 2004, 500,000 Class B Exchangeable Units of AGHLP, with a value of $5,000,000, were exchanged into 500,000 units of the Fund to provide the Fund with approximately 77% of the partnership units of AGHLP, representing the business operations of Ag Growth. The owners of Ag Growth retained a 23% interest as consideration for the acquisition of Ag Growth. Consideration included cash and Class B Exchangeable units and Class C Exchangeable Subordinated units of AGHLP, and 2,226,000 Special Voting Units of the Fund.

As at August 11, 2004, the following units of the Fund were issued and outstanding:

- 7,404,000 Units.
- 2,226,000 Special Voting Units. The Fund has issued a Special Voting Unit for each Class B and Class C unit outstanding. The Special Voting Units are not entitled to any interest or share in the Fund, or in any distribution from the Fund but are entitled to vote on matters related to the Fund.

Ag Growth Income Fund units trade on the Toronto Stock Exchange under the symbol AFN.UN.

BASIS OF MANAGEMENT'S DISCUSSION AND ANALYSIS

The Fund was inactive until its acquisition of Ag Growth on May 18, 2004. Included in the Fund's results of operations are the results of Ag Growth's operations for the 44-day period from the date of acquisition to June 30, 2004. Comparative results provided, for purposes of Management's Discussion and Analysis, are Ag Growth's results of operations for the three-month period ended June 30, 2003. Comparative results for a 44-day period ended June 30, 2003 are not available for Ag Growth. Therefore, to provide meaningful information to the reader, the following Management Discussion and Analysis will refer to the Combined Operating Results of the Fund for the three-month period ended June 30, 2004 which are comprised of the operations of the Fund for the three-month period ended June 30, 2004 (which includes only 44 days of active operations from May 18 to June 30, 2004), and Ag Growth's results of operations from April 1 to May 17, 2004 (the "combined operating results"). The combined operating results will be compared to Ag Growth's results of operations for the three-month period ended June 30, 2003. Readers are cautioned that the combined operating results presented are not the results of the Fund for the three-month period ended June 30, 2004 and have been presented only to provide the reader with additional information to enhance the comparability of operating results to Ag Growth's three-month period ended June 30, 2003.

OPERATING RESULTS

The table below reconciles the operating results reported by the Fund to the combined operating results for the three-month period ended June 30, 2004 that includes the operations of Ag Growth for the period April 1 – May 17, 2004. Other than transactions related to the initial public offering on May 18, 2004, there are no unusual items in either Ag Growth's or the Fund's results for the three-month period ended June 30, 2004.

	The Fund	**Ag Growth** (Pre Fund)	**Combined operating results**	**Ag Growth** (Pre Fund)
	Period ended June 30, 2004 *	April 1 – May 17, 2004	Three-month period ended June 30, 2004	Three-month period ended June 30, 2003
Sales	$7,334,924	$8,654,417	$15,989,341	$11,714,920
Cost of sales	4,027,782	4,608,315	8,636,097	5,740,156
Gross margin	3,307,142	4,046,102	7,353,244	5,974,764
Operating expenses	1,296,660	3,395,172	4,691,832	2,709,085
EBITDA	2,010,482	650,930	2,661,412	3,265,679
Amortization	391,704	101,671	493,375	443,857
Interest expense	146,773	384,654	531,427	1,307,446
Earnings before tax and non-controlling interest	1,472,005	164,605	1,636,610	1,514,376
Tax expense (recovery)	31,000	(184,557)	(153,557)	616,642
Non-controlling interest	333,092	0	333,092	0
Net earnings	$ 1,107,913	$ 349,162	$ 1,457,075	$ 897,734

* The Fund was inactive until its acquisition of Ag Growth on May 18, 2004. Included in the Fund's results of operations are the results of Ag Growth's operations for the 44-day period from the date of acquisition to June 30, 2004.

Impact of Foreign Exchange

Operating activity for the combined three-month period ended June 30, 2004 has increased significantly over the comparable period in 2003. However, the magnitude of the improvement is disguised by the decrease in the effective US Dollar exchange rate. Historically, Ag Growth has generated approximately 60% of its sales in US Dollars, with a much lower proportion of its expenses being denominated in that currency. Accordingly, the change in effective exchange rates has had a significant effect on financial results. The lower effective exchange rate in 2004 was expected and was incorporated in the distributable cash calculation in the Fund's May 2004 prospectus.

Results for the Pre-Fund three-month period ended June 30, 2003 benefited from forward exchange contracts that resulted in US Dollar denominated sales being recorded at an effective rate of approximately USD$ 1.59 = CDN $1.00. For the combined three-month period ended June 30, 2004, the effective rate was approximately USD $1.33 = CDN $1.00, a decline of approximately 16%. As disclosed in the prospectus, management performed a calculation adjusting results for fiscal 2003 assuming an effective exchange rate of USD $1.3279 = CDN $1.00 had existed throughout the year. For the twelve-months ended December 31, 2003, it was determined through this calculation that 2003 EBITDA would have decreased $3.0 million had the lower exchange rate been in effect.

Sales

Combined sales for the three-month period ended June 30, 2004 increased 36.5% over the same period in 2003. The significant increase reflects the recovery in the agricultural sector compared to the second quarter of 2003, and was achieved despite recording US Dollar sales at exchange rates approximately 16% lower than in 2003. Sales have also benefited from favourable growing conditions in all key markets and the continued success of the Fund's new auger and bin-load out lines.

Expenses

Combined gross margin for the three-month period ended June 30, 2004 as a percentage of sales was 46.0%, compared to 51.0% for the three-month period ended June 30, 2003. As a percentage of sales, the decline in gross margin was expected and is largely due to the impact of recording US Dollar denominated sales at a lower exchange rate. The recent acceleration in steel prices has also begun to pressure gross margin. Gross margin as a percentage of sales for the 44-day period ended June 30, 2004 was 45.1%, which is comparable to results for the three-month period ended June 30, 2004.

Combined operating expenses for the quarter ended June 30, 2004 increased $2.0 million over the same period in 2003, largely due to management compensation associated with the May 18, 2004 IPO of $1.3 million. The increase was also the result of non-recurring professional fees of $0.2 million, higher salary costs of $0.2 million and increased sales and marketing expenditures of $0.2 million. Expenses for the Ag Growth period of April 1 to May 17 included the accrual of the management compensation and non-recurring professional fees noted above. No unusual expenses were recorded in the 44-day period ended June 30, 2004.

Net earnings and EBITDA

EBITDA as a percentage of sales for the 44-day period ended June 30, 2004 was 27.4%, compared to 27.9% for the three-month period ended June 30, 2003 and 16.6% for the three-month period ended June 30, 2004. The decrease in EBITDA percentage compared to 2003 was expected and is primarily the result of the IPO accruals noted above and the recording of US Dollar denominated transactions at a lower exchange rate. Excluding the IPO accruals, EBITDA as a percentage of sales for the three months ended June 30, 2004 was 25.5%.

Upon completion of the IPO on May 18, 2004, the Fund retired the existing debt obligations of Ag Growth and entered into a new credit facility with a single lender. The credit facility includes term debt of $20 million and an operating facility of $15 million, increasing to $18 million for the period May 31 to September 30 each year. Both facilities bear interest at rates based on performance calculations. For the 44-day period ended June 30, 2004, the Fund's interest rate on its term debt and operating facility was 4.3% and 4.0% respectively, which is in line with management expectations.

Depreciation and amortization for the 44-day period ended June 30, 2004 of $0.4 million includes the amortization of intangible assets of $0.2 million, the amortization of deferred finance fees of $0.1 million, and the depreciation of capital assets of $0.1 million.

The Fund is a mutual fund trust for income tax purposes and therefore is not subject to tax on income distributed to unitholders. The manufacturing business operations of the Fund are carried out within a limited partnership, in which the Fund holds a 77% indirect ownership. Income from the limited partnership is not subject to tax but flows through to the holders of the partnership units. The Fund's distributions are taxable in the hands of the unitholders. As a result of the Fund's structure, tax expense is recorded only for the Fund's subsidiary corporation, Ag Growth. The recorded tax expense of $31,000 for the initial period ended June 30, 2004 represents taxes payable on the net income allocated to Ag Growth through its ownership in AGLP after deductions for interest and capital taxes.

Non-controlling interest of $0.3 million relates to the proportionate share of earnings owing to holders of the Class B Exchangeable Units and Class C Subordinated Units of AGHLP, as held by the previous owners' retained interest.

Net income for the 44-day period ended June 30, 2004 was $1.1 million, or $0.15 per basic and diluted trust unit.

CASHFLOW AND LIQUIDITY

On May 5, 2004, the Fund filed a final prospectus for the sale of 6,904,000 units at the price of $10 per unit for aggregate proceeds of $69,040,000. The costs of issuance were $4,933,472 resulting in net proceeds of $64,106,528. On May 18, 2004, in conjunction with the initial public offering, the Fund acquired approximately 72% of the partnership units of AGHLP which, in turn, acquired, directly and indirectly, all of the securities and assets of Ag Growth, which conducts business in the grain handling, storage and conditioning equipment market. On June 2, 2004, an additional 500,000 trust units were issued to provide the Fund with approximately 77% of the partnership units of AGHLP.

During the period May 18, 2004 to June 30, 2004, the Fund expended $2.7 million from operating activities. Consistent with management expectations, inventory increased significantly during this period as is necessary to ensure adequate supply is available for the peak harvest season. Also consistent with expectations, accounts receivable increased considerably as terms of collection are weighted towards the third and fourth quarters. The Fund had capital expenditures of $0.2 million in the period, which were primarily related to the budgeted purchase of a semi tractor unit. During the period, the Fund increased the utilization of its operating line by $2.2 million, which was in line with management expectations for the reasons discussed above.

The Fund's policy is to make stable monthly distributions to unitholders based on estimated distributable cash for the year. Distributions are paid at the end of the month that follows the month when the cash was earned. During the period, the Fund declared its first distribution of $0.1581 per unit, payable July 30, 2004, consistent with the distribution amount anticipated in the IPO. Furthermore, the Fund approved a distribution to Ag Growth's previous owners in an amount equal to $0.1581 per Class B and Class C unit of AGHLP, consistent with the Fund's prospectus dated May 5, 2004. Distributable cash for the period is calculated as follows:

Net income for the period	$1,107,913
Add: Non-controlling interest	333,092
Depreciation and amortization	391,704
Interest expense	146,773
Tax expense	31,000
EBITDA*	$2,010,482
Less: Interest expense	146,773
Net maintenance capital expenditures	149,686
Current income taxes	5,000
Distributable cash *	$1,709,023
Distributable cash generated per unit	$0.1775
Distributions declared per unit	$0.1581
Distribution percentage	89.07%

* See discussion of non-GAAP measures below.

CAPITAL RESOURCES

The Fund has a two-year, non-amortizing, $20 million term loan with a single lender. The Fund also has available a $15 million operating facility, increasing to $18 million for the period May 31 to September 30. At June 30, 2004, approximately $7.5 million of the operating facility was utilized. Interest rates on both facilities are based on performance calculations. The Fund is party to an interest rate swap agreement to hedge the impact of fluctuating interest rates on its term loan.

OFF-BALANCE SHEET ARRANGEMENTS

The Fund has no off balance sheet arrangements with the exception of the interest rate swap and foreign currency contracts discussed below in Financial Instruments.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. We believe the accounting policies that are critical to our business relate to our use of estimates regarding the recoverability of accounts receivable and the valuation of inventory. Due to the nature of Ag Growth's business and the credit terms it provides to its customers, estimates and judgments are inherent in the on-going assessment of the recoverability of accounts receivable. In addition, assessments and judgments are inherent in the determination of the net realizable value of inventories. 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.

FINANCIAL INSTRUMENTS

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. Dollar. Approximately 60% of Ag Growth's sales are denominated in US Dollars while a much smaller proportion of its expenses are denominated in this currency. The Fund has entered into foreign exchange contracts with a Canadian chartered bank to hedge its foreign currency exposure on anticipated US dollar sales transactions and the collection of the related accounts receivable. At June 30, 2004, the Fund had outstanding USD $43.0 million of forward foreign exchange contracts, dated from July 2004 to December 2006, with a Canadian Dollar equivalent of $57.5 million.

The Fund is subject to risks associated with fluctuating interest rates on its long-term debt. To manage this risk, the Fund has entered into an interest rate swap transaction with a Canadian chartered bank. The swap transaction expires on May 4, 2006. The swap transaction involves the exchange of the underlying floating interest rate for an effective fixed interest rate of 3.07% plus 1.25% to 2.25% based on performance calculations. The notional amount of the swap transaction at June 30, 2004 was $20.0 million.

RISKS AND UNCERTAINTIES

The risks and uncertainties described below are not the only risks and uncertainties we face. We believe that the risks mentioned are the principal risks relating to our operations. There are other risks that relate to the structure of the Fund. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may impair operations. If any of the following risks actually occur, our business, results of operations and financial condition, and the amount of cash available for distribution could suffer.

Industry Cyclicality

The performance of the farm equipment industry is cyclical, with sales depending on the performance of the agricultural sector. To the extent that the agricultural sector declines or experiences a downturn, this is likely to have a negative impact on the farm equipment industry.

Risk of Decreased Crop Yields

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

Competition

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

Business Interruption

The operation of the manufacturing facilities of Ag Growth are subject to a number of business interruption risks, including delays in obtaining production materials, plant shutdowns, labour disruptions and weather conditions or natural disasters. Ag Growth may suffer damages associated with such events that it cannot insure against or which it may elect not to insure against because of high premium costs or other reasons.

Litigation

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

Foreign Exchange Risk

Ag Growth generates approximately 60% of its sales in United States dollars. To the extent that the Canadian dollar strengthens significantly against the United States dollar, United States dollar sales revenue will negatively impact returns. To mitigate the effects of exchange rate fluctuation, management has implemented a hedging strategy of purchasing forward contracts. To the extent that Ag Growth does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the United States dollar may have a material adverse effect on Ag Growth's results of operations, business, prospects and financial condition.

OUTLOOK

Management believes that sales for the balance of 2004 will continue to be strong. It is our belief that the agricultural sector has rebounded from the severe drought that negatively impacted the second half of fiscal 2002 and the first half of fiscal 2003. Sales orders in 2004 should continue to benefit from favourable growing conditions in all key markets, new product development, and higher commodity prices. It should be noted that Ag Growth's results in the second half of 2003 were considerably stronger than in the first half, and accordingly the future comparison of 2004 quarterly results will be against stronger 2003 results.

NON-GAAP MEASURES

References to “EBITDA” are to earnings before interest, income taxes, depreciation, amortization, and non-controlling interest. Management believes that, in addition to net income or loss, EBITDA is a useful supplemental measure in evaluating its performance. Specifically, management believes that EBITDA is the appropriate measure from which to make adjustments to determine the Fund’s distributable cash. EBITDA is not a financial measure recognized by Canadian generally accepted accounting principals (“GAAP”) and does not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA should not replace net income or loss as an indicator of performance, or cash flows from operating, investing, and financing activities as a measure of the Fund’s liquidity and cash flows. The Fund’s method of calculating EBITDA may differ from the methods used by other issuers.

Distributable cash is a non-GAAP measure generally used by Canadian income funds as an indicator of financial performance. The Fund defines distributable cash as EBITDA less interest expense and less maintenance capital expenditures. The method of calculating the Fund’s distributable cash may differ from similar computations as reported by similar entities and, accordingly, may not be comparable to distributable cash as reported by such entities.

FORWARD-LOOKING STATEMENTS

This Management Discussion and Analysis may contain forward-looking statements, which reflect our expectations regarding the future growth, results of operations, performance and business prospects, and opportunities of the Fund. Forward-looking statements contain such words as “anticipate”, “believe”, “continue”, “could”, “expects”, “intend”, “plans” or similar expressions suggesting future conditions or events. Such forward-looking statements reflect our current beliefs and are based on information currently available to us. 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 the effects, as well as changes in national and local business conditions, decreased crop yields, industry cyclicality, and competition. Although the forward-looking statements contained in this MD&A are based on what we believe to be reasonable assumptions, we cannot assure readers that actual results will be consistent with these forward-looking statements.

ADDITIONAL INFORMATION

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

INVESTOR RELATIONS

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Interim Consolidated Financial Statements

Ag Growth Income Fund

Unaudited

June 30, 2004

Ag Growth Income Fund

INTERIM CONSOLIDATED BALANCE SHEET

As at June 30, 2004 Unaudited

	$
ASSETS *[notes 7 and 8]*	
Current	
Cash	**41,817**
Accounts receivable	**14,394,239**
Inventory	**16,099,024**
Prepaid expenses and other assets	**578,999**
Total current assets	**31,114,079**
Property, plant and equipment	**5,564,316**
Other assets	
Goodwill	**32,976,505**
Intangible assets *[note 5]*	**53,831,233**
Deferred financing costs *[note 6]*	**1,865,992**
Future income taxes *[note 12]*	**664,000**
Deferred foreign exchange loss	**207,323**
	95,109,369
	126,223,448
LIABILITIES	
Current	
Bank indebtedness *[note 7]*	**7,499,760**
Accounts payable and accrued liabilities	**4,401,270**
Income taxes payable	**1,432,415**
Distributions payable	**1,522,503**
Current portion of long-term debt *[note 8]*	**14,012**
Total current liabilities	**14,869,960**
Long-term debt *[note 8]*	**20,068,458**
Total liabilities	**34,938,418**
Non-controlling interest *[note 10]*	**22,241,161**
Commitments *[notes 11 and 15]*	
UNITHOLDERS' EQUITY	**69,043,869**
	126,223,448

See accompanying notes

On behalf of the Board of Trustee

(signed) Rod Senft
Trustee

(signed) Trevor Johnstone
Trustee

Ag Growth Income Fund

INTERIM CONSOLIDATED STATEMENT OF EARNINGS

Three-month period ended June 30, 2004 — Unaudited

[includes the results of Ag Growth's operations
for the period May 18, 2004 to June 30, 2004] *[note 3]*

	$
Sales	**7,334,924**
Cost of goods sold	**4,027,782**
Gross margin	**3,307,142**
Expenses	
General and administration	**1,160,203**
Professional fees	**57,052**
Capital taxes	**40,829**
Research and development	**34,611**
Other income	**3,965**
	1,296,660
Earnings before the following	**2,010,482**
Interest expense	
Short-term debt	**43,656**
Long-term debt	**103,117**
	146,773
Earnings before amortization, income taxes and non-controlling interest	**1,863,709**
Depreciation of property, plant and equipment	**103,252**
Amortization of deferred financing costs	**119,685**
Amortization of intangible assets	**168,767**
	391,704
Earnings before income taxes and non-controlling interest	**1,472,005**
Income tax expense *[note 12]*	
Current	**5,000**
Future	**26,000**
	31,000
Earnings before non-controlling interest	**1,441,005**
Non-controlling interest *[note 10]*	**333,092**
Net earnings for the period	**1,107,913**
Basic and diluted net earnings per unit *[note 16]*	**$0.15**
Basic weighted average number of units outstanding	**7,233,545**
Diluted weighted average number of units outstanding	**9,630,000**

See accompanying notes

Ag Growth Income Fund

INTERIM CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

Three-month period ended June 30, 2004 — Unaudited

[includes the results of Ag Growth's operations
for the period May 18, 2004 to June 30, 2004] *[note 3]*

	Unitholders' capital *[note 9]* $	**Accumulated earnings** $	**Accumulated distributions** $	**Total** $
Issuance of initial subscriber units *[note 1]*	**30**	—	—	**30**
Redemption of initial subscriber units	**(30)**	—	—	**(30)**
Issuance of units on initial public offering *[note 3]*	**69,040,000**	—	—	**69,040,000**
Issuance costs *[note 3]*	**(4,933,472)**	—	—	**(4,933,472)**
Exchange of units *[note 10]*	**5,000,000**	—	—	**5,000,000**
Net earnings for the period	—	**1,107,913**	—	**1,107,913**
Distributions declared	—	—	**(1,170,572)**	**(1,170,572)**
Balance, end of period	**69,106,528**	**1,107,913**	**(1,170,572)**	**69,043,869**

See accompanying notes

Ag Growth Income Fund

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Three-month period ended June 30, 2004 Unaudited

[includes the results of Ag Growth's operations
for the period May 18, 2004 to June 30, 2004] *[note 3]*

	$
OPERATING ACTIVITIES	
Net earnings for the period	**1,107,913**
Add charges to operations not requiring a current cash payment	
Non-controlling interest	**333,092**
Depreciation and amortization	**391,704**
Deferred foreign exchange loss	**(207,323)**
Future income taxes	**26,000**
Loss on sale of property, plant and equipment	**490**
	1,651,876
Net change in non-cash working capital balances related to operations	
Accounts receivable	**(2,097,965)**
Inventory	**(659,917)**
Prepaid expenses and other assets	**(108,314)**
Accounts payable and accrued liabilities	**(1,524,211)**
Income taxes payable	**(190)**
	(4,390,597)
Cash used in operating activities	**(2,738,721)**
INVESTING ACTIVITIES	
Acquisition of property, plant and equipment	**(269,350)**
Proceeds from sale of property, plant, and equipment	**24,767**
Acquisition of Ag Growth Industries Inc., *[note 3]*	**(32,221,385)**
Cash used in investing activities	**(32,465,968)**
FINANCING ACTIVITIES	
Increase in bank indebtedness	**2,233,708**
Repayment of long-term debt	**(32,882,057)**
Issuance of long-term debt	**20,082,470**
Increase in deferred financing costs on long-term debt	**(1,985,677)**
Initial public offering of fund units, net of expenses *[note 3]*	**64,106,528**
Redemption of Class D preferred shares of Ag Growth	**(16,000,000)**
Payment of dividend on Class D preferred shares of Ag Growth	**(308,466)**
Cash provided by financing activities	**35,246,506**
Net increase in cash during the period	**41,817**
Cash position, beginning of period	**—**
Cash position, end of period	**41,817**
Supplemental cash flow information	
Interest paid	**117,431**
Income taxes paid	**5,190**

See accompanying notes

1. ORGANIZATION AND NATURE OF BUSINESS

Ag Growth Income Fund [the "Fund"] is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust made as at March 24, 2004. The Fund was established to acquire approximately 72% of the partnership units of AGX Holdings Limited Partnership ["AGHLP"] which, in turn, on May 18, 2004 acquired, directly and indirectly, all of the securities and assets of Ag Growth Industries Inc. ["Ag Growth"], which conducts business in the grain handling, storage and conditioning equipment market. On June 2, 2004, 500,000 Class B Exchangeable Units were exchanged into 500,000 units of the Fund resulting in the Fund holding approximately 77% of the partnership units of AGHLP *[note 10]*.

Each unitholder participates pro rata in distributions of net earnings and, in the event of termination, participates pro rata in the net assets remaining after satisfaction of all liabilities. Income tax obligations related to the distribution of net earnings by the Fund are the obligations of the unitholders.

2. BASIS OF PRESENTATION

The Fund prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles. The disclosure contained in these unaudited interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the prospectus and the consolidated financial statements of Ag Growth included in the prospectus dated May 5, 2004.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments of a normal recurring nature to present fairly the consolidated financial position of the Fund as at June 30, 2004.

These unaudited interim consolidated financial statements reflect the results of operations for the three-month period ended June 30, 2004. As the Fund commenced operations on March 24, 2004, no comparative information is provided.

3. ISSUANCE OF FUND UNITS AND ACQUISITION

On May 5, 2004, the Fund filed a final prospectus for the sale of 6,904,000 units at the price of $10 per unit for aggregate proceeds of $69,040,000. The costs of issuance were $4,933,472 resulting in net proceeds of $64,106,528.

On May 18, 2004, in conjunction with the initial public offering, the Fund acquired indirectly all of the securities and assets of Ag Growth and repaid certain indebtedness of Ag Growth. Concurrently, Ag Growth amalgamated with its subsidiaries and continued under the name Ag Growth.

The acquisition has been accounted for by the purchase method with the results of Ag Growth's operations included in the Fund's earnings from the date of acquisition (the interim consolidated statement of earnings includes the results of Ag Growth's operations for the 44-day period from May 18, 2004 to June 30, 2004). These interim consolidated financial statements reflect the assets and liabilities of Ag Growth at assigned fair values as follows:

	$
Net assets acquired	
Accounts receivable	12,296,274
Inventory	15,439,107
Prepaid expenses and other assets	470,685
Property, plant and equipment	5,423,475
Future income tax asset	690,000
Intangible assets	
Brand name	19,000,000
Distribution network	35,000,000
Goodwill	32,976,505
Bank indebtedness	(5,266,052)
Accounts payable and accrued liabilities	(5,925,481)
Income taxes payable	(1,432,605)
Dividends payable	(308,466)
Long-term debt	(32,882,057)
Redeemable preferred shares	(16,000,000)
	59,481,385
Consideration given	
Cash	32,221,385
Class B Exchangeable Units of AGHLP *[note 10]*	8,000,000
Class C Exchangeable Subordinated Units of AGHLP *[note 10]*	19,260,000
	59,481,385

Supplemental cash flow information

Details of sources and use of cash upon issuance of Fund units and acquisition of securities and assets of Ag Growth is as follows:

	$
Aggregate proceeds from issuance of Fund units	69,040,000
Costs of issuance	(4,933,472)
Proceeds from long-term debt	20,000,000
Financing costs	(1,985,677)
	82,120,851
Debt retirement	(32,841,000)
Redemption of Class D redeemable preferred shares	(16,000,000)
Payment of costs associated with the transaction	(750,000)
Dividends paid on Class D redeemable preferred shares	(308,466)
Cash consideration given on acquisition of Ag Growth	32,221,385

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are summarized below:

Principles of Consolidation

The consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiaries Ag Growth Operating Trust, and AGX Holdings Inc. and its partially owned subsidiaries, AGX Holdings Limited Partnership (77%), Ag Growth Industries Limited Partnership (77%), Ag Growth Industries Inc. (77%), Westfield Distributing Ltd. (77%) and Westfield Distributing (North Dakota) Inc. (77%). All material intercompany balances and transactions have been eliminated. The financial statements consolidate 100% of the assets and liabilities of Ag Growth as at June 30, 2004, and 100% of the revenues and expenses of the operations of Ag Growth for the period from May 18, 2004 to June 30, 2004.

Inventory

Inventory is comprised of raw material and finished goods. Raw material is recorded at the lower of cost and replacement cost. Finished goods are recorded at the lower of cost, which includes direct costs and an allocation of direct manufacturing overhead, and net realizable value. Cost is determined on a first in, first out basis.

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of investment tax credits. Depreciation is provided over the estimated useful lives of the assets.

Goodwill

Goodwill represents the amount paid to acquire Ag Growth in excess of the fair value of the net identifiable assets acquired. Goodwill is not subject to amortization. Goodwill is tested for impairment at least annually by comparing the fair value of its reporting unit to its carrying value. The carrying value of goodwill is written down if the carrying value of the reporting unit's goodwill exceeds its fair value.

Intangible assets

Intangible assets are comprised of Ag Growth's brand name, which is considered to have an indefinite life, and Ag Growth's distribution network, which is being amortized over 25 years on a straight-line basis. Indefinite life intangible assets are tested for impairment at least annually.

Impairment of property, plant and equipment and finite life intangibles

Impairment of property, plant and equipment and finite life intangibles is recognized when an event or change in circumstances causes the asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

Deferred financing costs

Deferred financing costs are amortized on a straight-line basis over the two-year term of the related debt financing.

Income taxes

The Fund is a mutual fund trust for income tax purposes and therefore is not subject to tax on income distributed to unitholders. Taxes payable on income of the Fund distributed to unitholders is the responsibility of individual unitholders.

The Fund's subsidiaries use the liability method of accounting for income taxes. Under this method, assets or liabilities are recognized for the future income tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income taxes are measured using the substantively enacted tax rates expected to be in effect in the years in which those temporary differences are expected to reverse. Future income tax assets are recognized when realization is considered more likely than not.

Foreign currency

The Fund follows the temporal method of accounting for the translation of its integrated foreign subsidiary and foreign currency transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rates in effect at the consolidated balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at their historical exchange rates. Revenue and expenses denominated in foreign currencies are translated to Canadian dollars at the average monthly rates of exchange. Gains and losses on translation are reflected in net income for the period.

Revenue recognition

The Fund recognizes revenue when the risks and rewards of ownership in the products have transferred to its customer and collection is reasonably assured. Subject to the terms of the contract, these criteria are generally met when the products are shipped, freight on board shipping point. For products on consignment, revenue is recognized upon the sale of the product by the consignee. Provision is made at the time revenue is recognized for estimated product returns and warranties.

Research and development

Research expenses are charged to income in the year they are incurred. Development expenses are charged to income unless the Fund believes the costs meet generally accepted criteria for deferral and amortization.

Leases

Leases are classified as either capital or operating. Leases which transfer substantially all the benefits and risks of ownership of the property to the Fund are accounted for as capital leases. Capital lease obligations reflect the present value of future lease payments, discounted at the appropriate interest rate. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Net earnings per unit

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

Long-term incentive plan

Under the terms of the long-term incentive plan ["LTIP"], 10% to 20% of cash distributions in excess of an established threshold is contributed to a pool of funds set aside to purchase units of the Fund [in the market]. The cost is accrued as an expense in the period when cash distributions exceed the thresholds established by the LTIP.

Derivative financial instruments

Derivative financial instruments are utilized by the Fund in the management of its foreign currency and interest rate exposures. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific anticipated sales transactions and long-term debt on the balance sheet. The Fund also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Fund purchases forward foreign exchange contracts to hedge anticipated sales to customers in the United States and the related accounts receivable. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated US dollar denominated sales are recognized as an adjustment of the revenues when the sale is recorded. For forward foreign exchange contracts used to hedge anticipated US dollar denominated sales and the collection of the related accounts receivable, the portion of the forward premium or discount on the contract relating to the period prior to consummation of the sale is also recognized as an adjustment of the revenues when the sale is recorded; and the portion of the premium or discount that relates to the resulting account receivable is amortized over the remaining term of the contract.

The Fund also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Fund designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

The Fund also uses foreign currency swap agreements to manage its cash positions. The Fund's foreign currency swap agreements do not qualify for hedge accounting. These swaps are measured at their fair value and recorded on the balance sheet. Changes in the fair value of the swaps are recognized in income in the corresponding period.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

5. INTANGIBLE ASSETS

	Cost $	Accumulated amortization $	Net book value $
Distribution network	**35,000,000**	**168,767**	**34,831,233**
Brand name	**19,000,000**	**—**	**19,000,000**
	54,000,000	**168,767**	**53,831,233**

6. DEFERRED FINANCING COSTS

	Cost $	Accumulated amortization $	Net book value $
	1,985,677	**119,685**	**1,865,992**

7. BANK INDEBTEDNESS

The Fund has an operating facility to a maximum of $15 million, with an operating bulge of an additional $3 million for the period May 31 to September 30. The facility bears interest at rates of prime plus 0.25%, 0.75%, or 1.25% per annum based on performance calculations. The effective interest rate during the period was 4.0%. At June 30, 2004, $7,499,760 was outstanding under this facility. Collateral for the operating facility includes a general security agreement over all assets and first position collateral mortgages on land and buildings.

8. LONG-TERM DEBT

	$
Term loan, matures May 2006, extendible annually for additional one-year terms at the lender's option, interest payable monthly at prime plus 0.25%, 0.75%, or 1.25% per annum based on performance calculations. As described in note 10, the Fund has entered into a swap contract that effectively fixes the Fund's interest rate at 3.07% plus 1.25%, 1.75%, or 2.25% per annum based on performance calculations. The effective interest rate during the period after consideration of the effect of the interest rate swap was 4.32%.	**20,000,000**
GMAC loans, maturing in 2009, with monthly payments. Vehicles financed are pledged as collateral.	**82,470**
	20,082,470
Less current portion	**14,012**
	20,068,458

Under the agreement for the term loan, the Fund is required to maintain certain financial covenants. As at June 30, 2004, the Fund is in compliance with the applicable financial covenant terms.

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

	$
2004 [July 1 – December 31]	14,012
2005	23,499
2006	20,023,499
2007	20,333
2008	1,127
	20,082,470

Collateral for the term loan and operating facility *[note 7]* includes a general security agreement over all assets and first position collateral mortgages on land and buildings.

9. UNITHOLDERS' CAPITAL

The Fund Declaration of Trust provides that an unlimited number of trust units may be issued. Each trust unit represents an equal undivided beneficial interest in the Fund and any distributions from the Fund. Each trust unit is transferable, entitles the holder thereof to participate equally in distributions of the Fund, is not subject to future calls or assessments, entitles the holder to rights of redemption and entitles the holder to one vote at all meetings of unitholders.

The Fund Declaration of Trust also provides for the issuance of an unlimited number of Special Voting Units. The Special Voting Units are only issuable for the purpose of providing voting rights to the holders of Exchangeable LP Units or Subordinated LP Units. Each unit is entitled to one vote on matters related to the Fund. The Special Voting Units are not entitled to any interest or share in the Fund, or in any distribution from the Fund. There is no value attached to these units. At June 30, 2004, there were 2,226,000 Special Voting Units outstanding, which were attached to the outstanding Class B Exchangeable LP Units of AGHLP and the Class C Exchangeable Subordinated LP Units of AGHLP.

10. NON-CONTROLLING INTEREST

Non-controlling interest is comprised of:

	$
Issuance of shares of AGHLP as consideration for the acquisition of Ag Growth *[note 3]*	
Class B Exchangeable units (800,000 units)	**8,000,000**
Class C Exchangeable Subordinated units (1,926,000 units)	**19,260,000**
Exchange of Class B Exchangeable units (500,000 units)	**(5,000,000)**
Earnings attributable to the non-controlling interest	**333,092**
Distributions declared to Class B and C unitholders	**(351,931)**
	22,241,161

The Class B Exchangeable units of AGHLP are exchangeable for trust units of the Fund at the option of the holder on a one-for-one basis at any time. On June 2, 2004, 500,000 Class B Exchangeable Units of AGHLP, with a value of $5,000,000, were exchanged into 500,000 units of the Fund. The remaining 300,000 Class B Exchangeable Units remain in Escrow for 180 days subsequent to May 18, 2004.

The Class C Subordinated Exchangeable units of AGHLP are exchangeable for Class B Exchangeable units of AGHLP on a one-for-one basis at the option of the holder after December 31, 2009 and by AGHLP on the subordination end date which can be no earlier than June 30, 2006, and is determined based on certain earnings and cash distributions thresholds of the Fund.

11. FINANCIAL INSTRUMENTS

The Fund has the following financial instruments: cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, distributions payable, long-term debt, an interest rate swap arrangement, forward foreign exchange rate contracts and foreign currency swap agreements. It is management's opinion that the Fund is not exposed to significant credit risks arising from these financial instruments.

Currency exposures

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. Dollar. The Fund has entered into foreign exchange contracts to hedge its foreign currency exposure on anticipated US dollar sales transactions and the collection of the related accounts receivable. At June 30, 2004, the Fund had outstanding forward foreign exchange contracts as follows:

Settlement Dates	**Face value** $US	**Average rate** $Cdn
July 2004 to December 2004	14,000,000	1.3279
March 2005 to December 2005	14,500,000	1.3355
March 2006 to December 2006	14,500,000	1.3507

At June 30, 2004, The Fund also had outstanding foreign currency swap agreements as follows:

Settlement Dates	**Face value** $US	**Average rate** $Cdn
July 31, 2004	800,000	1.3465
August 3, 2004	500,000	1.3216
August 31, 2004	400,000	1.3740
August 31, 2004	400,000	1.3445

Interest rate exposures

The Fund is subject to risks associated with fluctuating interest rates on its long-term debt. To manage this risk, the Fund has entered into, for hedging purposes, an interest rate swap transaction with a Canadian chartered bank. The swap transaction expires on May 4, 2006. The swap transaction involves the exchange of the underlying floating interest rate of prime plus 0.25% to 1.25% for an effective fixed interest rate of 3.07% plus 1.25% to 2.25% based on performance calculations. The notional amount of the swap transaction at June 30, 2004 was $20.0 million.

Fair value

At June 30, 2004, the carrying value of the Fund's financial instruments approximates their fair value with the exception of derivative financial instruments. At June 30, 2004, cash of approximately $29,000 would have been due to settle the interest rate swap agreement. The unrealized loss on forward foreign exchange contracts was $97,000. The recognized fair value of the foreign currency swap agreements resulted in a liability of $32,000.

12. INCOME TAXES

Income tax obligations relating to distributions from the Fund are the obligations of the unitholders and accordingly, no provision for income taxes on the income of the Fund has been made. A provision for income taxes is recognized for Ag Growth. Ag Growth is subject to tax, including large corporation tax.

The provision for income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial statutory income tax rates to the earnings before income taxes as shown in the following table:

	May 18, 2004 to June 30, 2004	
	$	%
Earnings before income taxes and non-controlling interest	**1,472,005**	
Temporary differences and non-tax deductible expenses of AGHLP and AGLP not recognized for accounting purposes	**173,040**	
Earnings subject to tax in the hands of unitholders	**(1,575,043)**	
Net income of subsidiary company	**70,002**	
Provision for income taxes	**26,000**	**37**
Large corporation tax	**5,000**	**7**
Income tax provision	**31,000**	**44**

Significant components of the Fund's future tax assets are shown below:

	$
Future tax assets	
Financing costs	**630,000**
Non-capital loss (expires in 2014)	**34,000**
	664,000

13. SEGMENTED DISCLOSURE

The Fund operates in one business segment related to the manufacturing and distributing of portable grain handling equipment. Geographic information about the Funds's revenue is based on the product shipment destination. Assets are based on their physical location as at the period end:

	Revenue $	Property, plant and equipment, goodwill and intangible assets $
Canada	**1,993,702**	**92,135,448**
United States	**4,823,852**	**236,606**
International	**517,370**	**—**
	7,334,924	**92,372,054**

14. LONG-TERM INCENTIVE PLAN

Key senior management of the fund are eligible to participate in the Fund's LTIP. The purpose of the LTIP is to provide eligible participants with compensation opportunities that encourages ownership of units of the Fund, enhances the Fund's ability to attract, retain and motivate key personnel, and rewards key senior management for significant performance and associated growth in distributions. Pursuant to the LTIP, the Fund sets aside a pool of funds based upon the amount by which the Fund's distributions exceed cash distribution thresholds [as defined in the LTIP plan documents]. A trustee then purchases units of the Fund in the market with such pool of funds and hold these units until such time as ownership vests to each participant. The LTIP is administered by the Corporate Governance and Compensation Committee.

The Board of Trustees of the Fund or the Corporate Governance and Compensation Committee has the power to, among other things, determine those individuals who participate in the LTIP, and determine the level of participation of each participant.

As at the balance sheet date, there is no amount to be accrued.

15. COMMITMENTS

The Fund has entered into various operating leases for office equipment and vehicles. Minimum annual lease payments required over the next five fiscal years are as follows:

	$
2004 [July 1 – December 31]	131,542
2005	238,351
2006	134,773
2007	85,130
2008	67,321
	657,117

16. DILUTED NET EARNINGS PER UNIT

Net earnings	**$1,107,913**
Add back earnings allocated to non-controlling interest	**333,092**
Net earnings for purposes of determining diluted net earnings per unit	$**1,441,005**
Diluted weighted average number of units outstanding	**9,630,000**
Diluted net earnings per unit	**$0.15**

AG GROWTH INCOME FUND
CORPORATE DATA

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President and Chief Executive Officer

Gary Anderson
Chief Operating Officer

Steve Sommerfeld
Chief Financial Officer

George Adair
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TRANSFER AGENT

Computershare Trust Company of Canada

SHARES LISTED

Toronto Stock Exchange
Stock Symbol: AFN.UN