



**AG GROWTH**

**Ag Growth Income Fund**

**Quarterly Report**  
**For the Period Ended**  
**September 30, 2004**

## TO OUR UNITHOLDERS:

Ag Growth Income Fund is pleased to announce our first full quarter financial results since becoming a publicly traded trust on the Toronto Stock Exchange. Crop volumes, particularly corn, are the key driver of our business. With the benefit of ideal growing conditions in the US market our expectation for a rebound in crop production volumes after the 2002/2003 drought has been realized. The USDA has recently revised upward its estimates of the 2004 crop to 11.6 billion bushels for corn and 3.1 billion bushels of soybeans. Corn production will be a record, exceeding last year's harvest by 15%. Soybean production will represent a 27% increase over 2003's drought damaged crop.

Western Canada did not fare as well. Excess moisture and early frosts in many areas of the prairies reduced the outlook for what was earlier anticipated to be a bumper crop. This, combined with continuing challenges from mad cow, served to negatively affect our results in this marketplace. This speaks well to the importance of geographical diversification pursued in our business model. Our Batco and Westfield divisions experienced a record third quarter despite challenges in their domestic market.

We continue to be challenged by the appreciation in the Canadian dollar and increasing steel prices. A combination of foreign currency hedges and the ability to pass along price increases in a strengthening farm economy has helped temper the impact of these variables on our financial performance.

We expect continued strength for the balance of the year. A delayed harvest in many regions is extending our peak selling season into the fourth quarter. Furthermore, depleted inventory throughout most of our US distribution network positions us for strength into the first half of next year as we replenish dealer and warehouse inventories.

Grain prices have seen substantial declines in response to the massive US harvest. However, the volume of grain to be handled as a result of this large harvest provides continued momentum to help offset pricing pressures.

On behalf of the management and the board of trustees of the Ag Growth Income Fund we welcome our new unitholders and look forward to many years of profitable growth together.

Sincerely,



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Rod Senft  
Chairman of the Board of Trustees  
Ag Growth Income Fund  
November 10, 2004



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Rob Stenson  
President and Chief Executive Officer  
Ag Growth Income Fund  
November 10, 2004

**AG GROWTH INCOME FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
NOVEMBER 10, 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 three and six month periods ended September 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 additional trust units were issued 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 November 10, 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 136-day period from the date of acquisition to September 30, 2004. Comparative results provided, for purposes of Management's Discussion and Analysis, are Ag Growth's results of operations for the six-month period ended September 30, 2003. Comparative results for a 136-day period ended September 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 six-month period ended September 30, 2004 which are comprised of the operations of the Fund for the six-month period ended September 30, 2004 (which includes only 136 days of active operations from May 18 to September 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 six-month period ended September 30, 2003. Readers are cautioned that the combined operating results presented are not the results of the Fund for the six-month period ended September 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 six-month period ended September 30, 2003.

The table below reconciles the operating results reported by the Fund to the combined operating results for the six-month period ended September 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 six-month period ended September 30, 2004.

	<b>The Fund</b>	<b>Ag Growth (Pre Fund)</b>	<b>Combined operating results</b>
	Six Month Period September 30, 2004 *	April 1 – May 17, 2004	Six-month period September 30, 2004
Sales	\$28,489,263	\$8,654,417	\$37,143,680
Cost of sales	<u>15,055,513</u>	<u>4,608,315</u>	<u>19,663,828</u>
Gross margin	13,433,750	4,046,102	17,479,852
Operating expenses	<u>4,773,929</u>	<u>3,395,172</u>	<u>8,169,101</u>
EBITDA	8,659,821	650,930	9,310,751
Amortization	1,205,123	101,671	1,306,794
Interest expense	<u>437,700</u>	<u>384,654</u>	<u>822,354</u>
Earnings before tax and non-controlling interest	7,016,998	164,605	7,181,603
Tax expense (recovery)	92,500	(184,557)	(92,057)
Non-controlling interest	<u>1,600,616</u>	<u>0</u>	<u>1,600,616</u>
Net earnings	<u>\$ 5,323,882</u>	<u>\$ 349,162</u>	<u>\$ 5,673,044</u>

\* 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 only the 136-day period from the date of acquisition, May 18, 2004, to September 30, 2004.

## OPERATING RESULTS

	Three Months Ended September 30		Six Months Ended September 30*	
	2004	2003	2004	2003
Sales	\$21,154,339	\$20,073,960	\$37,143,680	\$31,788,880
Cost of sales	<u>11,027,731</u>	<u>9,275,538</u>	<u>19,663,828</u>	<u>15,015,694</u>
Gross margin	10,126,608	10,798,422	17,479,852	16,773,186
Operating expenses	<u>3,477,270</u>	<u>3,396,222</u>	<u>8,169,101</u>	<u>6,105,307</u>
EBITDA	6,649,338	7,402,200	9,310,751	10,667,879
Amortization	813,419	474,042	1,306,794	917,899
Interest expense	<u>290,927</u>	<u>1,229,670</u>	<u>822,354</u>	<u>2,465,852</u>
Earnings before tax and non-controlling interest	5,544,992	5,698,488	7,181,603	7,284,128
Tax expense (recovery)	61,500	2,790,858	(92,057)	3,407,500
Non-controlling interest	<u>1,267,524</u>	<u>0</u>	<u>1,600,616</u>	<u>0</u>
Net earnings	<u>\$ 4,215,968</u>	<u>\$2,907,630</u>	<u>\$ 5,673,044</u>	<u>\$ 3,876,628</u>

\*Results for the period ended September 30, 2004 includes the results of Ag Growth for the period April 1, 2004 to May 17, 2004. See “Basis of Management’s Discussion and Analysis”.

### Impact of Foreign Exchange

Ag Growth entered foreign exchange contracts in March of 2004 with maturity dates in 2004, 2005 and 2006 at average rates of \$1.3279, \$1.3355, and \$1.3507 respectively. In 2003, Ag Growth’s average foreign currency hedge rate was \$1.5957. Largely as a result of the differing hedge rates, the company’s effective exchange rate on sales for the three and six month periods ended September 30, 2004 is significantly lower than for the comparable periods in 2003. As Ag Growth has historically generated approximately 60% of its sales in US Dollars with a much lower proportion of its expenses being US Dollar denominated, the change in effective exchange rates has had a significant effect on financial results.

It is important to note that estimated distributable cash as calculated in the Fund’s prospectus was derived using the average 2004 hedge rate of \$1.3279. The contracts entered in March of 2004 were designed to cover approximately 90% of Ag Growth’s net USD exposure in each of 2004, 2005, and 2006, calculated based on Ag Growth’s actual USD exposure in fiscal 2003. Although the Fund’s US Dollar exposure has increased somewhat in 2004 due to unit price increases and higher demand, the company’s foreign currency exchange rate risk in 2004 has been largely mitigated.

### Sales

Sales for the three-months ended September 30, 2004 increased 5.4% over the same period in 2003. This increase in sales is noteworthy given that the third quarter of 2003 was an extremely strong quarter and that sales in 2004 have been impacted by the significant decrease in the company’s effective U.S. Dollar exchange rate. Sales in 2004 benefited from very favourable

growing conditions in key U.S. markets and the continued success of the Fund's new auger and bin-load out lines.

Combined sales for the six-month period ended September 30, 2004 increased 16.8% over the same period in 2003. The significant increase compared to 2003 is largely the result of a 36.5% increase in the second quarter of 2004 over 2003. The second quarter of 2004 reflected 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 in both the second and third quarters of 2004 have benefited from favourable growing conditions and the continued success of the Fund's new auger and bin-load out lines.

## **Expenses**

Gross margin as a percentage of sales for the three and six month periods ended September 30, 2004 were 47.9% and 47.1% respectively. This compares to 53.8% and 52.8% for the comparable periods in 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. Gross margin in 2004 has also been impacted by rising steel costs, as there is a delay between the time the higher input costs are incurred and the time the price increases implemented to offset the higher input costs appear in the Fund's results.

Operating expenses for the three-month period ended September 30, 2004 were \$3.5 million, up slightly from \$3.4 million for the same period in 2003. Increased warehousing costs, primarily related to a new warehouse in Illinois, of \$0.1 million, and increases in insurance, accounting fees, and salaries of \$0.1 million each were offset by the elimination of management fees payable prior to the IPO that totalled \$0.3 million in the three-months ended September 30, 2003.

Combined operating expenses for the six-months ended September 30, 2004 increased \$2.1 million over the same period in 2003, largely due to \$1.4 million of IPO related costs that were expensed in the period prior to May 18, 2004. The increase was also the result of higher salary costs of \$0.4 million, increased sales and marketing expenditures of \$0.2 million, and increased warehousing costs of \$0.2 million, offset by the elimination of management fees payable prior to the IPO that totalled \$0.4 million in the six-months ended September 30, 2003.

Expenses for the Ag Growth period of April 1 to May 17 included the accrual of the IPO related costs noted above. No unusual expenses were recorded in the 136-day period ended September 30, 2004.

## **Net earnings and EBITDA** (see discussion of non-GAAP measures)

EBITDA as a percentage of sales for the three-months ended September 30, 2004 was 31.4%, compared to 36.9% for the three-month period ended September 30, 2003. The decrease in EBITDA percentage compared to 2003 was expected and is primarily the result of recording US Dollar denominated transactions at a lower exchange rate.

For the six-months ended September 30, 2004, EBITDA as a percentage of sales was 25.1%, compared to 33.6% for the six-month period ended September 30, 2003. Excluding \$1.4 million in IPO costs expensed in the Ag Growth results for the period April 1, 2004 to May 17, 2004, EBITDA as a percentage of sales for the six-months ended September 30, 2004 is 28.8%. The

decrease in EBITDA percentage compared to 2003 was expected and is primarily the result of recording US Dollar denominated transactions at a lower exchange rate.

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 136-day period ended September 30, 2004, the Fund's interest rate on both its term debt and operating facility was 4.3%, which is in line with management expectations.

Amortization for the 136-day period ended September 30, 2004 of \$1.2 million includes the amortization of intangible assets of \$0.5 million, the amortization of deferred finance fees of \$0.4 million, and the amortization of capital assets of \$0.3 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 \$92,500 for the six months ended September 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 \$1.6 million relates to the proportionate share of earnings owing to holders of the Class B Exchangeable Units and Class C Subordinated Units of AGHLP, which is the retained interest of the previous owners.

Net earnings for the six-month period ended September 30, 2004 were \$5.3 million, or \$0.72 per basic and diluted trust unit.

### Quarterly Financial Information

	2004 Third Quarter	2004 Second Quarter *
Total sales	\$21,154,339	\$7,334,924
Net earnings	\$4,215,970	\$1,107,913
Net earnings per unit	\$0.57	\$0.15

\*Includes the results of Ag Growth's operations for the period May 18, 2004 to June 30, 2004. See "Basis of Management's Discussion and Analysis".

Interim period revenues and earnings historically reflect some seasonality. The third quarter is typically the strongest primarily due to high in-season demand at the farm level. Historically, revenues and earnings in the first, second, and fourth quarters are relatively similar. Distributable cash generated per unit will also typically be highest in the third quarter. As it is the Fund's policy to make stable distributions throughout the year, distributions declared as a percentage of distributable cash generated will be lower in the third quarter than for the fiscal period in total.

The Fund'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 peaking in the third quarter.

In order to ensure the Fund has adequate supply throughout its distribution network in advance of the in-season demand experienced primarily in the third quarter, inventory levels must be gradually increased throughout the year. Accordingly, inventory levels increase in the first and second quarters and then begin to decline in the third and fourth quarters as sales levels exceed production.

As a result of these working capital movements, the Fund's use of its bank revolver is higher in the first and second quarters. The revolver balance begins to decline in the third quarter as collections of accounts receivable increase and inventory levels begin to decrease. The Fund has generally fully repaid its revolver balance by early in the fourth quarter.

## **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 \$4,980,799 resulting in net proceeds of \$64,059,201. 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.

In the three months ended September 30, 2004, the Fund generated \$6.8 million from operating activities. The third quarter of the Fund's fiscal year is a period of high demand and accordingly cash generated from operations benefited from strong EBITDA and a reduction in the relatively high inventory levels that had been carried prior to the peak-selling season. The repayment of \$1.4 million of income taxes incurred and recorded prior to the IPO partially offset the significant cash generated from third quarter market activity. During the three months ended September 30, 2004, the Fund had capital expenditures of \$0.2 million that related primarily to purchases of a forklift and a trailer. During the period the Fund reduced its bank revolver balance by \$3.3 million, which was in line with management expectations for the reasons discussed above.

During the period May 18, 2004 to September 30, 2004, the Fund generated \$4.0 million from operating activities. The considerable cash generated from operating activities in the third quarter was partially offset by expected working capital requirements in the period from May 18, 2004 to June 30, 2004. In the period leading up to the third quarter the Fund's inventory levels increase, as it is necessary to ensure supply in advance of the busy harvest season, and its accounts receivable balances increase as collections are weighted towards the third and fourth quarters. During the period the Fund had capital expenditures of \$0.4 million that related primarily to the purchases of a semi-tractor unit, a forklift and a trailer. In the period from May 18 to September 30, 2004 the Fund reduced its bank revolver balance by \$1.1 million.



## CONTRACTUAL OBLIGATIONS

	<b>Total</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008 +</b>
Long-term debt	20,072,965	5,875	23,499	20,023,499	20,092	0
Operating leases	720,980	75,495	285,598	169,141	109,274	81,472
Total obligations	20,779,794	81,370	309,097	20,192,640	129,366	81,472

On May 18, 2004 the Fund entered a two-year, non-amortizing, \$20 million term loan facility that upon maturity is extendible annually for twelve months at the lenders option. The operating leases relate to vehicle, equipment, and warehouse facility leases entered in the normal course of business.

## DISTRIBUTIONS

Distributions are paid at the end of the month that follows the month when the cash was earned. Consistent with the distribution amount anticipated in the IPO, the Fund declared distributions to public unitholders of \$3.6 million for the six-month period ended September 30, 2004, including \$2.4 million in the three-month period ended September 30, 2004. Furthermore, consistent with the Fund's prospectus dated May 5, 2004, distributions were declared to Ag Growth's previous owners of \$1.1 million for the six-month period ended September 30, 2004, including \$0.7 million in the third quarter.

The Fund's policy is to make stable monthly distributions to unitholders based on estimated distributable cash for the year. Due to the seasonal nature of its business, it is anticipated that distributable cash generated in the third quarter will be higher than in other quarters. Accordingly, seasonality contributed to the excess of distributable cash generated per unit over distributions declared, for both the 136-day and three-month periods ended September 30, 2004. Distributable cash for the periods is calculated as follows:

	<b>Six-Months Ended September 30, 2004*</b>	<b>Three-months Ended September 30, 2004</b>
Net income for the period	\$5,323,882	\$4,215,969
Add: Non-controlling interest	1,600,616	1,267,524
Amortization	1,205,123	813,419
Interest expense	437,700	290,927
Tax expense	92,500	61,500
EBITDA**	\$8,659,821	\$6,649,339
Less: Interest expense	437,700	290,927
Net maintenance capital expenditures	434,248	164,898
Current income taxes	15,500	10,500
Distributable cash **	<u>\$7,772,373</u>	<u>\$6,183,014</u>
Distributable cash generated per unit	\$0.8071	\$0.6421
Distributions declared per unit	\$0.4830	\$0.3249
Distribution percentage	59.84%	50.60%

\* 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 only the 136-day period from the date of acquisition, May 18, 2004, to September 30, 2004.

\*\* 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 September 30, 2004, approximately \$4.2 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. In the normal course of its operations, the Fund may become involved in various legal actions, including claims related to patent infringement. The Fund maintains, and regularly updates on a case-by-case basis, provisions when the expected loss is both likely and can be reasonably estimated. Management believes that an existing claim is without merit and that the outcome will not have a material adverse effect on the Fund's financial position or results of operations. As additional information becomes available, management will assess any potential liability relating to the pending litigation and revise their estimates accordingly. 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. Historically, 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 September 30, 2004, the Fund had outstanding USD \$38.8 million of forward foreign exchange contracts, dated from October 2004 to December 2006, with a Canadian Dollar equivalent of \$52.0 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 September 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 Cyclicity**

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 anticipates healthy demand for the remainder of 2004 as the Fund's distribution network begins to rebuild its inventory levels after a very strong third quarter. Furthermore, a late harvest in many areas should create higher than usual in-season demand in the fourth quarter. Fourth quarter sales compared to 2003 will continue to be tempered by a lower effective US Dollar exchange rate on U.S. Dollar denominated sales.

Due to the seasonal nature of its business, it is anticipated that distributable cash generated in the third quarter will be higher than in other quarters. As it is the Fund's policy to make stable distributions throughout the year, distributions declared as a percentage of distributable cash generated will be lower in the third quarter than for the fiscal period in total.

## **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](http://www.sedar.com)).

## **INVESTOR RELATIONS**

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Interim Consolidated Financial Statements

**Ag Growth Income Fund**

Unaudited

September 30, 2004



## Ag Growth Income Fund

### INTERIM CONSOLIDATED BALANCE SHEET

As at September 30, 2004

Unaudited

	\$
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<b>ASSETS</b> <i>[notes 8 and 9]</i>	
<b>Current</b>	
Short-term restricted cash <i>[note 4]</i>	127,187
Accounts receivable	15,167,941
Inventory	14,393,194
Prepaid expenses and other assets	507,932
<b>Total current assets</b>	<b>30,196,254</b>
Property, plant and equipment	5,545,615
Other assets	
Goodwill	32,888,891
Intangible assets <i>[note 6]</i>	53,459,178
Deferred financing costs <i>[note 7]</i>	1,648,524
Future income taxes <i>[note 13]</i>	613,000
Deferred foreign exchange loss	639,013
	94,794,221
	<b>124,990,475</b>
<hr/>	
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>	
<b>Current</b>	
Bank indebtedness <i>[note 8]</i>	4,176,397
Accounts payable and accrued liabilities	5,663,171
Income taxes payable	25,430
Distributions payable	1,460,101
Current portion of long-term debt <i>[note 9]</i>	23,499
<b>Total current liabilities</b>	<b>11,348,598</b>
Long-term debt <i>[note 9]</i>	20,049,466
<b>Total liabilities</b>	<b>31,398,064</b>
Commitments and contingent liability <i>[notes 12 and 16]</i>	
Non-controlling interest <i>[note 11]</i>	22,785,458
<b>Unitholders' equity</b>	<b>70,806,953</b>
	<b>124,990,475</b>
<hr/>	

*See accompanying notes*

On behalf of the Board of Trustee's:

(signed) Rod Senft  
Trustee

(signed) John R. Brodie  
Trustee

## Ag Growth Income Fund

### INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

For the three-month and six-month periods ended September 30, 2004

Unaudited

	Three-month period ended September 30, 2004 \$	Six-month period ended September 30, 2004* \$
<b>Sales</b>	21,154,339	28,489,263
<b>Cost of goods sold</b>	11,027,731	15,055,513
<b>Gross margin</b>	10,126,608	13,433,750
Expenses		
General and administration	3,134,081	4,294,284
Professional fees	197,350	231,961
Capital taxes	81,878	138,930
Research and development	100,519	141,348
Other income	(36,558)	(32,594)
	3,477,270	4,773,929
Earnings before the following	6,649,338	8,659,821
Interest expense		
Short-term debt	59,803	103,459
Long-term debt	231,124	334,241
Earnings before amortization, income taxes and non-controlling interests	6,358,411	8,222,121
Amortization of intangible assets	372,055	540,822
Amortization of deferred financing costs	257,765	377,450
Amortization of property, plant and equipment	183,599	286,851
	813,419	1,205,123
Earnings before income taxes and non-controlling interests	5,544,992	7,016,998
Income tax expense [note 13]		
Current	10,500	15,500
Future	51,000	77,000
	61,500	92,500
Earnings before non-controlling interests	5,483,492	6,924,498
Non-controlling interests [note 11]	1,267,524	1,600,616
<b>Net earnings for the period</b>	4,215,968	5,323,882
<b>Basic and diluted net earnings per unit [note 17]</b>	<b>\$0.57</b>	<b>\$0.72</b>
Basic weighted average number of units outstanding	7,404,000	7,348,853
Diluted weighted average number of units outstanding	9,630,000	9,630,000

\* The six-month period ended September 30, 2004 reflects the Fund's acquisition of Ag Growth on May 17, 2004. Accordingly, the results include the operations of Ag Growth for only the 136-day period from May 18, 2004 to September 30, 2004.

See accompanying notes

**Ag Growth Income Fund**

**INTERIM CONSOLIDATED STATEMENT OF  
UNITHOLDERS' EQUITY**

Six-month period ended September 30, 2004

Unaudited

	<b>Unitholders' capital [note 10] \$</b>	<b>Accumulated earnings \$</b>	<b>Accumulated distributions \$</b>	<b>Total \$</b>
Issuance of initial subscriber units	30	—	—	30
Redemption of initial subscriber units	(30)	—	—	(30)
Issuance of units on initial public offering [note 4]	69,040,000	—	—	69,040,000
Issuance costs [note 4]	(4,980,799)	—	—	(4,980,799)
Exchange of units [note 10]	5,000,000	—	—	5,000,000
Net earnings for the period	—	5,323,882	—	5,323,882
Distributions declared	—	—	(3,576,130)	(3,576,130)
<b>Balance, September 30, 2004</b>	<b>69,059,201</b>	<b>5,323,882</b>	<b>(3,576,130)</b>	<b>70,806,953</b>

*See accompanying notes*

## Ag Growth Income Fund

### INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month and six-month periods ended September 30, 2004

Unaudited

	Three-month period ended September 30, 2004 \$	Six-month period ended September 30, 2004* \$
<b>OPERATING ACTIVITIES</b>		
Net earnings for the period	4,215,968	5,323,882
Add charges to operations not requiring a current cash payment		
Non-controlling interest	1,267,524	1,600,616
Amortization	813,419	1,205,123
Deferred foreign exchange loss	(431,690)	(639,013)
Future income taxes	51,000	77,000
Loss on sale of property, plant and equipment	—	490
	5,916,221	7,568,098
Net change in non-cash working capital balances related to operations		
Accounts receivable	(773,702)	(2,871,667)
Inventory	1,705,830	1,045,913
Prepaid expenses and other assets	71,067	(37,247)
Accounts payable and accrued liabilities	1,261,892	(262,310)
Income taxes payable	(1,406,985)	(1,407,175)
	858,102	(3,532,486)
<b>Cash provided by operating activities</b>	6,774,323	4,035,612
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(164,898)	(434,248)
Proceeds from sale of property, plant, and equipment	—	24,767
Acquisition of Ag Growth Industries Inc. [note 4]	—	(32,133,771)
Transfers to restricted cash	(85,370)	(127,187)
<b>Cash used in investing activities</b>	(250,268)	(32,670,439)
<b>FINANCING ACTIVITIES</b>		
Decrease in bank indebtedness	(3,323,363)	(1,089,655)
Repayment of long-term debt	(9,505)	(32,891,562)
Issuance of long-term debt	—	20,082,470
Increase in deferred financing costs on long-term debt	—	(2,025,974)
Initial public offering of fund units, net of expenses [note 4]	—	64,059,201
Distributions paid	(3,191,187)	(3,191,187)
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)
<b>Cash provided by (used in) financing activities</b>	(6,524,055)	28,634,827
<b>Net increase in cash during the period</b>	—	—
Cash position, beginning of period	—	—
<b>Cash position, end of period</b>	—	—
<b>Supplemental cash flow information</b>		
Interest paid	322,403	427,908
Income taxes paid	1,417,485	1,422,675

\* The six-month period ended September 30, 2004 reflects the Fund's acquisition of Ag Growth on May 17, 2004. Accordingly, the results include the operations of Ag Growth for only the 136-day period from May 18, 2004 to September 30, 2004.

See accompanying notes

## **Ag Growth Income Fund**

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

September 30, 2004

Unaudited

#### **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, 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 11]*.

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 September 30, 2004.

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

## **Ag Growth Income Fund**

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

September 30, 2004

Unaudited

#### **3. SEASONALITY OF BUSINESS**

Interim period revenues and earnings historically reflect some seasonality. The third quarter is typically the strongest primarily due to high in-season demand at the farm level. Historically, revenues and earnings in the first, second, and fourth quarters are relatively similar.

The Fund'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 peaking in the third quarter.

In order to ensure the Fund has adequate supply throughout its distribution network in advance of the in-season demand experienced primarily in the third quarter, inventory levels must be gradually increased throughout the year. Accordingly, inventory levels increase in the first and second quarters and then begin to decline in the third and fourth quarters as sales levels exceed production.

As a result of these working capital movements, the Fund's use of its bank revolver is higher in the first and second quarters. The revolver balance begins to decline in the third quarter as collections of accounts receivable increase and inventory levels begin to decrease. The Fund has generally fully repaid its revolver balance by early in the fourth quarter.

#### **4. 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 \$4,980,799 resulting in net proceeds of \$64,059,201.

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.



## Ag Growth Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

Unaudited

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 three-month and the six-month interim consolidated statement of earnings includes the results of Ag Growth's operations for the 44-day period from May 18 to June 30, 2004, and the 136-day period from May 18, 2004 to September 30, 2004 respectively]. 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	32,888,891
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)
	59,393,771
Consideration given	
Cash	32,133,771
Class B Exchangeable Units of AGHLP [note 11]	8,000,000
Class C Exchangeable Subordinated Units of AGHLP [note 11]	19,260,000
	59,393,771

During the three-month period ended September 30, 2004, the Fund finalized the cash consideration payable for the purchase of Ag Growth. The final amount payable changed by \$87,614 as a result of the receipt of the final balances payable for issuance costs and financing fees. The Fund has \$127,187 of restricted cash held in trust to settle outstanding costs associated with the offering and acquisition.

## Ag Growth Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

Unaudited

#### 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	(4,980,799)
Proceeds from long-term debt	20,000,000
Financing costs	(2,025,964)
	82,033,237
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	32,133,771

#### 5. 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 September 30, 2004, and 100% of the revenues and expenses of the operations of Ag Growth for the period from May 18, 2004 to September 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. Amortization is provided over the estimated useful lives of the assets.

## **Ag Growth Income Fund**

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

September 30, 2004

Unaudited

#### **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.

## **Ag Growth Income Fund**

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

September 30, 2004

Unaudited

#### **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.

## **Ag Growth Income Fund**

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

September 30, 2004

Unaudited

#### **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.

## Ag Growth Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

Unaudited

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.

#### 6. INTANGIBLE ASSETS

	Cost \$	Accumulated amortization \$	Net book value \$
Distribution network	35,000,000	540,822	34,459,178
Brand name	19,000,000	—	19,000,000
	54,000,000	540,822	53,459,178

#### 7. DEFERRED FINANCING COSTS

	Cost \$	Accumulated amortization \$	Net book value \$
	2,025,974	377,450	1,648,524

#### 8. BANK INDEBTEDNESS

The Fund has an operating facility to a maximum of \$15 million, with 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 4.3%. At September 30, 2004, \$4,176,397 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.



## Ag Growth Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

Unaudited

#### 9. 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 12, 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 2007, with monthly payments. Vehicles financed are pledged as collateral.	72,965
	20,072,965
Less current portion	23,499
	20,049,466

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

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

\$

2004 [October 1 – December 31]	5,875
2005	23,499
2006	20,023,499
2007	20,092
	20,072,965

Collateral for the term loan and operating facility [note 8] includes a general security agreement over all assets and first position collateral mortgages on land and buildings.

## Ag Growth Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

Unaudited

#### 10. 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 September 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.

#### 11. NON-CONTROLLING INTERESTS

Non-controlling interests are comprised of:

	\$
Issuance of shares of AGHLP as consideration for the acquisition of Ag Growth <i>[note 4]</i>	
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 interests	1,600,616
Distributions payable to Class B and C unitholders	(1,075,158)
	<u>22,785,458</u>

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.

## Ag Growth Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

Unaudited

## 12. 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, and forward foreign exchange rate contracts. 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 September 30, 2004, the Fund had outstanding forward foreign exchange contracts as follows:

Settlement Dates	Face value \$US	Average rate \$Cdn
October 2004 to December 2004	9,800,000	1.3285
March 2005 to December 2005	14,500,000	1.3355
March 2006 to December 2006	14,500,000	1.3507

### 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 September 30, 2004 was \$20.0 million.

### Fair value

At September 30, 2004, the carrying value of the Fund's financial instruments approximates their fair value with the exception of derivative financial instruments. At September 30, 2004, cash of approximately \$2,600 would have been due to settle the interest rate swap agreement. The unrealized gain on forward foreign exchange contracts was \$2,100,000.

## Ag Growth Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

Unaudited

#### 13. 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:

	<b>Three-month period ended September 30, 2004</b>		<b>Six-month period ended September 30, 2004</b>	
	\$	%	\$	%
Earnings before income taxes and non-controlling interest	5,544,992		7,016,998	
Temporary differences and non-tax deductible expenses of AGHLP and AGLP not recognized for accounting purposes	323,954		496,994	
Earnings subject to tax in the hands of unitholders	(5,734,944)		(7,309,987)	
Net income of subsidiary company	134,003		204,005	
Provision for income taxes	51,000	38	77,000	38
Large corporation tax	10,500	8	15,500	7
Income tax provision	61,500	46	92,500	45

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

	\$
<b>Future tax assets</b>	
Financing costs	504,000
Non-capital loss (expires in 2014)	109,000
	613,000

## Ag Growth Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

Unaudited

#### 14. 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 at September 30, 2004
	Three-month period ended September 30, 2004	Six-month period ended September 30, 2004	
	\$	\$	\$
Canada	6,005,686	8,411,980	91,655,366
United States	13,903,717	18,314,978	238,318
International	1,244,936	1,762,305	—
	21,154,339	28,489,263	91,893,684

#### 15. 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.

## Ag Growth Income Fund

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

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#### 16. COMMITMENTS AND CONTINGENT LIABILITY

##### [a] 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 [October 1 – December 31]	75,495
2005	285,598
2006	169,141
2007	109,274
2008 and thereafter	81,472
	<u>720,980</u>

##### [b] Contingent liability

Legal action has been taken against the Fund regarding a patent infringement on one of the Fund's conveyor products. Management believes that the claim is without merit and that the outcome will not have a material adverse effect on the Fund's financial position or results of operations.

#### 17. DILUTED NET EARNINGS PER UNIT

	Three-month period ended September 30, 2004 \$	Six-month period ended September 30, 2004 \$
Net earnings	4,215,968	5,323,882
Add back earnings allocated to non-controlling interest	1,267,524	1,600,616
Net earnings for purposes of determining diluted net earnings per unit	5,483,492	6,924,498
Diluted weighted average number of units outstanding	9,630,000	9,630,000
Diluted net earnings per unit	<u>\$0.57</u>	<u>\$0.72</u>