Growing Opportunity / **2012 Annual Report**

AG GROWTH INTERNATIONAL

Abolition of the Canadian Wheat Board monopoly in western Canada creates opportunity in commercial and large farm consolidation and infrastructure.

Winnipeg, Canada

Corn production in the USA may exceed 14 billion bushels in 2013 as US farmers are expected to seed 97 million acres of corn in 2013.

South America may grow more corn and soybeans than the United States for the first time in 2013.

Approximately 24 million hectares of cropland has been abandoned in Russia since 1991. Once returned to full production, this cropland has the potential to generate 42 million tonnes of output.

Chinese born in 2009 will consume 38 times more than those born in 1960. Indians born in 2009 will consume 13 times more than those born in 1960.

The amount of grain lost in sub-Saharan Africa each year has the potential to feed over 48 million people.

The global population is expected to grow to 9 billion by 2050.


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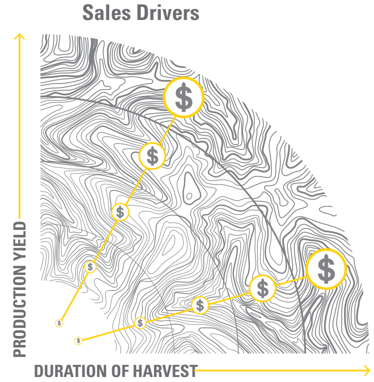
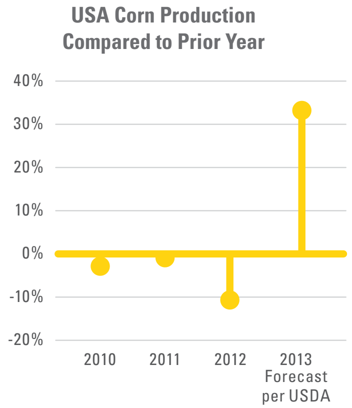
CEO MESSAGE

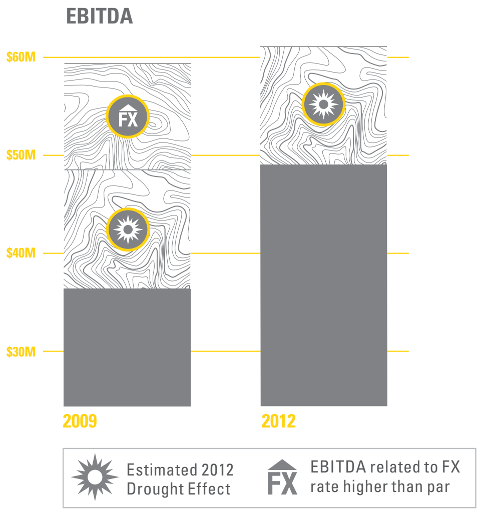


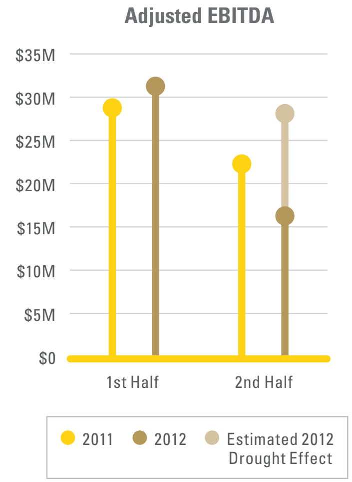


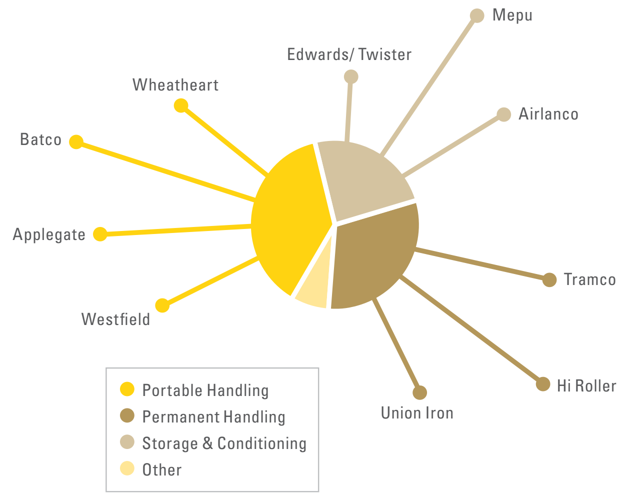
On behalf of our Board of Directors and the entire team at AGI we are pleased to present our 2012 Annual Report. We look back at 2012 as a tale of two halves. A strong first half based on the optimism of a huge corn crop in the USA, and a disappointing second half based on the most severe drought the USA has experienced in nearly 60 years. However, 2012 was also a year of continuing operational improvement, including considerable gains on the R&D front and inspiring performance in offshore, new market development. We will give Mother Nature her due, but we will also acknowledge the considerable progress being made on other fronts.

> Such is the beauty of agriculture. The memories of a tough year are soon replaced with the optimism of a better year ahead.

2012 saw record sales in both Canadian and offshore markets. However, with 60% of our current business driven off USA crop production there was no escaping the drought. Indeed, over the past few years we have seen average corn yields in the US drop approximately 25%. Last summer's heat wave matured the crop quickly and dried it in the field, and with grain prices at record highs much of the crop went straight to market without ever seeing the farm gate. It is hard to think of a less perfect scenario for our business. Our primary demand drivers are crop production volume and yield which are impacted by conditions during harvest. Grain prices are less significant and usually run counter to the volume driver. High grain prices do however keep farmers' balance sheets strong and incentivize them to plant heavily in the following year, using optimal inputs. As we enter 2013, planting intentions for corn appear to be at record levels. Based on probabilities, we should have more normal growing and harvest seasons. With a huge crop, corn prices should fall considerably, resulting in a return to more typical levels of on-farm storage. Such is the beauty of agriculture. The memories of a tough year are soon replaced with the optimism of a better year ahead.







We estimate that the 2012 USA drought impacted EBITDA by approximately $10-$12m this past year and will negatively impact results in the first half of 2013. As devastating as it was, the drought was at least moderated by recent strategic initiatives. The graph above compares how things would have looked had the drought hit 3 years earlier. The illustration underscores the value of the ventures funded by our 2009 convertible debenture. Catalogue expansion and related new market developments have clearly made a difference to the size and diversity of our business. That said, the drought also highlights our need to further diversify our geography in order to achieve greater balance.

In early 2012, our Board approved a new organizational structure that grouped our 10 operating divisions into 3 business lines, complete with operational Vice Presidents. This gives us better focus on collective challenges and opportunities. Paul Franzmann has assumed the role of Senior Vice President, Operations blending strategic and operational leadership. Our remaining core structure was augmented with the addition of a Vice President, Strategic Planning & Development and a Vice President, Marketing. In the past we have had bursts of rapid M&A activity followed by prolonged periods of digestion. We now have a team in place that gives us both the ability to achieve our short and medium term organic growth objectives, as well as the capacity to execute future strategic acquisitions. This structure also provides the depth needed for internal succession planning.

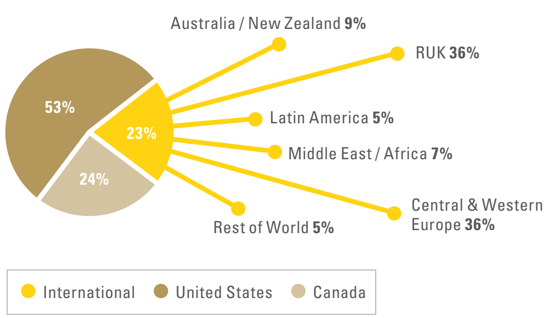
Early in the development of our company we relied heavily on R&D for organic growth. However, with 9 acquisitions post IPO we have had considerable focus on integration and operational improvements, often redirecting engineering resources to the shop floor. 2012 saw the revitalization of the R&D function, restoring its market driven focus. We have a number of product line extension projects

currently underway, including high capacity modular dryers at Mepu, 105' diameter storage bins at Nobleford and larger/faster augers at Westfield. We are also entering new market space with projects such as the on-farm seed treater in partnership with Bayer Crop Science.

2012 also marked the retirement of Art Stenson, founder of our original division, Batco Manufacturing, and co-founder of AGI. Art demonstrated a keen talent as an innovator. His designs allowed us to grow a start-up company into a market leader in only a few short years. Art's fierce ownership of customer satisfaction expressed the essence of entrepreneurship. It is a quality that became firmly embedded into the core of AGI's culture. We are very grateful for Art's many contributions to the development of our company and wish him well in his retirement years; he has certainly earned it.

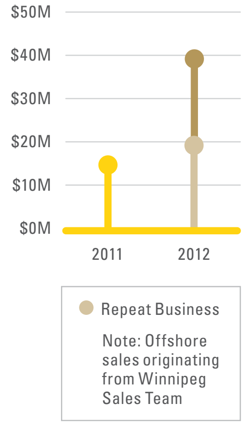
Batco remains one of our top performing divisions, with lots of growth potential still ahead. We are extremely fortunate to have Doug Weinbender taper his focus from that of an operational Vice President at AGI, into the leader of Batco and its future development. In the fall of 2013 we will move production into a much larger manufacturing facility in Swift Current, gaining considerable capacity and accommodating the installation of a new powder coat paint line. Doug's leadership will provide us with a great opportunity to take Batco to a new level in the marketplace.

2012 Sales by Geography



Active Quotes by Business Line

International Sales



Our ongoing focus and commitment to developing a global footprint gained momentum in 2012. In particular the combined region of Russia, Ukraine and Kazakhstan (RUK) has demonstrated notable traction. We are most encouraged by the level of repeat business our team is achieving abroad. While AGI has many dedicated teams doing great work on a number of fronts, the enthusiasm, commitment and results from the International Team are simply outstanding. In fact, our progress in RUK is such that we have already outgrown Mepu's capacity for market support. In turn, we will refocus their efforts on Central and Western European countries, better related to its small farm catalogue. Concurrently, we are expanding our sales and support office in Riga, Latvia for the larger corporate farm sector. The graph above demonstrates our progress to date in a very competitive environment.

In the first full year of operating our new bin manufacturing plant we have validated our investment thesis. While the bin business on its own offers only limited margins, particularly as a small player, it has indeed acted as a catalyst for new market development. In emerging markets, nearly 80% of our bin sales are bundled with higher margined catalogue items. Our next challenge will be to level load production sufficiently to optimize capacity and manufacturing efficiencies. North American business is typically arranged with this strategy in mind. Today the process of qualifying new offshore customers and working through the details of their requirements is often lengthy and subject to change. We expect it will improve as emerging markets mature over time.

As we enter 2013 we are anxious to return to the optimism that global fundamentals support. Although our worst showing on a four-quarter rolling basis will be as of June 30, 2013, if early indications hold true we should be in for a much more enjoyable second half. Last August we made it clear to everyone that our intentions were to ride out the effects of the drought without changing our dividend policy. Our resolve was based on the knowledge that we can cycle out of the drought and return to a more reasonable payout ratio.

Our ongoing focus and commitment to developing a global footprint gained momentum in 2012.

Before closing, I would like to take a moment to pay our respects to John Brodie, who passed away unexpectedly on February 24, 2013. John served as Audit Chair and Director of AGI since our IPO in May 2004. His steady hand was evident, providing great strength and guidance to Rob, Steve and me throughout the challenges we have faced over the past nine years. He was held in very high esteem with his fellow directors on both a professional and personal basis.

We extend our sincere condolences to his family. He will be greatly missed.

I would like to thank all of our shareholders for their continued support. We are confident in our ability to grow the business. AGI's franchise is intact. We have some of the top grain handling brands in our industry, supported by specialized plants with dominant market positions. We are offering complete solutions to customers in emerging markets, leveraging the handling equipment as the differentiator. Our geographic footprint is growing, providing increased diversification. We also have a proven platform for growth through acquisitions. All of these elements are directed at a sector with compelling global fundamentals.

Sincerely,

Gary Anderson
President & CEO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MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes of Ag Growth International Inc. ("Ag Growth", the "Company", "we", "our" or "us") for the year ended December 31, 2012. Results are reported in Canadian dollars unless otherwise stated.

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

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

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

SUMMARY OF RESULTS

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

(thousands of dollars)	Year Ended December 31	
	2012	**2011**
Trade sales [1]	**$314,616**	$301,014
Adjusted EBITDA [1]	**$49,492**	$53,274
Net Profit before Mepu goodwill impairment	**$19,078**	$24,523
Net Profit	**$17,188**	$24,523
Diluted profit per share before Mepu impairment	**$1.53**	$1.95
Diluted profit per share	**$1.37**	$1.95

[1] See "non-IFRS Measures".

Ag Growth entered 2012 with enthusiasm as farmers in the U.S. were poised to plant a record number of corn acres, conditions in western Canada were expected to return to normal after two abnormally wet planting seasons and internationally the Company looked forward to building on its recent success and growing its relationships and market presence.

The first half of 2012 progressed roughly as anticipated and trade sales and adjusted EBITDA for the six months ended June 30, 2012 increased 13% and 8% over the prior year, respectively. As the second quarter came to a close, the Company appeared poised for an exceptional second half as U.S. farmers had planted a record number of corn acres, conditions in Canada were excellent and the Company's international sales backlog significantly exceeded the prior year.

However, as the drought signs that first appeared late in June 2012 became more firmly entrenched and the extent of the drought became more apparent, demand for grain handling equipment, particularly higher margin portable equipment, decreased substantially. The U.S. drought of 2012 is widely considered to be one of the most severe on record, encompassing most major grain growing areas of the U.S. and materially reducing crop production and yield per acre:

	2012	2011	Change
Projected U.S. corn production, bushels [1]	**10.8 billion**	12.4 billion	(13%)
Corn yield, bushels [1]	**123 per acre**	147 per acre	(16%)

[1] Per United States Department of Agriculture Crop Production 2012 Summary report.

Ag Growth's adjusted EBITDA in the first half of 2012 reflected strong preseason activity and prior to the appearance of the drought the Company anticipated very strong in-season sales in the third and fourth quarters. The impact of the drought on the second half of 2012 is illustrated in the table below:

(thousands of dollars)	1st Half	2nd Half
Adjusted EBITDA – 2012	32,226	17,266
Adjusted EBITDA – 2011	29,865	23,409
Increase (decrease)	2,361	(6,143)

Trade Sales (see non-IFRS Measures)

The Company achieved record sales in both Canada and internationally in 2012. As a result, despite the severity of the U.S. drought, trade sales in the year ended December 31, 2012 increased $13.6 million or 5% compared to 2011. The largest single driver of sales growth in 2012 was a substantial increase in international business, particularly in the countries of the former Soviet Union (the "FSU"). Also contributing was robust demand in western Canada and the acquisition of Airlanco. The Company's significant growth in offshore business and the impact of the 2012 U.S. drought are reflected in our regional sales breakdown:

(thousands of dollars)	Year Ended December 31			
	2012	2011	Change	% Change
Canada	**$76,223**	$ 63,746	$12,477	20%
US	**166,457**	182,727	(16,270)	(9%)
Overseas	**71,936**	54,541	17,395	32%
Total	**$314,616**	$301,014	$13,602	5%

Gross Margin (see non-IFRS Measures)

The Company's gross margin percentage for the year ended December 31, 2012 was 32.2% (2011 – 34.0%). The decrease in gross margin percentage compared to the prior year was largely the result of sales mix as the U.S. drought most significantly impacted sales and throughput at the Company's higher margin portable grain handling equipment divisions. Ag Growth's international sales, comprised primarily of storage and commercial grain handling products, achieve gross margins similar to those in North America.

Ag Growth will often provide complete grain storage and handling systems when selling internationally and these projects may include equipment not currently manufactured by the Company. Ag Growth outsources this equipment and resells it to the customer at a low gross margin percentage. Excluding these goods purchased for resale, the Company's gross margin in 2012 was 33.0% (2011 – 34.0%).

Adjusted EBITDA (see non-IFRS Measures)

Adjusted EBITDA in 2012 was $49.5 million (2011 - $53.3 million). Adjusted EBITDA decreased compared to the prior year as drought in the U.S. materially impacted demand, particularly for higher margin portable grain handling equipment. Adjusted EBITDA in 2012 benefitted from strong demand in western Canada and significant international growth that resulted from increased penetration in the FSU and elsewhere.

Mepu Goodwill Impairment

In the quarter-ended December 31, 2012 Ag Growth recorded a non-cash goodwill impairment charge of $1.9 million related to its Finland-based Mepu division. Mepu's results in 2011 were negatively impacted by regional weather conditions and in 2012 the division experienced margin compression due largely to the impact of new product development. Mepu reported negative EBITDA in 2011 and 2012 of $0.8 million and $0.9 million, respectively. Under IFRS an impairment test is performed at least annually that compares the fair value of an asset to its carrying value and based on this test as at December 31, 2012 management concluded the fair value of Mepu was less than its carrying value. While reducing reported results under IFRS, the non-cash impairment charge will not impact the Company's business operations, cash position, cash flows from operating activities or dividend policy.

Diluted Profit Per Share

Diluted profit per share decreased from $1.95 in 2011 to $1.37 in 2012 due largely to the negative impact of the U.S. drought. In addition, a non-cash goodwill impairment charge related to the Finland-based Mepu division and a smaller gain on foreign exchange in the current year negatively impacted profit per share by approximately $0.16 and $0.22 respectively as compared to 2011.

CORPORATE OVERVIEW

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

Our business is sensitive to fluctuations in the value of the Canadian and U.S. dollars as a result of our exports from Canada to the U.S. and as a result of earnings derived from our U.S. based divisions. Fluctuations in currency impact our results even though we engage in currency hedging with the objective of partially mitigating our exposure to these fluctuations. The Company's average rate of foreign exchange per USD $1.00 in 2012 was CAD $1.00 (2011 - $0.97).

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

Acquisitions in Fiscal 2011

Airlanco - On October 4, 2011, the Company acquired the operating assets of Airlanco, a manufacturer of aeration products and filtration systems that are sold primarily into the commercial grain handling and processing sectors. The purchase price of $11.5 million was financed primarily from

Ag Growth's acquisition line of credit while costs related to the acquisition of $0.2 million and a working capital adjustment of $0.4 million were financed by cash on hand. The purchase price represents a valuation of approximately five times Airlanco's normalized fiscal 2010 EBITDA. Airlanco is located in Falls City, Nebraska and has traditionally served customers headquartered or located in North America. The company had sales of approximately $9.9 million in 2012, operating out of an 80,000 square foot facility with 65 employees.

OUTLOOK

Sales of portable grain handling equipment in the first half of 2013 are expected to be negatively impacted by the U.S. drought of 2012. Inventory at the Company's dealer network is slightly higher than typical, reducing their need to replenish inventory levels, while poor 2012 crop production volumes have reduced U.S. farmer grain handling requirements. The new crop season is expected to change these demand dynamics, however, as the market begins to focus on anticipated 2013 crop production volumes.

The USDA, at its 2013 Agricultural Outlook Forum, forecast U.S. farmers will plant 96.5 million acres of corn in 2013 and harvest an all-time record 14.5 billion bushels. The projected harvest would represent a 35% increase in crop production, the primary demand driver for the Company's portable grain handling equipment. Accordingly, based on current conditions, management is optimistic with respect to demand for portable grain handling equipment in the second half of 2013.

The widespread drought in the U.S. impacted demand for commercial grain handling products. Decreased activity in the second half of 2012 resulted in lower backlogs entering 2013 which is expected to result in muted sales in the first half of the year. However, optimism appears to be returning to the marketplace and the Company's backlog of commercial business has now surpassed its backlog at the same time in 2012. Due to longer lead times associated with commercial business, new orders will largely be realized in the second half of the year. Based on improving sentiment and a growing order book management expects a return to strong sales of commercial equipment in the second half of 2013.

Ag Growth enjoyed great success offshore in 2012. In 2013, quoting activity is at new record highs and the Company's international back order is significantly higher than at the same time in 2012. The Company's increasing presence in many offshore markets, particularly the FSU, positions us well for sustained growth. In 2013 the Company will also introduce 105 foot diameter storage bins and commercial capacity grain drying equipment which will further complete Ag Growth's industry leading commercial product offering. A significant portion of the Company's current international business follows similar seasonal patterns to North America, with sales highest in the second and third quarters.

On balance, the short-term impact of the U.S. drought is expected to temper demand for both portable and commercial grain handling equipment in the United States in the first half of 2013. As a result management expects adjusted EBITDA in the first half of 2013 to fall below 2012 levels, particularly due to softness in the first quarter. The year-over-year effect of the drought in the first half of 2013 is expected to be significant but is not, however, expected to impact adjusted EBITDA to the degree experienced in the second half of 2012. The Company's payout ratio in the first half of 2013 is expected to increase compared to the prior year however the Company's dividend policy will not be altered in response to this short-term weather event.

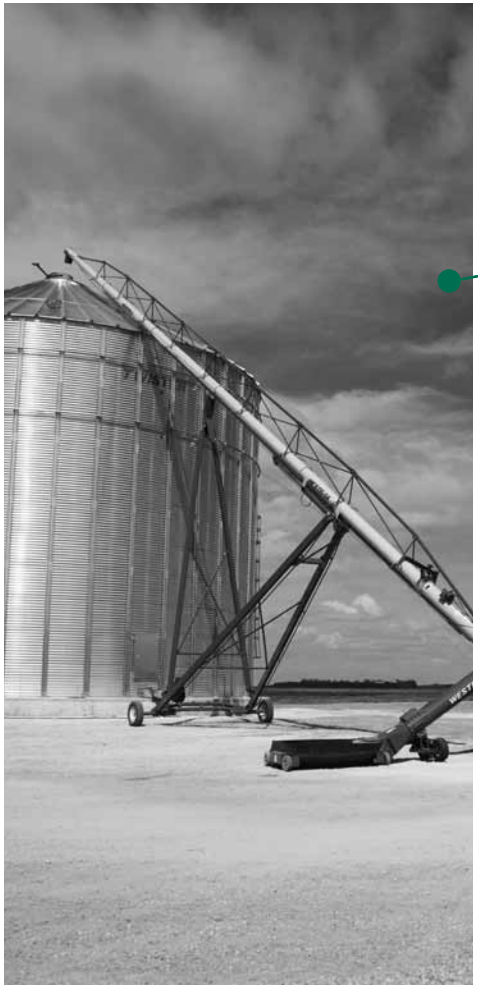
Management remains very optimistic with respect to the Company's prospects in the second half of 2013 and beyond. We look forward with enthusiasm to leveraging the strength of our brands, strong North American market share and rapidly increasing international presence to capitalize on what we believe are strong long-term agricultural fundamentals.

DETAILED OPERATING RESULTS

(thousands of dollars)	Year Ended December 31	
	2012	**2011**
Trade sales [1]	**$314,616**	$301,014
(Loss) gain on FX [2]	**(274)**	4,918
Sales	**314,342**	305,932
Cost of inventories	**213,360**	198,767
Depreciation & amortization	**5,839**	5,436
Cost of sales	**219,199**	204,203
General and administrative	**51,906**	49,392
Transaction costs	**0**	1,676
Depreciation & amortization	**4,171**	3,758
Impairment of goodwill	**1,890**	0
Other operating income	**(122)**	(100)
Finance costs	**13,058**	12,668
Finance expense (income)	**(773)**	159
Profit before income taxes	**25,013**	34,176
Current income taxes	**3,771**	3,910
Deferred income taxes	**4,054**	5,743
Profit for the period	**$17,188**	$24,523
Net profit per share		
Basic	**$1.38**	$1.97
Diluted	**$1.37**	$1.95

[1] See “non-IFRS Measures”.

[2] Primarily related to gains on foreign exchange contracts.



EBITDA RECONCILIATION

(thousands of dollars)	Year Ended December 31 2012	2011
Profit before income taxes	**$25,013**	$34,176
Impairment of goodwill	**1,890**	0
Finance costs	**13,058**	12,668
Depreciation and amortization in cost of sales	**5,839**	5,436
Depreciation and amortization in G&A expenses	**4,171**	3,758
EBITDA [1]	**49,971**	56,038
Transaction costs	**0**	1,676
Loss (gain) on foreign exchange in sales [2]	**274**	(4,918)
Loss (gain) on foreign exchange in finance income	**(785)**	276
Loss on ineffective hedge	**0**	126
Loss on sale of property, plant & equipment	**32**	76
Adjusted EBITDA [1]	**$49,492**	$53,274

[1] See "non-IFRS Measures".

[2] Primarily related to gains on foreign exchange contracts.

ASSETS AND LIABILITIES

(thousands of dollars)	December 31	December 31
	2012	2011
Total assets	**$370,482**	$394,566
Total liabilities	**$180,786**	$192,407

EXPLANATION OF OPERATING RESULTS

Trade Sales

(thousands of dollars)	Year Ended December 31	
	2012	2011
Trade sales	**$314,616**	$301,014
Trade sales excluding acquisitions [(1)]	**$304,675**	$298,313

(1) Excluding the results of Airlanco which was acquired on October 4, 2011.

Canada

- Trade sales of $76.2 million represent a record for Ag Growth and an increase of 20% over the prior year.
- Sales of portable grain handling equipment increased significantly due to pent up demand after two consecutive years of lower than typical planted acreage in western Canada and due to new product development.
- Sales of larger diameter storage bins and commercial grain handling equipment increased compared to 2011 as the Company continues to grow its Canadian commercial business.

United States

- Trade sales, excluding the acquisition of Airlanco, decreased 13% compared to 2011.
- The most severe drought in over half a century resulted in a 13% drop in corn production compared to 2011 and significantly reduced demand for portable grain handling equipment.
- Sales of commercial handling equipment in the U.S. remained strong on a historical basis however did not match the record levels attained in 2011 due in part to negative market sentiment in the current year related to the drought.

International

- International trade sales increased 32% over 2011 to a record $71.9 million due to increasing repeat business with existing customers and a growing brand presence offshore, particularly in the FSU where sales increased to over $30 million. Sales to the FSU are largely insured by Export Development Canada.
- The Company's strategy of bundling higher margin grain handling equipment with grain storage products has been validated as 78% of international sales included both storage and handling equipment.
- Sales to customers with which the Company also did business in 2011 or earlier continues to increase. These repeat sales exceeded the total sales achieved by Ag Growth's Winnipeg based international team in fiscal 2011. Management believes this favourable level of repeat business is an indicator of product quality, commitment to customer service and the establishment of longer term relationships throughout the globe.

Gross Profit and Gross Margin

(thousands of dollars)	Year Ended December 31	
	2012	**2011**
Trade sales	**$314,616**	$301,014
Cost of inventories [1]	**213,360**	198,767
Gross Margin	**$101,256**	$102,247
Gross Margin [1] (as a % of trade sales)	**32.2%**	34.0%
Gross Margin [2], excluding goods purchased for resale	**33.0%**	34.0%

[1] Excludes depreciation and amortization included in cost of sales.

[2] As per [1] but excluding goods purchased for resale. See explanation below.

The Company's gross margin percentage for the year ended December 31, 2012 was 32.2% (2011 – 34.0%). The decrease in gross margin percentages compared to the 2011 was largely the result of sales mix as the U.S. drought most significantly impacted sales and throughput at the Company's higher margin portable grain handling equipment.

Ag Growth will often provide complete grain storage and handling systems when selling internationally and these projects may include equipment not currently manufactured by the Company. Ag Growth outsources this equipment and resells it to the customer at a low gross margin percentage. Excluding these goods purchased for resale, the Company's gross margin in 2012 was 33.0% (2011 – 34.0%).

The Company's Twister greenfield storage bin facility commenced production in June 2011 and experienced start-up issues and related gross margin compression that negatively impacted 2011 gross margin percentages. The start-up issues of 2011 have been resolved and the Company's storage products are generating positive margins that are consistent with management expectations.

General and Administrative Expenses

(thousands of dollars)	Year Ended December 31	
	2012	**2011**
G&A [1]	**$51,906**	$49,392
G&A (as a % of trade sales)	**16.5%**	16.4%
G&A excluding acquisitions	**$50,348**	$48,861

[1] Transaction costs of $1.7 million are excluded from 2011.

For the year ended December 31, 2012, general & administrative expenses excluding acquisitions increased $1.5 million. The change from 2011 is largely due to the following:

- Sales & Marketing expenses increased $1.9 million as the Company continued to invest in its international sales development. The increase is largely due to salaries and travel for sales and support personnel added throughout fiscal 2011.
- Commission expenses increased $0.9 million month periods due largely to sales mix.
- Professional fees decreased $1.2 million largely due to expenses in the prior year related to the Company's transition to IFRS.
- Share based compensation expenses decreased $0.9 million as there were no awards outstanding in 2012 under the share award incentive plan ("SAIP") and no expense related to a fiscal 2012 long-term incentive plan ("LTIP"). A new stock based compensation plan was approved by shareholders in May 2012. In January 2013, 260,000 grants were awarded to senior management to incentivise the achievement of EBITDA targets and further entrench alignment with shareholders.
- The remaining variance is the result of a number of offsetting factors with no individual variance larger than $0.5 million.

EBITDA and Adjusted EBITDA

(thousands of dollars)	Year Ended December 31	
	2012	**2011**
EBITDA [(1)]	**$49,971**	$56,038
Adjusted EBITDA [(1)]	**$49,492**	$53,274

[(1)] See the EBITDA reconciliation table above and "non-IFRS Measures" earlier in this MD&A.

Adjusted EBITDA in 2012 decreased compared to 2011 largely due to the impact of the severe drought in the United States. EBITDA decreased more significantly due to a lower gain on foreign exchange in 2012 compared to the prior year.

Finance Costs

The Company's bank indebtedness as at December 31, 2012 was nil (December 31, 2011 – nil) and its outstanding long-term debt and obligations under capital leases was $34.9 million (December 31, 2011 - $36.0 million). Long-term debt at December 31, 2012 is primarily comprised of U.S. $25.0 million aggregate principal amount of non-amortizing secured notes that bear interest at 6.80% and mature October 29, 2016 and U.S. $10.5 million of non-amortizing term debt, net of deferred financing costs of $0.4 million. See "Capital Resources" for a description of the Company's credit facilities.

Finance costs for the year ended December 31, 2012 were $13.1 million (2011 - $12.7 million). The increase compared to the prior year is largely due to the debt financed acquisition of Airlanco in October 2011. At December 31, 2012, the Company had outstanding $114.9 million aggregate principal amount of convertible unsecured subordinated debentures (December 31, 2011 - $114.9 million). The Debentures bear interest at an annual rate of 7.0% and mature December 31, 2014. See "Capital Resources".

In addition to interest on the instruments noted above, finance costs include non-cash interest related to debenture accretion, the amortization of deferred finance costs, stand-by fees and other sundry cash interest.

Finance Expense (income)

Finance income is comprised of interest earned on the Company's cash balances and gains or losses on translation of the Company's U.S. dollar denominated long-term debt.

Depreciation and Amortization

Depreciation of property, plant and equipment and amortization of intangible assets are categorized on the income statement in accordance with the function to which the underlying asset is related. Depreciation increased compared to 2011 largely due to the acquisition of Airlanco and the inclusion of a full year's depreciation on the Twister storage bin plant that was commissioned in June 2011. Total depreciation and amortization is summarized below:

Depreciation	Year Ended December 31	
(thousands of dollars)	**2012**	**2011**
Depreciation in cost of sales	**$5,596**	$4,933
Depreciation in G&A	**565**	485
Total Depreciation	**$6,161**	$5,418

Amortization	Year Ended December 31	
(thousands of dollars)	**2012**	**2011**
Amortization in cost of sales	**$243**	$503
Amortization in G&A	**3,606**	3,273
Total Amortization	**$3,849**	$3,776

Current Income Tax Expense

For the year ended December 31, 2012, the Company recorded current tax expense of $3.8 million (2011 – $3.9 million). Current tax expense relates primarily to certain subsidiary corporations of Ag Growth, including its U.S. and U.K. based divisions.

Deferred Income Tax Expense

For the year ended December 31, 2012, the Company recorded deferred tax expense of $4.1 million (2011 – $5.7 million). As at December 31, 2012, management concluded there was not probable realization of certain tax losses in its Finnish subsidiary and accordingly reversed $0.2 million previously recorded as a tax asset. Excluding this charge and the impairment of goodwill taken in the year, the Company's effective tax rate for the year ended December 31, 2012 was 28.4%. The remaining deferred tax expense in 2012 relates to the utilization of deferred tax assets plus a decrease in deferred tax liabilities that related to the application of corporate tax rates to reversals of temporary differences between the accounting and tax treatment of depreciable assets, reserves, deferred compensation plans and deferred financing fees.

Upon conversion to a corporation from an income trust in June 2009 (the "Conversion") the Company received certain tax attributes that may be used to offset tax otherwise payable in Canada. The Company's Canadian taxable income is based on the results of its divisions domiciled in Canada, including the corporate office, and realized gains on foreign exchange. For the year ending December 31, 2012, the Company offset $1.8 million of Canadian tax otherwise payable (2011 – $4.3 million) through the use of these attributes and since the date of Conversion a cumulative amount of $23.1 million has been utilized. Utilization of these tax attributes is recognized in deferred income tax expense on the Company's income statement. The Canada Revenue Agency has requested for its review information relating to the conversion transaction and the Company has responded to such requests. The Company is confident in its tax filing position and the unused tax attributes of $47.5 million are recorded as an asset on the Company's balance sheet. See "Risks and Uncertainties – Income Tax Matters".

Effective tax rate	**Year Ended December 31**	
(thousands of dollars)	**2012**	**2011**
Current tax expense	**$ 3,771**	$3,910
Deferred tax expense	**4,054**	5,743
Total tax	**$ 7,825**	$9,653
Profit before taxes	**$25,013**	$34,176
Total tax %	**31.3%**	28.2%

Profit and Profit Per Share

For the year ended December 31, 2012, the Company reported net profit of $17.1 million (2011 – $24.5 million), basic net profit per share of $1.38 (2011 – $1.97), and fully diluted net profit per share of $1.37 (2011 – $1.95). Decreases compared to the prior year were primarily the result of the impact of the U.S. drought on adjusted EBITDA. A smaller gain on foreign exchange in the current year negatively impacted EBITDA by $4.0 million and profit per share by approximately $0.22 per share compared to 2011. In addition, a $1.9 million non-cash goodwill impairment charge related to the Finland-based Mepu division and the reversal of $0.2 million of Mepu tax assets impacted net profit by $2.1 million and profit per share of $0.16 per share.

SELECTED ANNUAL INFORMATION

(thousands of dollars, other than per share data)

	Twelve Months Ended December 31		
	2012	2011	2010
	$	$	$
Sales	**314,616**	301,014	262,260
EBITDA	**49,971**	56,038	66,200
Adjusted EBITDA	**49,492**	53,274	59,730
Net profit	**17,188**	24,523	30,761
Profit per share – basic	**1.38**	1.97	2.43
Profit per share – fully diluted	**1.37**	1.95	2.40
Funds from operations	**32,306**	40,319	53,067
Payout ratio	**93%**	75%	50%
Dividends declared per common share	**2.40**	2.40	2.07
Total assets	**370,482**	394,566	398,385
Total long-term liabilities	**153,515**	151,986	139,831

The following factors impact comparability between years in the table above:

- Sales, gain (loss) on foreign exchange, net earnings, and net earnings per share are significantly impacted by the rate of exchange between the Canadian and U.S. dollars.
- The inclusion of the assets, liabilities and operating results of the following acquisitions significantly impacts comparisons in the table above:
    - October 1, 2010 – Franklin
    - December 20, 2010 – Tramco
    - October 4, 2011 – Airlanco

QUARTERLY FINANCIAL INFORMATION

(thousands of dollars, other than per share data)

2012

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

2011

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

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

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

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

FOURTH QUARTER

Trade Sales

Trade sales for the three months ended December 31, 2012 were $59.9 million, an 11% decrease from record fourth quarter sales in 2011. The decrease in trade sales is largely due to the impact of the U.S. drought which significantly lowered crop production and also resulted in a very early harvest, limiting in-season fourth quarter sales. Trade sales in Canada and internationally both increased compared to the prior year.

(thousands of dollars)	Three Months Ended December 31			
	2012	2011	Change	% Change
Canada	**$12,111**	$11,444	$667	6%
US	**30,357**	41,556	(11,199)	(27%)
Overseas	**17,431**	14,039	3,392	24%
Total	**$59,899**	$67,039	($7,140)	(11%)

Gross Margin

Gross margin as a percentage of sales for the three months ended December 31, 2012 was 29.3%, (2011 – 32.9%). Gross margin percentages in the fourth quarter of 2012 decreased largely due to sales mix, as the U.S. drought most significantly impacted sales and throughput at the Company's higher margin portable grain handling equipment divisions. Generally, gross margin percentages are low in the fourth quarter of a fiscal year due to low sales volumes and preseason sales discounts.

Ag Growth will often provide complete grain storage and handling systems when selling internationally and these projects may include equipment not currently manufactured by the Company. Ag Growth outsources this equipment and resells it to the customer at a low gross margin percentage. Excluding these goods purchased for resale, the Company's gross margin in 2012 was 31.4% (2011 – 32.9%).

Expenses

For the three months ended December 31, 2012, general and administrative expenses were $12.7 million (2011 – $13.4 million). The decrease from 2011 was primarily the result of a lower expense related to share based compensation and a reduction in short term bonuses, partially offset by higher professional fees related to IFRS consulting.

Adjusted EBITDA, EBITDA and Net Earnings

Adjusted EBITDA for the three months ended December 31, 2012 was $4.8 million (2011 – $8.6 million). The decrease resulted primarily from the impact of the U.S. drought as discussed above.

EBITDA for the three months ended December 31, 2012 was $4.5 million, compared to $9.7 million in 2011. The decrease in EBITDA is the result of the factors above and a decrease in the Company's gain on foreign exchange.

For the three months ended December 31, 2012, the Company reported a net loss of $3.4 million (2011 – net earnings of $3.3 million), basic net loss per share of $0.28 (2011 – net profit per share of $0.26), and a fully diluted net loss per share of $0.27 (2011 – net profit per share of $0.26).

CASH FLOW AND LIQUIDITY

(thousands of dollars)	Year Ended December 31	
	2012	**2011**
Profit before income taxes	**$25,013**	$34,176
Add charges (deduct credits) to operations not requiring a current cash payment:		
Depreciation and amortization	**10,010**	9,194
Translation (gain) loss on FX	**(1,766)**	1,641
Non-cash interest expense	**2,543**	2,422
Share based compensation	**1,174**	2,038
Non-cash impairment of goodwill	**1,890**	0
Loss on sale of assets	**32**	76
	38,896	49,547
Net change in non-cash working capital balances related to operations:		
Accounts receivable	**(2,165)**	(9,607)
Inventory	**6,045**	(9,850)
Prepaid expenses and other	**1,075**	5,034
Accounts payable and accruals	**(4,913)**	(1,755)
Customer deposits	**(3,035)**	1,445
Provisions	**198**	280
	(2,795)	(14,453)
Settlement of SAIP obligation	**(1,495)**	(1,998)
Income tax paid	**(3,012)**	(5,217)
Cash provided by operations	**$31,594**	$27,879

For the year ended December 31, 2012, cash provided by operations was $31.6 million (2011 – $27.9 million). The increase compared to 2011 is largely the result of a considerable improvement in cash generated from working capital. Most significantly, cash generated from inventory movement increased $15.9 million compared to 2011 due to an increased focus on inventory management and because working capital in 2011 included a substantial investment in inventory to support the start-up of the Company's greenfield storage bin facility.

Working Capital Requirements

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

Results for the year ended December 31, 2012 were negatively impacted by a severe drought in the United States. As a result, sales and the drawdown of the company's inventory were negatively impacted in the second half of 2012 and the Company anticipates this trend will continue in the first half of 2013. Growth in international business and increasing storage bin sales may result in an increase in the number of days accounts receivable remain outstanding and higher than historical inventory levels.

Capital Expenditures

Maintenance capital expenditures in the year ended December 31, 2012 were $3.5 million or 1.1% of trade sales (2011 – $3.9 million and 1.3%). Maintenance capital expenditures in 2012 relate primarily to purchases of manufacturing equipment, leasehold improvements and building repairs and were funded through cash on hand, cash from operations and bank indebtedness.

Ag Growth defines maintenance capital expenditures as cash outlays required to maintain plant and equipment at current operating capacity and efficiency levels. Non-maintenance capital expenditures encompass other investments, including cash outlays required to increase operating capacity or improve operating efficiency. Ag Growth had non-maintenance capital expenditures of $1.2 million in the year ended December 31, 2012 (2011 – $5.3 million). Non-maintenance capital expenditures in 2012 relate primarily to investments in equipment to support growth at the Company's commercial divisions. Maintenance capital expenditures in 2013 are expected to approximate 2012 levels and non-maintenance capital expenditures are expected to increase due to an investment of approximately $8.7 million in facility and equipment to support growth in the portable conveyor market. The facility and equipment investment of $8.7 million is expected to be financed primarily through the sale of redundant facilities in Swift Current, SK and Saskatoon, SK, while the remaining capital expenditures are expected to be financed through a combination of cash on hand, bank indebtedness and term debt.

Cash Balance

The Company's cash balance decreased $4.7 million in the year ended December 31, 2012 (2011 – decrease of $28.1 million). The decrease in 2012 was less than the decline in 2011 due to lower capital expenditures, an increase in cash provided by non-cash working capital and because 2011 included payments of $9.9 million related to the acquisition of Tramco and $3.3 million related to the purchase of shares under the Company's LTIP.

CONTRACTUAL OBLIGATIONS

(thousands of dollars)

	Total	2013	2014	2015	2016	2017+
Debentures	114,885	0	114,885	0	0	0
Long-term debt	35,361	7	10,482	0	24,872	0
Operating leases	3,626	959	874	584	394	815
Total obligations	153,872	966	126,241	584	25,266	815

Debentures relate to the aggregate principal amount of debentures issued by the Company in October 2009 (see "Convertible Debentures" below). Long-term debt at December 31, 2012 is comprised of U.S. $25.0 million aggregate principal amount of secured notes issued through a note purchase and private shelf agreement and U.S. $10.5 million non-amortizing term debt, net of deferred financing costs The operating leases relate primarily to vehicle, equipment, warehousing and facility leases and were entered into in the normal course of business.

As at March 14, 2013, the Company had outstanding commitments of $4.3 million to purchase property, plant and equipment related to the acquisition of a facility and upgraded equipment to support growth in the portable belt conveyor market.

CAPITAL RESOURCES

Cash

Cash and cash equivalents at December 31, 2012 were $2.2 million (2011 – $6.8 million). Although cash provided by operations increased compared to 2011, the Company's bank balance is lower than the prior year due to a lower opening cash balance.

Debt Facilities

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

On March 9, 2012, the Company renewed its credit facility with its existing lenders. The committed lines under the facility are unchanged under the new facility. The table below summarizes amounts committed and drawn (USD converted at $0.9949) as at December 31, 2012:

Committed Line	$70,385
Bank indebtedness	0
Long-term debt	10,475
Undrawn at December 31, 2012	$59,910

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

Convertible Debentures

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

Net proceeds of the offering of approximately $109.9 million were used by Ag Growth for general corporate purposes, to repay indebtedness, to fund acquisitions and to finance the expansion of the Company's storage bin product line.

On and after December 31, 2012 and prior to December 31, 2013, the Debentures may be redeemed, in whole or in part, at the option of

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

On redemption or at maturity, the Company may, at its option, subject to regulatory approval and provided that no event of default has occurred, elect to satisfy its obligation to pay the principal amount of the Debentures, in whole or in part, by issuing and delivering for each $100 due that number of freely tradeable common shares obtained by dividing $100 by 95% of the volume weighted average trading price of the common shares on the Toronto Stock Exchange ("TSX") for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or the maturity date, as the case may be. Any accrued and unpaid interest thereon will be paid in cash. The Company may also elect, subject to any required regulatory approval and provided that no event of default has occurred, to satisfy all or part of its obligation to pay interest on the Debentures by delivering sufficient freely tradeable common shares to satisfy its interest obligation.

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

COMMON SHARES

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

	# Common Shares
December 31, 2011	12,545,996
Shares issued under DDCP	2,107
December 31, 2012 and March 14, 2013	12,548,103

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

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

The administrator of the LTIP has acquired 317,304 common shares to satisfy its obligations with respect to awards under the LTIP for fiscal 2007, 2008, 2009 and 2010. There was no LTIP award related to fiscal 2011 or fiscal 2012. The common shares purchased are held by the administrator until such time as they vest to the LTIP participants. As at December 31, 2012, a total of 242,956 common shares related to the LTIP had vested to the participants.

On May 11, 2012 the shareholders of Ag Growth authorized a new Share Award Incentive Plan (the "2012 SAIP") which authorizes the Board to grant restricted Share Awards ("RSU's") and performance Share Awards ("PSU's") to officers, employees or consultants of the Company but not to non-management directors. A total of 465,000 common shares are available for issuance under the 2012 SAIP. As at December 31, 2012, no RSU's or PSU's have been granted. As at March 14, 2013, a total of 150,000 RSU's and 110,000 PSU's have been granted.

A total of 32,404 deferred grants of common shares are outstanding under the Company's Director's Deferred Compensation Plan.

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

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

DIVIDENDS

In the year ended December 31, 2012, Ag Growth declared dividends to shareholders of $30.1 million (2011 – $30.1 million). Ag Growth's policy is to pay monthly dividends. The Company's Board of Directors reviews financial performance and other factors when assessing dividend levels. An adjustment to dividend levels may be made at such time as the Board determines an adjustment to be in the best interest of the Company. Financial results in the first half of 2013 are expected to be negatively impacted by the severe drought experienced in the U.S. in 2012 (see "Summary of Results") however the Company's dividend rate will not be altered in response to this short-term weather event.

Dividends in a fiscal year are typically funded entirely through cash from operations, although due to seasonality dividends may be funded on a short-term basis by the Company's operating lines. Dividends in the year ended December 31, 2012 were funded through cash on hand, cash from operations and bank indebtedness. The Company expects dividends in 2013 will be funded through cash on hand, cash from operations and bank indebtedness.

FUNDS FROM OPERATIONS

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

(thousands of dollars)	Year Ended December 31	
	2012	**2011**
EBITDA	**$49,971**	$56,038
Share based compensation	**1,174**	2,038
Non-cash interest expense	**2,543**	2,422
Translation (gain) loss on FX	**(1,766)**	1,641
Interest expense	**(13,058)**	(12,668)
Income taxes paid	**(3,012)**	(5,217)
Maintenance capital expenditures	**(3,546)**	(3,935)
Funds from operations (1)	**$32,306**	$40,319

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

(thousands of dollars)	Year Ended December 31	
	2012	**2011**
Cash provided by operating activities	**$31,594**	$27,879
Change in non-cash working capital	**2,795**	14,453
Settlement of SAIP option	**1,495**	1,998
Maintenance capital expenditures	**(3,546)**	(3,935)
Loss on sale of assets	**(32)**	(76)
Funds from operations (1)	**$32,306**	$40,319
Shares outstanding (2)	**12,572,374**	12,562,335
Funds from operations per share	**$2.57**	$3.21
Dividends declared per share	**$2.40**	$2.40
Payout ratio (1)	**93%**	75%

(1) See "non-IFRS Measures".

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

Funds from operations and the Company's payout ratio in the current year were higher than is typical due to the significant impact of the U.S. drought. Management anticipates the impact of the drought will negatively impact the Company's payout ratio in the first half of 2013, however not to the degree experienced in the second half of 2012. The payout ratio in the second half of 2013 is anticipated to benefit from higher year-over-year adjusted EBITDA (see "Outlook").

FINANCIAL INSTRUMENTS

Foreign Exchange Contracts

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. dollar and to a lesser extent to variations in exchange rates between the Canadian dollar and the Euro. Ag Growth has entered into foreign exchange contracts with three Canadian chartered banks to partially hedge its foreign currency exposure as at December 31, 2012, had outstanding the following foreign exchange contracts:

Forward Foreign Exchange Contracts

Settlement Dates	Face Amount USD (000's)	Average Rate CAD	CAD Amount (000's)
January - Dec 2013	$53,000	$1.0266	$54,410
January - Dec 2014	$41,000	$1.0165	$41,677

Settlement Dates	Forward Foreign Exchange Contracts Face Amount Euros (000's)	Average Rate CAD	CAD Amount (000's)
Aug and Dec 2013	€500	$1.3250	$663
Aug and Dec 2014	€500	$1.3290	$665

The fair value of the outstanding forward foreign exchange contracts in place as at December 31, 2012 was a gain of $1.6 million. Consistent with prior periods, the Company has elected to apply hedge accounting for these contracts and the unrealized gain has been recognized in other comprehensive income for the period ended December 31, 2012.

Subsequent to December 31, 2012, the Company entered a number of foreign exchange forward contracts for the period June 2014 to December 2014 totalling U.S. $13 million at an average rate of $1.0148, and for January and February 2015 totalling U.S. $5.0 million at an average rate of $1.0417

CRITICAL ACCOUNTING ESTIMATES

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

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

Allowance for Doubtful Accounts

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

Valuation of Inventory

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

Goodwill and Intangible Assets

Assessments and judgments are inherent in the determination of the fair value of goodwill and intangible assets. Goodwill and indefinite life intangible assets are recorded at cost and finite life intangibles are

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

Deferred Income Taxes

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

Future Benefit of Tax-Loss Carryforwards

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

RISKS AND UNCERTAINTIES

The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently consider immaterial also may impair operations. If any of the following risks actually occur, our business, results of operations and financial condition, and the amount of cash available for dividends could be materially adversely affected.

Industry Cyclicality and General Economic Conditions

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

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

Risk of Decreased Crop Yields

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

Potential Volatility of Production Costs

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

Foreign Exchange Risk

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

Acquisition and Expansion Risk

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

International Sales and Operations

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

Commodity Prices, International Trade and Political Uncertainty

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

Competition

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

Seasonality of Business

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

Business Interruption

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

Litigation

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

Dependence on Key Personnel

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

Labour Costs and Shortages and Labour Relations

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

Distribution, Sales Representative and Supply Contracts

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

Availability of Credit

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

Interest Rates

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

Uninsured and Underinsured Losses

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

Cash Dividends are not Guaranteed

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

Income Tax Matters; Communication with Canada Revenue Agency Regarding Conversion

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

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

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

Leverage, Restrictive Covenants

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

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

NEW ACCOUNTING PRONOUNCEMENTS

In June 2012, the IASB issued Consolidated Financial Statements, Joint Arrangements and Disclosures of Interest in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11, and IFRS 12). The amendments clarify the transition guidance in IFRS 10 and provide additional transition relief for all three standards by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments along with the adoption of IFRS 10, 11 and 12 on January 1, 2013.

Additional new or amended accounting standards that have been previously issued by the IASB but are not yet effective, and have not been applied by the Company, are as outlined in Note 5 of the 2012 annual consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS

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

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

There have been no material changes in Ag Growth's internal controls over financial reporting that occurred in the three month period ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

NON-IFRS MEASURES

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

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

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

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

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

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

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

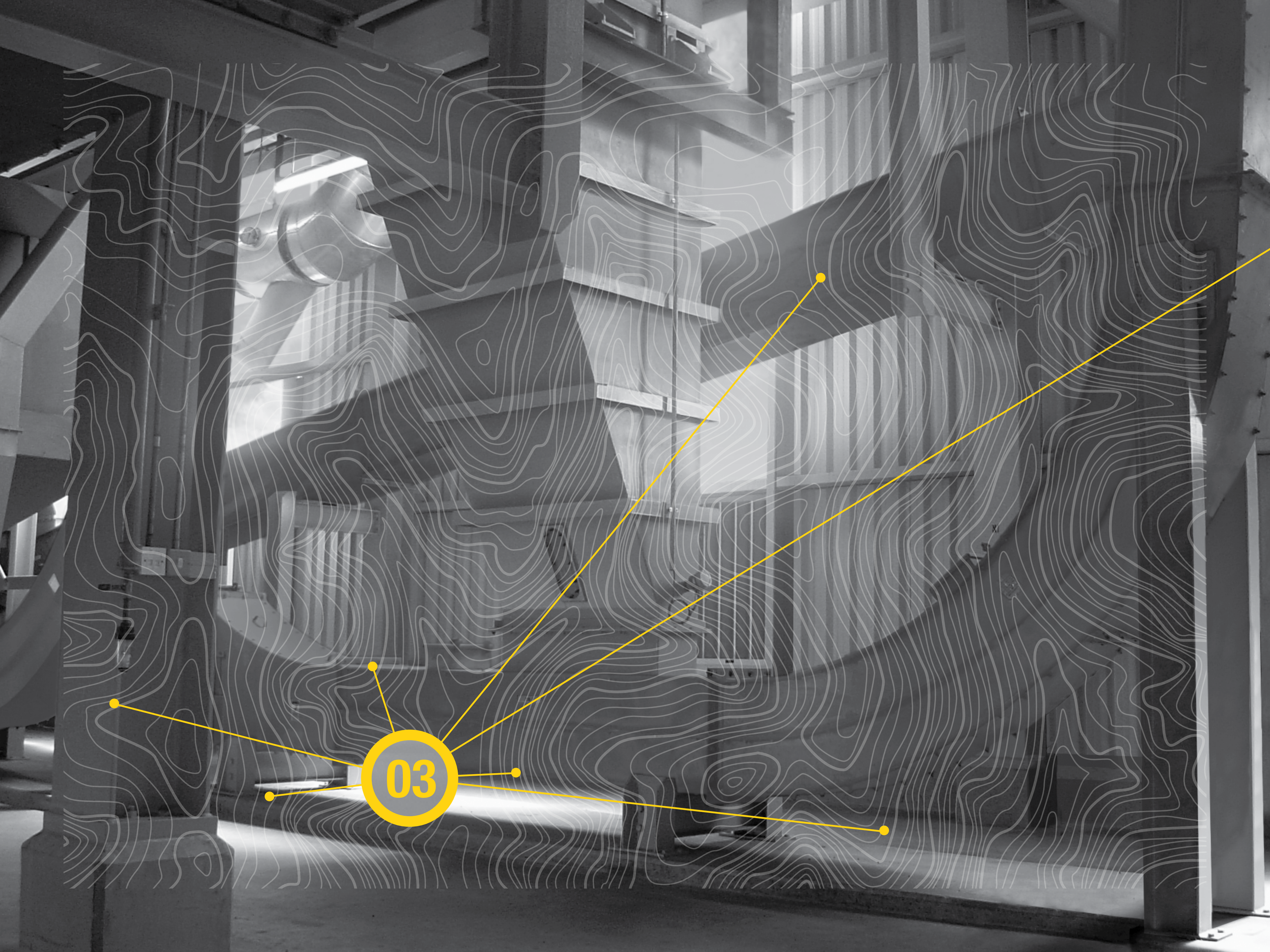
References to "payout ratio" are to dividends declared as a percentage of funds from operations.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements that reflect our expectations regarding the future growth, results of operations, performance, business prospects, and opportunities of the Company. Forward-looking statements may contain such words as "anticipate", "believe", "continue", "could", "expects", "intend", "plans", "will" or similar expressions suggesting future conditions or events. In particular, the forward looking statements in this MD&A include statements relating to the benefits of acquisitions including the acquisition of Airlanco (see "Acquisitions in Fiscal 2011"), our business and strategy, including our outlook for our financial and operating performance, growth in sales to developing markets, the benefits of the expansion of the Company's grain storage product line, the future contribution of that plant to our operating and financial performance, the effect of crop conditions in our market areas, the effect of current economic conditions and macroeconomic trends on the demand for our products, expectations regarding pricing for agricultural commodities, our working capital and capital expenditure requirements, capital resources, future sales and adjusted EBITDA and the payment of dividends. Such forward-looking statements reflect our current beliefs and are based on information currently available to us, including certain key expectations and assumptions concerning anticipated financial performance, business prospects, strategies, product pricing, regulatory developments, tax laws, the sufficiency of budgeted capital expenditures in carrying out planned activities, foreign exchange rates and the cost of materials, labour and services. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from results discussed in the forward-looking statements, including changes in international, national and local business conditions, weather patterns, crop yields, crop conditions, seasonality, industry cyclicality, volatility of production costs, commodity prices, the cost and availability of capital, foreign exchange rates, and competition. These risks and uncertainties are described under "Risks and Uncertainties" in this MD&A and in our most recently filed Annual Information Form. We cannot assure readers that actual results will be consistent with these forward-looking statements and we undertake no obligation to update such statements except as expressly required by law.

ADDITIONAL INFORMATION

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ag Growth International Inc.

We have audited the accompanying consolidated financial statements of Ag Growth International Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ag Growth International Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Winnipeg, Canada,
March 13, 2013.

Ernst & Young LLP

Chartered Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31

	2012	2011
	$	$
ASSETS [note 22]		
Current assets		
Cash and cash equivalents [note 15]	**2,171**	6,839
Restricted cash [note 16]	**34**	2,439
Accounts receivable [note 17]	**51,856**	49,691
Inventory [note 18]	**58,513**	64,558
Prepaid expenses and other assets	**1,645**	2,720
Income taxes recoverable	**900**	1,506
Derivative instruments [note 27]	**1,377**	—
	116,496	127,753
Non-current assets		
Property, plant and equipment, net [note 9]	**80,854**	83,434
Goodwill [note 11]	**63,399**	65,876
Intangible assets, net [note 10]	**72,777**	75,510
Available-for-sale investment [note 14]	**2,000**	2,800
Derivative instruments [note 27]	**234**	—
Deferred tax asset [note 25]	**33,621**	38,092
	252,885	265,712
Assets held for sale [note 13]	**1,101**	1,101
Total assets	**370,482**	394,566

LIABILITIES AND SHAREHOLDERS' EQUITY	2012	2011
Current liabilities		
Accounts payable and accrued liabilities [note 24]	**17,351**	22,264
Customer deposits	**4,983**	8,018
Dividends payable	**2,510**	2,509
Acquisition price, transaction and financing costs payable [notes 6 and 7]	**—**	1,938
Current portion of long-term debt [note 22]	**7**	16
Current portion of obligations under finance leases [note 22]	**—**	131
Current portion of derivative instruments [note 27]	**—**	1,828
Current portion of share award incentive plan [note 21]	**—**	1,495
Provisions [note 19]	**2,420**	2,222
	27,271	40,421
Non-current liabilities		
Long-term debt [note 22]	**34,916**	35,824
Convertible unsecured subordinated debentures [note 23]	**109,558**	107,202
Deferred tax liability [note 25]	**9,041**	8,960
	153,515	151,986
Total liabilities	**180,786**	192,407

	2012	2011
Shareholders' equity [note 20]		
Common shares	**153,447**	151,039
Accumulated other comprehensive loss	**(2,590)**	(1,875)
Equity component of convertible debentures	**5,105**	5,105
Contributed surplus	**4,108**	5,341
Retained earnings	**29,626**	42,549
Total shareholders' equity	**189,696**	202,159
Total liabilities and shareholders' equity	**370,482**	394,566

See accompanying notes

On behalf of the Board of Directors:

Bill Lambert
Director

David A. White, CA, ICD.D
Director

CONSOLIDATED STATEMENTS OF INCOME

(in thousands of Canadian dollars, except per share amounts)

Year ended December 31	2012 $	2011 $
Sales	**314,342**	305,932
Cost of goods sold [note 8[d]]	**219,199**	204,203
Gross profit	**95,143**	101,729
Expenses		
Selling, general and administrative [note 8[e]]	**56,077**	54,826
Impairment of goodwill [notes 11 and 12]	**1,890**	—
Other operating income [note 8[a]]	**(122)**	(100)
Finance costs [note 8[c]]	**13,058**	12,668
Finance expense (income) [note 8[b]]	**(773)**	159
	70,130	67,553
Profit before income taxes	**25,013**	34,176
Income tax expense [note 25]		
Current	**3,771**	3,910
Deferred	**4,054**	5,743
	7,825	9,653
Profit for the year	**17,188**	24,523
Profit per share - basic [note 30]	**1.38**	1.97
Profit per share - diluted [note 30]	**1.37**	1.95

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

Year ended December 31	2012 $	2011 $
Profit for the year	**17,188**	24,523
Other comprehensive loss		
Change in fair value of derivatives designated as cash flow hedges	**2,680**	(1,556)
Losses (gains) on derivatives designated as cash flow hedges recognized in net earnings in the current period	**749**	(4,452)
Income tax effect on cash flow hedges	**(910)**	1,702
Exchange differences on translation of foreign operations	**(2,646)**	2,286
Gain (loss) on available-for-sale financial assets [note 14]	**(800)**	800
Income tax effect on available-for-sale financial assets	**212**	(212)
Other comprehensive loss for the year	**(715)**	(1,432)
Total comprehensive income for the year	**16,473**	23,091

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

Year ended December 31, 2012

	Common shares	Equity component of convertible debentures	Contributed surplus	Retained earnings	Cash flow hedge reserve	Foreign currency reserve	Available-for-sale reserve	Total equity
	$	$	$	$	$	$	$	$
As at January 1, 2012	151,039	5,105	5,341	42,549	(1,340)	(1,123)	588	202,159
Profit for the year	—	—	—	17,188	—	—	—	17,188
Other comprehensive income (loss)	—	—	—	—	2,519	(2,646)	(588)	(715)
Share-based payment transactions [note 21]	2,408	—	(1,233)	—	—	—	—	1,175
Dividends to shareholders [note 20]	—	—	—	(30,111)	—	—	—	(30,111)
As at December 31, 2012	153,447	5,105	4,108	29,626	1,179	(3,769)	—	189,696

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

Year ended December 31, 2011

	Common shares	Equity component of convertible debentures	Contributed surplus	Retained earnings	Cash flow hedge reserve	Foreign currency reserve	Available-for-sale reserve	Total equity
	$	$	$	$	$	$	$	$
As at January 1, 2011	151,376	5,105	6,121	48,135	2,966	(3,409)	—	210,294
Profit for the year	—	—	—	24,523	—	—	—	24,523
Other comprehensive income (loss)	—	—	—	—	(4,306)	2,286	588	(1,432)
Conversion of subordinated debentures [note 20]	115	—	—	—	—	—	—	115
Share-based payment transactions [note 21]	(452)	—	(780)	—	—	—	—	(1,232)
Dividends to shareholders [note 20]	—	—	—	(30,109)	—	—	—	(30,109)
As at December 31, 2011	151,039	5,105	5,341	42,549	(1,340)	(1,123)	588	202,159

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Year ended December 31

	2012	2011
	$	**$**
OPERATING ACTIVITIES		
Profit before income taxes for the year	**25,013**	34,176
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	**6,161**	5,418
Amortization of intangible assets	**3,849**	3,776
Impairment of goodwill	**1,890**	—
Translation loss (gain) on foreign exchange	**(1,766)**	1,641
Non-cash component of interest expense	**2,543**	2,422
Share-based compensation expense	**1,174**	2,038
Loss on sale of property, plant and equipment	**32**	76
	38,896	49,547
Net change in non-cash working capital balances related to operations [note 15]	**(2,795)**	(14,453)
Settlement of SAIP obligation	**(1,495)**	(1,998)
Income tax paid	**(3,012)**	(5,217)
Cash provided by operating activities	**31,594**	27,879
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	**(4,710)**	(9,254)
Acquisition of shares of Tramco, Inc., net of cash acquired [note 7]	**—**	(9,930)
Acquisition of assets of Airlanco Inc. [note 6]	**—**	(11,970)
Transfer from (to) cash held in trust and restricted cash	**2,405**	(243)
Proceeds from sale of property, plant and equipment	**158**	500
Development of intangible assets	**(1,615)**	(1,471)
Transaction and financing costs paid	**(1,938)**	(433)
Cash used in investing activities	**(5,700)**	(32,801)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(7)**	(319)
Repayment of obligations under finance leases	**(131)**	(439)
Issuance of long-term debt	**—**	10,993
Dividends paid	**(30,111)**	(30,109)
Finance costs incurred	**(313)**	—
Purchase of shares in the market under the long-term incentive plan	**—**	(3,346)
Cash used in financing activities	**(30,562)**	(23,220)
Net decrease in cash and cash equivalents during the year	**(4,668)**	(28,142)
Cash and cash equivalents, beginning of year	**6,839**	34,981
Cash and cash equivalents, end of year	**2,171**	6,839
Interest paid	**10,509**	10,259

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 (in thousands of Canadian dollars, except where otherwise noted and per share data)

1. ORGANIZATION

The consolidated financial statements of Ag Growth International Inc. ["Ag Growth Inc."] for the year ended December 31, 2012 were authorized for issuance in accordance with a resolution of the directors on March 13, 2013. Ag Growth International Inc. is a listed company incorporated and domiciled in Canada, whose shares are publicly traded at the Toronto Stock Exchange. The registered office is located at 198 Commerce Drive, Winnipeg, Manitoba, Canada.

2. OPERATIONS

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

Basis of preparation

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

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Principles of consolidation

The consolidated financial statements include the accounts of Ag Growth International Inc. and its wholly owned subsidiaries, Ag Growth Industries Partnership, AGX Holdings Inc., Ag Growth Holdings Corp., Westfield Distributing (North Dakota) Inc., Hansen Manufacturing Corp. ["Hi Roller"], Union Iron Inc. ["Union Iron"], Applegate Trucking Inc., Applegate Livestock Equipment, Inc. ["Applegate"], Airlanco Inc. ["Airlanco"], Tramco, Inc. ["Tramco"], Tramco Europe Ltd., Euro-Tramco B.V., Ag Growth Suomi Oy and Mepu Oy ["Mepu"] as at December 31, 2012. Subsidiaries are fully consolidated from the date of acquisition, it being the date on which Ag Growth obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-company balances, income and expenses and unrealized gains and losses resulting from intra-company transactions are eliminated in full.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments and liabilities incurred or assumed at the date of exchange. Acquisition costs for business combinations are expensed and included in selling, general and administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition.

Goodwill is initially measured at cost, being the excess of the cost of the business combination over Ag Growth's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Any negative difference is recognized directly in the consolidated statement of income. If the fair values of the assets, liabilities and contingent liabilities can only be calculated on a provisional basis, the business combination is recognized using provisional values. Any adjustments resulting from the completion of the measurement process are recognized within 12 months of the date of acquisition ["measurement period"].

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Ag Growth's cash-generating units ["CGU"] that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those CGUs. Where goodwill forms part of a CGU and part of the operating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of operation. If the Company reorganizes its reporting structure in a way that changes the composition of one or more CGUs to which goodwill has been allocated, the goodwill is reallocated to the units affected. Goodwill disposed of or reallocated in these cases is measured based on the relative values of the operation disposed of and the portion of the CGU retained, or the relative fair value of the part of a CGU allocated to a new CGU compared to the part remaining in the old organizational structure.

Foreign currency translation

Each entity in Ag Growth determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by Ag Growth entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary items are translated at the functional currency spot rate as of the reporting date. Exchange differences from monetary items are recognized in the consolidated statement of income. Non-monetary items that are not carried at fair value are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their consolidated statements of income are translated at the monthly rates of exchange. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the reporting date.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of any accumulated depreciation and any impairment losses determined. Cost includes the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary and, where relevant, the present value of all dismantling and removal costs. Where major components of property, plant and equipment have different useful lives, the components are recognized and depreciated separately. Ag Growth recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred and if it is probable that the future economic benefits embodied with the item can be reliably measured. All other repair and maintenance costs are recognized in the consolidated statement of income as an expense when incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and building components	20 - 60 years
Manufacturing equipment	10 - 20 years
Computer hardware	5 years
Leasehold improvements	Over the lease period
Equipment under finance leases	10 years
Furniture and fixtures	5 - 10 years
Vehicles	4 - 16 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of income when the asset is derecognized.

The assets' useful lives and methods of depreciation of assets are reviewed at each financial year-end, and adjusted prospectively, if appropriate. No depreciation is taken on construction in progress until the asset is placed in use. Amounts representing direct costs incurred for major overhauls are capitalized and depreciated over the estimated useful life of the different components replaced.

Leases

The determination of whether an arrangement is, or contains, a lease is based on whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to Ag Growth substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that Ag Growth will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time, which Ag Growth considers to be 12 months or more, to get ready for its intended use or sale, are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite useful life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives, which include brand names, are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Internally generated intangible assets are capitalized when the product or process is technically and commercially feasible and Ag Growth has sufficient resources to complete development. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Expenditures incurred to develop new demos and prototypes are recorded at cost as internally generated intangible assets. Amortization of the internally generated intangible assets begins when the development is complete and the asset is available for use and it is amortized over the period of expected future benefit. Amortization is recorded in cost of goods sold. During the period of development, the asset is tested for impairment at least annually.

Finite life intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets as follows:

Patents	8 years
Distribution networks	8 - 25 years
Demos and prototypes	3 - 15 years
Order backlog	3 - 6 months
Software	8 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Impairment of non-financial assets

Ag Growth assesses at each reporting date whether there is an indication that an asset may be impaired. If such an indication exists, or when annual testing for an asset is required, Ag Growth estimates the asset's recoverable amount. The recoverable amount of goodwill as well as intangible assets not yet available for use is estimated at least annually on December 31. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use.

Value in use is determined by discounting estimated future cash flows using a pre-tax discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. The recoverable amount of assets that do not generate independent cash flows is determined based on the CGU to which the asset belongs.

Ag Growth bases its impairment calculation on detailed budgets and forecast calculations that are prepared separately for each of Ag Growth's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For periods after five years, a terminal value approach is used.

An impairment loss is recognized in the consolidated statement of income if an asset's carrying amount or that of the CGU to which it is allocated is higher than its recoverable amount. Impairment losses of CGUs are first charged against the carrying value of the goodwill balance included in the CGU and then against the value of the other assets, in proportion to their carrying amount. In the consolidated statement of income, the impairment losses are recognized in those expense categories consistent with the function of the impaired asset. For assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, Ag Growth estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset or CGU in prior years. Such a reversal is recognized in the consolidated statement of income.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31, either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Cash and cash equivalents

All highly liquid temporary cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and money market funds, net of outstanding bank overdrafts.

Inventory

Inventory is comprised of raw materials and finished goods. Inventory is valued at the lower of cost and net realizable value, using a first-in, first-out basis. For finished goods, costs include all direct costs incurred in production, including direct labour and materials, freight, directly attributable manufacturing overhead costs based on normal operating capacity and property, plant and equipment depreciation.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. When the circumstances that previously caused inventories to be written down below cost no longer exist, or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed.

Financial instruments

Financial assets and liabilities

Ag Growth classifies its financial assets as [i] financial assets at fair value through profit or loss, [ii] loans and receivables or [iii] available-for-sale, and its financial liabilities as either [i] financial liabilities at fair value through profit or loss ["FVTPL"] or [ii] other financial liabilities. Derivatives are designated as hedging instruments in an effective hedge, as appropriate. Appropriate classification of financial assets and liabilities is determined at the time of initial recognition or when reclassified in the consolidated statement of financial position.

All financial instruments are recognized initially at fair value plus, in the case of investments and liabilities not at fair value through profit or loss, directly attributable transaction costs. Financial instruments are recognized on the trade date, which is the date on which Ag Growth commits to purchase or sell the asset.

Financial assets at fair value through profit or loss

Financial assets at FVTPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes cash and cash equivalents and derivative financial instruments entered into that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with changes in the fair value recognized in finance income or finance costs in the consolidated statement of income.

Ag Growth has currently not designated any financial assets upon initial recognition as FVTPL.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for-trading. These embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated statement of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category include receivables. Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment. The effective interest amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at FVTPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of income in finance costs and removed from the available-for-sale reserve.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when Ag Growth has transferred its rights to receive cash flows from the asset.

Impairment of financial assets

Ag Growth assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset [an incurred "loss event"] and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, Ag Growth first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Ag Growth determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of income.

Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of income.

For available-for-sale financial investments, Ag Growth assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income – is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at FVTPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities held-for-trading are recognized in the consolidated statement of income.

Ag Growth has not designated any financial liabilities upon initial recognition as FVTPL.

Other financial liabilities

Financial liabilities are measured at amortized cost using the effective interest rate method. Financial liabilities include long-term debt issued, which is initially measured at fair value, which is the consideration received, net of transaction costs incurred, net of equity component. Transaction costs related to the long-term debt instruments are included in the value of the instruments and amortized using the effective interest rate method. The effective interest expense is included in finance costs in the consolidated statement of income.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Interest income

For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest method, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statement of income.

Derivative instruments and hedge accounting

Ag Growth uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Ag Growth analyzes all of its contracts, of both a financial and non-financial nature, to identify the existence of any “embedded” derivatives. Embedded derivatives are accounted for separately from the host contract at the inception date when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value.

Any gains or losses arising from changes in the fair value of derivatives are recorded directly in the consolidated statement of income, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment [except for foreign currency risk].
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, Ag Growth formally designates and documents the hedge relationship to which Ag Growth wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine whether they have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the consolidated statement of income in other operating income or expenses. Amounts recognized as other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Ag Growth uses primarily forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

Fair value is the estimated amount that Ag Growth would pay or receive to dispose of these contracts in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques that are recognized by market participants. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

Provisions

Provisions are recognized when Ag Growth has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where Ag Growth expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Warranty provisions

Provisions for warranty-related costs are recognized when the product is sold or service provided. Initial recognition is based on historical experience.

Profit per share

The computation of profit per share is based on the weighted average number of shares outstanding during the period. Diluted profit Per share is computed in a similar way to basic profit per share except that the weighted average shares outstanding are increased to include Additional shares assuming the exercise of share options, share appreciation rights and convertible debt options, if dilutive.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Ag Growth and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Ag Growth assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. Ag Growth has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is in general recognized when significant risks and rewards of ownership are transferred to the customer. Ag Growth generally recognizes revenue when products are shipped, free on board shipping point; the customer takes ownership and assumes risk of loss; collection of the related receivable is probable; persuasive evidence of an arrangement exists; and, the sales price is fixed or determinable. Customer deposits are recorded as a current liability when cash is received from the customer and recognized as revenue at the time product is shipped, as noted above.

In transactions involving the sale of specific customer products, Ag Growth applies layaway sales accounting. Under layaway sales, Ag Growth recognizes revenue prior to the product being shipped, provided the following criteria are met as of the reporting date:

- The goods are ready for delivery to the customer; this implies the goods have been produced to the specifications of the customer and Ag Growth has assessed, through its quality control processes, that the goods comply with the specifications;
- A deposit of more than 80% of the total

contract value for the respective goods has been received;

- The goods are specifically identified for the customer in Ag Growth's inventory tracking system; and
- Ag Growth does not have any other obligation than to ship the product, or to store the product until the customer picks it up.

Bill and hold

Ag Growth applies bill and hold sales accounting. Under bill and hold sales, Ag Growth recognizes revenue when the buyer takes title, provided the following criteria are met as of the reporting date:

- It is probable that delivery will be made;
- The item is on hand, identified and ready for delivery to the buyer at the time the sale is recognized;
- The buyer specifically acknowledges the deferred delivery instructions; and
- The usual payment terms apply.

Construction contracts

Ag Growth from time to time enters into arrangements with its customers that are considered construction contracts. These contracts [or a combination of contracts] are specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Ag Growth principally operates fixed price contracts. If the outcome of such a contract can be reliably measured, revenue associated with the construction contract is recognized by reference to the stage of completion of the contract activity at period-end [the percentage of completion method].

The outcome of a construction contract can be estimated reliably when: [i] the total contract revenue can be measured reliably; [ii] it is probable that the economic benefits associated with the contract will flow to the entity; [iii] the costs to complete the contract and the stage of completion can be measured reliably; and [iv] the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a construction contract cannot be estimated reliably [principally during early stages of a contract], contract revenue is recognized only to the extent of costs incurred that are expected to be recoverable. In applying the percentage of completion method, revenue recognized corresponds to the total contract revenue [as defined above] multiplied by the actual completion rate based on the proportion of total contract costs [as defined above] incurred to date and the estimated costs to complete.

Income taxes

Ag Growth and its subsidiaries are generally taxable under the statutes of their country of incorporation.

Current income tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where Ag Growth operates and generates taxable income. Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Ag Growth follows the liability method of accounting for deferred taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to the temporary differences between the carrying value of the assets and liabilities on the financial statements and their respective tax bases.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates [and tax laws] that have been enacted or substantively enacted at the reporting date.

Deferred tax items are recognized in correlation to the underlying transaction either in the consolidated statement of income, other comprehensive income or directly in equity

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill if it occurred during the measurement period or in profit or loss, when it occurs subsequent to the measurement period

Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax, except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable and where receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position

Share-based compensation plans

Employees of Ag Growth may receive remuneration in the form of share-based payment transactions, whereby employees render services and receive consideration in the form of equity instruments [equity-settled transactions, long-term incentive plan and directors deferred compensation plan] or cash [cash-settled transactions, share award incentive plan]. In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date and are capitalized or expensed as appropriate.

Equity-settled transactions

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves, in equity, over the period in which the performance and/or service conditions are fulfilled.

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting period reflects the extent to which the vesting period has expired and Ag Growth's best estimate of the number of the shares that will ultimately vest. The expense or credit recognized for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in the consolidated statement of income in the respective function line. When options and other share-based compensation awards are exercised or exchanged, the amounts previously credited to contributed surplus are reversed and credited to shareholders' equity. The amount of cash, if any, received from participants is also credited to shareholders' equity.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation and any expense not yet recognized for the award [being the total expense as calculated at the grant date] is recognized immediately. This includes any award where vesting conditions within the control of either the Company or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes model. This fair value is expensed over the period until the vesting date, with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in the consolidated statement of income in the line of the function the respective employee is engaged in.

Post-retirement benefit plans

Ag Growth contributes to retirement savings plans subject to maximum limits per employee. Ag Growth accounts for such defined contributions as an expense in the period in which the contributions are required to be made. Certain of Ag Growth's plans classify as multi-employer plans and would ultimately provide the employee a defined benefit pension. However, based upon the evaluation of the available information, Ag Growth is not required to account for the plans in accordance with the defined benefit accounting rules, and accounts for such plans as it does defined contribution plans.

Research and development expenses

Research expenses, net of related tax credits, are charged to the consolidated statement of income in the period they are incurred. Development costs are charged to operations in the period of the expenditure unless they satisfy the condition for recognition as an internally generated intangible asset.

Government grants

Government grants are recognized at fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grants relate to an asset, the fair value is credited to the cost of the asset and is released to the consolidated statement of income over the expected useful life in a consistent manner with the depreciation method for the relevant assets.

Investment tax credits

Federal and provincial investment tax credits are accounted for as a reduction of the cost of the related assets or expenditures in the year in which the credits are earned and when there is reasonable assurance that the credits can be used to recover taxes.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and the disclosure of contingent liabilities. The estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances, the results of which form the basis of making the assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Impairment of non-financial assets

Ag Growth's impairment test is based on value in use or fair value less cost to sell calculations that use a discounted cash flow model. The cash flows are derived from the forecast for the next five years and do not include restructuring activities to which Ag Growth has not yet committed or significant future investments that will enhance the asset's performance of the CGU being tested. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate, as well as the forecasted margins and growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used to evaluate goodwill and other non-financial assets could result in a material change to the results of operations. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in note 12.

Development costs

Development costs are capitalized in accordance with the accounting policy described in note 3. Initial capitalization of costs is based on management's judgment that technical and economical feasibility is confirmed, usually when a project has reached a defined milestone according to an established project management model.

Useful lives of key property, plant and equipment and intangible assets

The depreciation method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by Ag Growth. Refer to note 3 for the estimated useful lives.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, it is determined using valuation techniques including the discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Share-based payments

Ag Growth measures the cost of equity-settled share-based payment transactions with employees by reference to the fair value of equity instruments at the grant date, whereas the fair value of cash-settled share-based payments is remeasured at every reporting date. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of these instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield.

Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expenses already recorded. Ag Growth establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Such differences of interpretation may arise on a wide variety of issues, depending on the conditions prevailing in the respective company's domicile. As Ag Growth assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Acquisition accounting

For acquisition accounting purposes, all identifiable assets, liabilities and contingent liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities as of the date of acquisition. Contingent consideration resulting from business combinations is valued at fair value at the acquisition date as part of the business combination. Where the contingent consideration meets the definition of a derivative and, thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

Financial instruments: classification and measurement ["IFRS 9"]

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

Employee benefits ["IAS 19"]

On June 16, 2011, the IASB revised IAS 19, *Employee Benefits.* The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is in the process of finalizing the impact of the amendments on its consolidated financial statements.

Offsetting Financial Assets and Liabilities

In December 2011, the IASB issued amendments to IAS 32, *Financial Instruments: Presentation.* The amendments are intended to clarify certain aspects of the existing guidance on offsetting financial assets and financial liabilities due to the diversity in application of the requirements on offsetting. The IASB also amended IFRS 7 to require information about all recognized financial instruments that are set off in accordance with IAS 32. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

The new offsetting disclosure requirements are effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendments need to be provided retrospectively to all comparative periods. The Corporation is currently assessing the impact of adopting these amendments on the consolidated financial statements.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities.* What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. IFRS 10 establishes a single control model that applies to all entities [including "special purpose entities" or "structured entity" as they are now referred to in the new standards, or "variable interest entities" as they are referred to in US GAAP]. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements of IAS 27. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This principle applies to all investees, including structured entities.

IFRS 10 is effective for annual periods commencing on or after January 1, 2013. The Company is in the process of finalizing the impact of this new standard, if any.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 3l, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers.* IFRS 11 uses some of the terms that were used by IAS 31, but with different meanings. Whereas IAS

31 identified three forms of joint ventures [i.e., jointly controlled operations, jointly controlled assets and jointly controlled entities], IFRS 11 addresses only two forms of joint arrangements [joint operations and joint ventures] where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement that exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Because IFRS 11 uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities ["JCEs"] using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations [which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs], an entity recognizes its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. In addition, when specifying the appropriate accounting, IAS 31 focused on the legal form of the entity, whereas IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement.

IFRS 11 is effective for annual periods commencing on or after January 1, 2013. The Company is in the process of finalizing the impact of this new standard, if any.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28, *Investment in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgments made to determine whether it controls another entity.

IFRS 12 is effective for annual periods commencing on or after January 1, 2013. The Company is in the process of finalizing the impact of this new standard, which will be limited to disclosure requirements for the consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles, such as the prohibition on blockage discounts for all fair value measurements, could have a significant effect. The disclosure requirements are substantial and could present additional challenges.

IFRS 13 is effective for annual periods commencing on or after January 1, 2013 and will be applied prospectively. The Company is in the process of finalizing the impact of this new standard.

6. BUSINESS COMBINATIONS 2011

[a] Airlanco Inc. ["Airlanco"]

Effective October 4, 2011, the Company acquired substantially all of the operating assets of Airlanco, a manufacturer of grain drying systems. The Company acquired Airlanco to expand its catalogue of aeration and dust collection products.

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

	$
Accounts receivable	1,549
Inventory	2,134
Prepaid expenses and other	126
Property, plant and equipment	1,747
Intangible assets	
Distribution network	3,090
Brand name	1,608
Order backlog	21
Patents	4
Goodwill	3,087
Accounts payable and accrued liabilities	(1,192)
Customer deposits	(204)
	11,970

The goodwill of $3,087 comprises the value of expected synergies arising from the acquisition and the values included in the workforce of the new subsidiary. The goodwill balance was allocated to the Airlanco CGU and is expected to be deductible for tax purposes.

From the date of acquisition, Airlanco contributed $2,701 of revenue and a net loss before tax of $92 to the 2011 results of the Company. If the acquisition had taken place as at January 1, 2011, revenue and profit from continuing operations would have increased by $9,766 and $2,088, respectively.

The consideration transferred of $11,970 was paid in cash. The impacts on the cash flow on the acquisition of Airlanco are as follows:

	$
Transaction costs of the acquisition	**160**
Purchase consideration transferred	**11,970**
Net cash flow on acquisition	**12,130**

In the three-month period ended December 31, 2012, the conditions related to the cash holdback were met and the Company transferred $508 of restricted cash to the vendors [note 16].

As at December 31, 2012, there are no restricted funds remaining.

7. BUSINESS COMBINATIONS 2010

[a] Mepu

Effective April 29, 2010, the Company acquired 100% of the outstanding shares of Mepu, a manufacturer of grain drying systems. The acquisition of Mepu provides the Company with a complementary product line, distribution in a region where the Company previously had only limited representation and a corporate footprint near the growth markets of Russia and Eastern Europe.

The purchase consideration in the amount of $11,274 was paid in cash, net of a one-year holdback of $572.

In the year ended December 31, 2011, the conditions related to the cash holdback were met and the Company transferred $572 from cash held in trust to the vendors. As at December 31, 2012 and 2011, there are no remaining funds held in trust.

[b] Franklin Enterprises Ltd. ["Franklin"]

Effective October 1, 2010, the Company acquired substantially all of the operating assets of Franklin, a custom manufacturer. The Company acquired Franklin to enhance its manufacturing capabilities and to increase production capacity in periods of high in-season demand.

The purchase consideration in the amount of $8,856 was paid in cash, net of a one-year holdback of $250.

In the year ended December 31, 2011, the conditions related to the cash holdback were met and the Company transferred $250 cash held in trust to the vendors. As at December 31, 2012 and 2011 there are no remaining funds held in trust.

[c] Tramco, Inc. ["Tramco"]

Effective December 20, 2010, the Company acquired 100% of the outstanding shares of

Tramco, a manufacturer of chain conveyors. Tramco is an industry leader and provides the Company with an entry point into the grain processing sector of the food supply chain.

The impacts on the cash flow on acquisition of Tramco are as follows:

	$
Purchase consideration paid in 2010	9,168
Purchase consideration paid in 2011	9,930
Transferred to cash held in trust	995
Transaction costs of the acquisition paid in 2010	339
Transaction costs of the acquisition paid in 2011	164
Net cash flow on acquisition	**20,596**

Transaction costs of the acquisition are included in cash flows from investing activities. At the request of the vendor, the purchase price was paid in two installments. In the year ended December 31, 2012, the conditions related to the cash holdback were met and the Company transferred $1,017 restricted cash to the vendors. As at December 31, 2012, there are no restricted funds remaining.

8. OTHER EXPENSES (INCOME)

	2012 $	2011 $
[a] Other operating expense (income)		
Cash flow hedge accounting	—	126
Net loss on disposal of property, plant and equipment	**32**	76
Other	**(154)**	(302)
	(122)	(100)
[b] Finance expense (income)		
Interest expense (income) from banks	**12**	(117)
Loss (gain) on foreign exchange	**(785)**	276
	(773)	159
[c] Finance costs		
Interest on overdrafts and other finance costs	**125**	51
Interest, including non-cash interest, on debts and borrowings	**2,533**	2,377
Interest, including non-cash interest, on convertible debentures [note 23]	**10,397**	10,220
Finance charges payable under finance lease contracts	**3**	20
	13,058	12,668

	2012	2011
	$	**$**
[d] Cost of goods sold		
Depreciation	**5,596**	4,933
Amortization of intangible assets	**243**	503
Warranty provision	**198**	280
Cost of inventories recognized as an expense	**213,162**	198,487
	219,199	204,203
[e] Selling, general and administrative expenses		
Depreciation	**565**	485
Amortization of intangible assets	**3,606**	3,273
Minimum lease payments recognized for operating leases	**1,048**	943
Transaction costs	—	1,676
Selling, general and administrative	**50,858**	48,449
	56,077	54,826
[f] Employee benefits expense		
Wages and salaries	**81,889**	67,085
Share-based payment expense [note 21]	**1,174**	2,038
Pension costs	**1,950**	1,925
	85,013	71,048
Included in cost of goods sold	**52,301**	48,013
Included in general and administrative expense	**32,712**	23,035
	85,013	71,048

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Grounds	Buildings	Leasehold improvements	Furniture and fixtures	Vehicles	Computer hardware	Manufacturing equipment	Construction in progress	Total
			$	$	$	$	$	$	$	$
COST										
Balance, January 1, 2012	4,751	597	37,180	466	1,148	6,375	2,501	46,800	277	100,095
Additions	—	58	673	1,566	229	167	205	2,045	(233)	4,710
Disposals	—	—	—	—	(9)	(370)	(41)	(162)	—	(582)
Exchange differences	(44)	(6)	(263)	(9)	(5)	(17)	(16)	(705)	(5)	(1,070)
Balance, December 31, 2012	**4,707**	**649**	**37,590**	**2,023**	**1,363**	**6,155**	**2,649**	**47,978**	**39**	**103,153**
DEPRECIATION										
Balance, January 1, 2012	—	190	2,446	270	406	2,502	1,418	9,429	—	16,661
Depreciation charge for the year	—	74	1,108	108	137	689	363	3,682	—	6,161
Disposals	—	—	—	—	(5)	(268)	(33)	(86)	—	(392)
Exchange differences	—	—	(14)	(5)	(1)	(5)	(7)	(99)	—	(131)
Balance, December 31, 2012	**—**	**264**	**3,540**	**373**	**537**	**2,918**	**1,741**	**12,926**	**—**	**22,299**
Net book value, January 1, 2012	4,751	407	34,734	196	742	3,873	1,083	37,371	277	83,434
Net book value, December 31, 2012	**4,707**	**385**	**34,050**	**1,650**	**826**	**3,237**	**908**	**35,052**	**39**	**80,854**

	Land	Grounds	Buildings	Leasehold improvements	Furniture and fixtures	Vehicles	Computer hardware	Manufacturing equipment	Construction in progress	Total
			$	$	$	$	$	$	$	$
COST										
Balance, January 1, 2011	4,777	488	27,599	431	982	5,283	1,948	31,548	17,589	90,645
Additions	61	35	9,730	35	80	1,043	525	15,039	(17,294)	9,254
Acquisitions of a subsidiary	52	71	764	—	65	101	25	668	—	1,746
Classification as assets held for sale	(146)	—	(1,089)	—	—	—	—	—	—	(1,235)
Disposals	—	—	—	—	—	(164)	(24)	(724)	—	(912)
Exchange differences	7	3	176	—	21	112	27	269	(18)	597
Balance, December 31, 2011	4,751	597	37,180	466	1,148	6,375	2,501	46,800	277	100,095
DEPRECIATION										
Balance, January 1, 2011	—	124	1,492	196	295	1,889	1,115	6,512	—	11,623
Depreciation charge for the year	—	65	1,055	71	105	673	308	3,141	—	5,418
Classification as assets held for sale	—	—	(134)	—	—	—	—	—	—	(134)
Disposals	—	—	—	—	—	(68)	(16)	(262)	—	(346)
Exchange differences	—	1	33	3	6	8	11	38	—	100
Balance, December 31, 2011	—	190	2,446	270	406	2,502	1,418	9,429	—	16,661
Net book value, January 1, 2011	4,777	364	26,107	235	687	3,394	833	25,036	17,589	79,022
Net book value, December 31, 2011	4,751	407	34,734	196	742	3,873	1,083	37,371	277	83,434

Construction in progress is comprised primarily of building and equipment.

Ag Growth regularly assesses its long-lived assets for impairment. As at December 31, 2012 and 2011, the recoverable amount of each CGU exceeded the carrying amounts of the assets allocated to the respective units.

Capitalized Borrowing Costs

No borrowing costs were capitalized in 2011 or 2012.

Finance Leases

Included in manufacturing equipment is equipment held under finance leases, the carrying value of which at December 31, 2012 was nil [2011 - $131]. Leased assets are pledged as security for the related finance lease liabilities.

10. INTANGIBLE ASSETS

	Distribution networks $	Brand names $	Patents $	Software $	Order backlog $	Development projects $	Total $
COST							
Balance, January 1, 2012	55,633	34,314	1,162	1,117	666	2,010	94,902
Internal development	—	—	—	—	—	1,426	1,426
Acquisition	—	—	—	190	—	—	190
Exchange differences	(364)	(209)	(21)	(24)	—	(39)	(657)
Balance, December 31, 2012	**55,269**	**34,105**	**1,141**	**1,283**	**666**	**3,397**	**95,861**
AMORTIZATION							
Balance, January 1, 2012	17,874	—	665	140	666	47	19,392
Amortization charge for the year	3,459	—	89	154	—	147	3,849
Exchange differences	(143)	—	(10)	(4)	—	—	(157)
Balance, December 31, 2012	**21,190**	—	**744**	**290**	**666**	**194**	**23,084**
Net book value, December 31, 2012	**34,079**	**34,105**	**397**	**993**	—	**3,203**	**72,777**

	Distribution networks	Brand names	Patents	Software	Order backlog	Development projects	Total
	$	$	$	$	$	$	$
COST							
Balance, January 1, 2011	52,346	32,582	1,138	1,092	628	—	87,786
Internal development	—	—	—	—	—	2,011	2,011
Acquisition	3,090	1,608	4	—	21	—	4,723
Exchange differences	197	124	20	25	17	(1)	382
Balance, December 31, 2011	**55,633**	**34,314**	**1,162**	**1,117**	**666**	**2,010**	**94,902**
AMORTIZATION							
Balance, January 1, 2011	14,509	—	568	—	364	—	15,441
Amortization charge for the year	3,226	—	87	135	281	47	3,776
Exchange differences	139	—	10	5	21	—	175
Balance, December 31, 2011	**17,874**	**—**	**665**	**140**	**666**	**47**	**19,392**
Net book value, December 31, 2011	**37,759**	**34,314**	**497**	**977**	**—**	**1,963**	**75,510**

The Company is continuously working on research and development projects. Development costs capitalized include the development of new products and the development of new applications of already existing products and prototypes. Research costs and development costs that are not eligible for capitalization have been expensed and are recognized in selling, general and administrative expenses.

Intangible assets include patents acquired through business combinations, which have a remaining life of five years. All brand names with a carrying amount of $34,105 [2011 – $34,314] have been qualified as indefinite useful life intangible assets, as the Company expects to maintain these brand names and currently no end point of the useful lives of these brand names can be determined. The Company assesses the assumption of an indefinite useful life at least annually. For definite life intangibles, the Company assesses whether there are indicators of impairment at subsequent reporting dates as a triggering event for performing an impairment test.

Other significant intangible assets are goodwill [note 11] and the distribution network of the Company. The distribution network was acquired in past business combinations and reflects the Company's dealer network in North America and the dealer network of the Mepu operating division. The remaining amortization period for the distribution network ranges from 3 to 18 years.

As of the reporting date, the Company had no contractual commitments for the acquisition of intangible assets.

11. GOODWILL

	2012 $	2011 $
Balance, beginning of year	**65,876**	62,355
Additions - acquisition of subsidiary	—	3,087
Exchange differences	**(587)**	434
Impairment of goodwill [note 12]	**(1,890)**	—
Balance, end of year	**63,399**	65,876

12. IMPAIRMENT TESTING

The Company performs its annual goodwill impairment test as at December 31 on all CGUs. The recoverable amount of the CGUs has been determined based on value in use for the year ended December 31, 2012, using cash flow projections covering a five-year period. The various pre-tax discount rates applied to the cash flow projections are between 12.0% and 16.3% [2011 – 11.8% and 17.1%] and cash flows beyond the five-year period are extrapolated using a 3% growth rate [2011 – 3%], which is management's estimate of long-term inflation and productivity growth in the industry and geographies in which it operates.

On December 31, 2012, the Company performed its annual goodwill impairment test. Mepu's results in 2011 were negatively impacted by regional weather conditions and in 2012 the division experienced margin compression due largely to the impact of new product development. Considering these factors and their impact on the annual goodwill impairment test, the Company concluded that goodwill was impaired and, in the fourth quarter, recorded a $1.9 million non-cash goodwill impairment charge to income.

The Company's CGUs and goodwill and indefinite life intangible assets allocated thereto are as follows:

	2012 $	2011 $
Westfield		
Goodwill	**30,435**	30,435
Intangible assets with indefinite lives	**19,000**	19,000
Edwards		
Goodwill	**6,438**	6,438
Intangible assets with indefinite lives	**5,163**	5,163
Hi Roller		
Goodwill	**5,467**	5,588
Intangible assets with indefinite lives	**3,224**	3,296
Union Iron		
Goodwill	**8,021**	8,199
Intangible assets with indefinite lives	**2,145**	2,193
Tramco		
Goodwill	**7,288**	7,450
Intangible assets with indefinite lives	**2,308**	2,360
Other		
Goodwill	**5,750**	7,766
Intangible assets with indefinite lives	**2,265**	2,302
Total		
Goodwill	**63,399**	65,876
Intangible assets with indefinite lives	**34,105**	34,314

Key assumptions used in valuation calculations

The calculation of value in use or fair value less cost to sell for all the CGUs is most sensitive to the following assumptions:

- Gross margins;
- Discount rates;
- Market share during the budget period; and
- Growth rate used to extrapolate cash flows beyond the budget period.

Gross margins

Forecasted gross margins are based on actual gross margins achieved in the years preceding the forecast period. Margins are kept constant over the forecast period and the terminal period, unless management has started an efficiency improvement process.

Discount rates

Discount rates reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted.

Market share assumptions

These assumptions are important because, as well as using industry data for growth rates [as noted below], management assesses how the CGU's position, relative to its competitors, might change over the forecast period.

Growth rate estimates

Rates are based on published research and are primarily derived from the long-term Consumer Price Index expectations for the markets in which Ag Growth operates. Management considers Consumer Price Index to be a conservative indicator of the long-term growth expectations for the agricultural industry.

13. ASSETS HELD FOR SALE

In 2010, Ag Growth transferred all production activities from its Lethbridge, Alberta facility to Nobleford, Alberta. Ag Growth concluded that the land and building in Lethbridge, Alberta, Canada met the definition of an asset held for sale. The carrying amounts of the assets as presented in the consolidated statement of financial position solely consist of the land and building. The land carrying value is $146 as at December 31, 2012 [2011 – $146]. The building carrying value is $955 as at December 31, 2012 [2011 – $955].

14. AVAILABLE-FOR-SALE INVESTMENT

On December 22, 2009, the Company purchased two million common shares at $1.00 per share in a private Canadian corporate farming organization ["Investco"]. The Company's investment represents approximately 2.0% of the outstanding shares of Investco. At this point in time, management intends to hold the investment for an indefinite period of time.

During the year ended December 31, 2011, Investco completed a private placement of 22,193,921 common shares at $1.40 per common share. The private placement included a large number of unrelated parties and increased Investco's outstanding common shares by approximately 40%. The private placement was determined to represent a quoted market price as at December 31, 2011, and as a result the Company assessed the fair value of its 2,000,000 common shares at $1.40 per common share. Accordingly, the Company increased the value of its investment by $800 with the offsetting amount recorded in other comprehensive income.

Subsequent to December 31, 2012, Investco issued common shares at $1.00 per common share as partial consideration for an acquisition of a business. The acquiree was an unrelated third party and the share issuance was considered to represent a quoted market price and as a result the Company assessed the fair value of its 2,000,000 common shares at $1.00 per common share. Accordingly, the Company decreased the value of its investment by $800 with the offsetting amount recorded in other comprehensive income.

15. CASH AND CASH EQUIVALENTS/CHANGES IN NON-CASH WORKING CAPITAL

Cash and cash equivalents as at the date of the consolidated statement of financial position and for the purpose of the consolidated statement of cash flows relate to cash at banks and cash on hand.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

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

	2012	**2011**
	$	**$**
Accounts receivable	**(2,165)**	(9,607)
Inventory	**6,045**	(9,850)
Prepaid expenses and other assets	**1,075**	5,034
Accounts payable and accrued liabilities	**(4,913)**	(1,755)
Customer deposits	**(3,035)**	1,445
Provisions	**198**	280
	(2,795)	(14,453)

16. RESTRICTED CASH

Restricted cash of $34 relates to the long-term incentive plan [note 21]. Restricted cash of $2,439 in 2011 consisted of holdbacks related to the acquisitions of Tramco and Airlanco, $885 of funds advanced to Ag Growth as collateral for a receivable from an end user of Ag Growth products, and $29 related to the long-term incentive plan.

17. ACCOUNTS RECEIVABLE

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

	2012	**2011**
	$	**$**
Total accounts receivable	**52,449**	50,188
Less allowance for doubtful accounts	**(593)**	(497)
Total accounts receivable, net	**51,856**	49,691
Of which		
Neither impaired nor past due	**33,672**	33,412
Not impaired and past the due date as follows:		
Within 30 days	**9,709**	9,356
31 to 60 days	**4,095**	2,761
61 to 90 days	**1,932**	957
Over 90 days	**3,041**	3,702
Less allowance for doubtful accounts	**(593)**	(497)
Total accounts receivable, net	**51,856**	49,691

Trade receivables assessed to be impaired are included as an allowance in selling, general and administrative expenses in the period of the assessment. The movement in the Company's allowance for doubtful accounts for the years ended December 31, 2012 and December 31, 2011 was as follows:

	2012 $	2011 $
Balance, beginning of year	**497**	484
Additional provision recognized	**100**	10
Amounts written off during the period as uncollectible	**25**	34
Amounts recovered during the period	**(3)**	(1)
Unused provision reversed	**(22)**	(33)
Exchange differences	**(4)**	3
Balance, end of year	**593**	497

18. INVENTORY

	2012 $	2011 $
Raw materials	**33,518**	37,159
Finished goods	**24,995**	27,399
	58,513	64,558

Inventory is recorded at the lower of cost and net realizable value.

During the year ended December 31, 2012, no provisions [2011 – nil] were expensed through cost of goods sold. There were no write-downs of finished goods and no reversals of write-downs included in cost of goods sold during the year.

19. PROVISIONS

Provisions consist of the Company's warranty provision. A provision is recognized for expected claims on products sold based on past experience of the level of repairs and returns. It is expected that most of these costs will be incurred in the next financial year. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns.

	2012 $	2011 $
Balance, beginning of year	**2,222**	1,942
Costs recognized	**3,419**	3,032
Amounts charged against provision	**(3,221)**	(2,752)
Balance, end of year	**2,420**	2,222

20. EQUITY

[a] Common shares

Authorized

Unlimited number of voting common shares without par value

Issued

12,473,755 common shares

	Number	Amount
	#	$
Balance, January 1, 2011	12,399,550	151,376
Purchase of common shares under LTIP	(67,996)	(3,346)
Conversion of subordinated debentures	2,556	115
Settlement of LTIP - vested shares	77,510	2,894
Balance, December 31, 2011	12,411,620	151,039
Exercise of grants under DDCP [note 21[c]]	2,107	53
Settlement of LTIP - vested shares [note 21[e]]	60,028	2,355
Balance, December 31, 2012	**12,473,755**	**153,447**

The 12,473,755 common shares at December 31, 2012 are net of 74,348 common shares with a stated value of $3,072 that are being held by the Company under the terms of the LTIP until vesting conditions are met.

The 12,411,620 common shares at December 31, 2011 are net of 134,376 common shares with a stated value of $5,428 that were being held by the Company under the terms of the LTIP until vesting conditions are met.

[b] Normal course issuer bid

On November 17, 2011, Ag Growth commenced a normal course issuer bid for up to 994,508 common shares, representing 10% of the Company's public float at the time. The normal course issuer bid terminated on November 20, 2012. During the year ended December 31, 2012, no common shares were purchased under the normal course issuer bid [2011 – nil].

[c] Contributed surplus

	2012	2011
	$	$
Balance, beginning of year	**5,341**	6,121
Equity-settled director compensation	**324**	345
Obligation under LTIP	**850**	1,769
Exercise of grants under DDCP	**(53)**	—
Settlement of LTIP - vested shares	**(2,354)**	(2,894)
Balance, end of year	**4,108**	5,341

[d] Accumulated other comprehensive income

Accumulated other comprehensive income is comprised of the following:

Cash flow hedge reserve

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

Foreign currency translation reserve

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

Available-for-sale reserve

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

[e] Dividends paid and proposed

In the year ended December 31, 2012, the Company declared dividends of $30,111 or $2.40 per common share [2011 – $30,109 or $2.40 per common share]. Ag Growth's dividend policy is to pay cash dividends on or about the 30th of each month to shareholders of record on the last business day of the previous month. The Company's current monthly dividend rate is $0.20 per common share. Subsequent to December 31, 2012, the Company declared dividends of $0.20 per common share to shareholders of record on each of January 31, 2013 and February 28, 2013.

[f] Shareholder protection rights plan

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

21. SHARE-BASED COMPENSATION PLANS

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

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

The amount owing to participants is recorded as an equity award in contributed surplus as the award is settled with participants with treasury shares purchased in the open market. The expense is recorded in the different consolidated statement of income lines by function depending on the role of the respective management member. For the year ended December 31, 2012, Ag Growth expensed $850 [2011 – $1,769] for the LTIP. Additionally, there is $34 in restricted cash related to the LTIP [2011 – $29].

The administrator is not required to purchase common shares in 2012 as there was no LTIP award related to fiscal 2011. During the year ended December 31, 2011, the administrator purchased 67,996 common shares in the market for $3,346. The fair value of this share-based payment equals the share price as of the respective measurement date as dividends related to the shares in the administrated fund are paid annually to the LTIP participants. Further awards under the LTIP ceased effective for the fiscal 2012 year.

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

The 2012 SAIP

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

A total of 465,000 common shares are available for issuance under the 2012 SAIP. At the discretion of the Board, the 2012 SAIP provides for cumulative adjustments to the number of common shares to be issued pursuant to Share Awards on each date that dividends are paid on the common shares. The Company shall have the option of settling any amount payable in respect of a Share Award by common shares issued from the treasury of the Company or, with the consent of the grantee, cash in an amount equal to the fair market value of such common shares.

Each Restricted Award will entitle the holder to be issued the number of the common shares designated in the Restricted Award with such common shares to be issued as to one-third on each of the third, fourth and fifth anniversary dates of the date of grant, or such earlier or later dates as determined by the Board of Directors in accordance with the 2012 SAIP.

Each Performance Award will entitle the holder to be issued as to one-third on each of the first, second and third anniversary dates of the date of grant, or such earlier or later dates, the number of common shares designated in the Performance Award multiplied by a Payout Multiplier. The Payout Multiplier is determined based on an assessment of the achievement of pre-defined measures in respect of the applicable period. The Payout Multiplier may not be less than 0% or more than 200%.

Subsequent to December 31, 2012, 150,000 Restricted Awards and 110,000 Performance Awards have been granted under the 2012 SAIP.

The 2007 SAIP

On May 10, 2007, the shareholders of Ag Growth reserved for issuance 220,000 Share Awards under a Share Award Incentive Plan [the "2007 SAIP"]. All of the 220,000 common shares reserved for issue under the 2007 SAIP were issued and they vested as to one-third on each of January 1, 2010, 2011, and 2012. No further Share Awards may be granted, and no further common shares may be issued under the 2007 SAIP. There are no Share Awards outstanding as at December 31, 2012 [2011 – 40,000]. For the year ended December 31, 2012, Ag Growth recorded an expense related to the 2007 SAIP of nil [2011 – income of $76].

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

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

For the years ended December 31, 2012 and 2011, the Directors elected to receive the majority of their remuneration in common shares. For the year ended December 31, 2012, an expense of $324 [2011 – $345] was recorded for the share grants, and a corresponding amount has been recorded to contributed surplus. The share grants were measured with the contractual agreed amount of service fees for the respective period.

The total number of common shares issuable pursuant to the DDCP shall not exceed 70,000, subject to adjustment in lieu of dividends, if applicable. During the year ended December 31, 2012, 9,260 common shares were granted under the DDCP [2011 – 9,161] and as at December 31, 2012, a total of 32,404 common shares had been granted under the DDCP and 2,107 common shares had been issued.

[d] Stock option plan

On June 3, 2009, the shareholders of Ag Growth approved a stock option plan [the "Option Plan"] under which options may be granted to officers, employees and other eligible service providers in order to allow these individuals an opportunity to increase their proprietary interest in Ag Growth's long-term success. On May 11, 2012, the shareholders of Ag Growth approved an amended management compensation structure which included the termination of the Option Plan. Accordingly, as at December 31, 2012, no options were available for grant [2011 – 935,325].

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

For the year ended December 31, 2012, an expense of $1,174 [2011 – $2,038] was recognized for employee and Director services rendered.

The total carrying amount of the liability for the SAIP as of December 31, 2012 was nil [2011 – $1,495]. The exercise price on all SAIP awards was $0.10 per common share.

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

	2012 Shares	2011 Shares
	#	#
Outstanding, beginning of year	**40,000**	80,000
Exercised	**(40,000)**	(40,000)
Outstanding, end of year	**—**	40,000

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

	2012 Shares	2011 Shares
	#	#
Outstanding, beginning of year	**134,376**	143,890
Vested	**(60,028)**	(77,510)
Granted	**—**	67,996
Outstanding, end of year	**74,348**	134,376

There were no outstanding SAIP awards as at December 31, 2012. The following table lists the inputs to the models used for the 2007 SAIP for the year ended December 31, 2011:

	2011
	$
Dividend yield [%]	—
Expected volatility [%]	26.88
Risk-free interest rate [%]	1
Expected life of share options [years]	1
Weighted average share price [$]	37.48
Model used	Black-Scholes

The dividend yield was set to 0% for the calculation of the option value, as the Share Award holders already receive during the period between grant date and vesting date of the Share Award the same dividend as all actual shareholders. The expected life of the Share Awards is the period between the reporting date and the vesting date, as the Share Awards can be exercised by the holders only at the vesting date. The expected volatility reflects the assumption that the historical volatility over a period similar to the Share Awards is indicative of future trends, which may also not necessarily be the actual outcome.

22. LONG-TERM DEBT AND OBLIGATIONS UNDER FINANCE LEASES

	Interest rate	Maturity	2012	2011
	%		$	$
Current portion of interest-bearing loans and borrowings				
Obligations under finance leases	6.5	2012	—	131
GMAC loans	0.0	2014	**7**	16
Total current portion of interest-bearing loans and borrowings			**7**	147
Non-current interest-bearing loans and borrowings				
Series A secured notes [U.S. dollar denominated]	6.8	2016	**24,872**	25,425
Term debt [U.S. dollar denominated]	3.8	2014	**10,475**	10,709
GMAC loans	0.0	2014	**7**	3
Total non-current interest-bearing loans and borrowings			**35,354**	36,137
			35,361	36,284
Less deferred financing costs			**438**	313
Total interest-bearing loans and borrowings			**34,923**	35,971

[a] Bank indebtedness

Ag Growth has operating facilities of $10.0 million and U.S. $2.0 million and may also draw on its term loan facility for general operating purposes. The operative and term loan facilities bear interest at prime to prime plus 1.0% per annum based on performance calculations. The effective interest rate during the year ended December 31, 2012 on Ag Growth's Canadian dollar operating facility was 3.1% [2011 – 3.5%] and on its U.S. dollar operating facility was 3.4% [2011 – 3.8%]. As at December 31, 2012, there was nil [2011 – nil] outstanding under these facilities. The facilities mature March 8, 2016 or three months prior to the maturity date of the convertible unsecured debentures, unless refinanced on terms acceptable to the lenders

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

[b] Long-term debt

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

Term loans bear interest at rates of prime to prime plus 1.0% based on performance calculations. As at December 31, 2012, term loans of U.S. $10,530 were outstanding [2011 – U.S. $10,530]. Ag Growth's credit facility provides for term loans of up to $38,000 and U.S. $20,500 and includes lender approval to increase the size of the facility by $25 million.

The facilities mature on the earlier of March 8, 2016 or three months prior to maturity date of convertible unsecured subordinated debentures, unless refinanced on terms acceptable to the lenders.

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

[c] Covenants

Ag Growth is subject to certain financial covenants in its credit facility agreements which must be maintained to avoid acceleration of the termination of the agreement. The financial covenants require Ag Growth to maintain a debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] ratio of less than 2.5 and to provide debt service coverage of a minimum of 1.0. The covenant calculations exclude the convertible unsecured subordinated debentures from the definition of debt. As at December 31, 2012 and December 31, 2011, Ag Growth was in compliance with all financial covenants.

23. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

	2012 $	2011 $
Principal amount	**114,885**	114,885
Equity component	**(7,475)**	(7,475)
Accretion	**4,211**	2,770
Financing fees, net of amortization	**(2,063)**	(2,978)
Convertible unsecured subordinated debentures	**109,558**	107,202

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

Each Debenture is convertible into common shares of the Company at the option of the holder at any time on the earlier of the maturity date and the date of redemption of the Debenture, at a conversion price of $44.98 per common share being a conversion rate of approximately 22.2321 common shares per $1,000 principal amount of Debentures. No conversion options were exercised during the year ended December 31, 2012. During the year ended December 31, 2011, holders of 115 Debentures exercised the conversion option and were issued 2,556 common shares. As at December 31, 2012, Ag Growth has reserved 2,554,136 common shares for issuance upon conversion of the Debentures.

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

On redemption or at maturity, the Company may, at its option, elect to satisfy its obligation to pay the principal amount of the Debentures by issuing and delivering common shares. The Company may also elect to satisfy its obligations to pay interest on the Debentures by delivering common shares. The Company does not expect to exercise the option to satisfy its obligations to pay interest by delivering common shares and as a result the potentially dilutive impact has been excluded from the calculation of fully diluted earnings per share [note 30]. The number of any shares issued will be determined based on market prices at the time of issuance.

The Company presents and discloses its financial instruments in accordance with the substance of its contractual arrangement. Accordingly, upon issuance of the Debentures, the Company recorded a liability of $107,525, less related offering costs of $4,735. The liability component has been accreted using the effective interest rate method, and during the year ended December 31, 2012, the Company recorded accretion of $1,441 [2011 – $1,332], non-cash interest expense related to financing costs of $915 [2011 – $845] and interest expense on the 7% coupon of $8,042 [2011 – $8,043]. The estimated fair value of the holder's option to convert Debentures to common shares in the amount of $7,475 has been separated from the fair value of the liability and is included in shareholders' equity, net of income tax of $2,041, and its pro rata share of financing costs of $329.

24. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
	$	**$**
Trade payables	**4,613**	8,212
Other payables	**5,430**	6,126
Personnel-related accrued liabilities	**6,583**	7,176
Accrued outstanding service invoices	**725**	750
	17,351	22,264

Trade payables and other payables are non-interest bearing and are normally settled on 30- or 60-day terms. Personnel-related accrued liabilities include primarily vacation accruals, bonus accruals and overtime benefits. For explanations on the Company's credit risk management processes, refer to note 27.

25. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2012 and 2011 are as follows:

Consolidated statement of income

	2012	2011
	$	$
Current tax expense		
Current income tax charge	**3,771**	3,910
Deferred tax expense		
Origination and reversal of temporary differences	**4,054**	5,743
Income tax expense reported in the consolidated statement of income	**7,825**	9,653

Consolidated statement of comprehensive income

	2012	2011
	$	$
Deferred tax related to items charged or credited directly to other comprehensive income during the period		
Unrealized gain (loss) on derivatives and available-for-sale investment	**698**	(1,490)
Exchange differences on translation of foreign operations	**(200)**	214
Income tax charged directly to other comprehensive income	**498**	(1,276)

The reconciliation between tax expense and the product of accounting profit multiplied by the Company's domestic tax rate for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
	$	$
Accounting profit before income tax	**25,013**	34,176
At the Company's statutory income tax rate of 26.59% [2011 – 28.05%]	**6,651**	9,586
Tax rate changes	**(14)**	265
Recognition of deferred tax assets	**(58)**	(91)
Additional deductions allowed in a foreign jurisdiction	**(386)**	(401)
Unused tax losses not recognized as a deferred tax asset	**224**	—
Foreign rate differential	**1,080**	901
Impairment of goodwill	**503**	—
Permanent differences and others	**(175)**	(607)
At the effective income tax rate 31.28% [2011 – 28.24%]	**7,825**	9,653

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

	Consolidated statement of financial position		Consolidated statement of income	
	2012	2011	2012	2011
	$	$	$	$
Inventories	**(88)**	(200)	**(112)**	8
Property, plant and equipment and other assets	**(11,549)**	(10,145)	**1,404**	1,033
Intangible assets	**(12,909)**	(12,900)	**9**	(144)
Deferred financing costs	**(117)**	(63)	**54**	84
Accruals and long-term provisions	**1,453**	1,642	**189**	(894)
Tax loss carryforwards expiring between 2020 to 2029	**14,831**	16,809	**1,978**	5,062
Investment tax credit carryforward expiring between 2025 and 2030	**4,880**	4,627	**(253)**	136
Canadian exploration expenses	**29,198**	29,157	**(41)**	—
Capitalized development expenditures	**(707)**	(465)	**242**	465
Convertible debentures	**(868)**	(1,279)	**(411)**	(349)
SAIP liability	**—**	397	**397**	580
Equity impact LTIP	**885**	1,283	**398**	(30)
Foreign exchange gains	**—**	—	**—**	6
Other comprehensive income	**(429)**	269	**—**	—
Exchange difference on translation of foreign operations	**—**	—	**200**	(214)
Deferred tax expense			**4,054**	5,743
Net deferred tax assets	**24,580**	29,132		
Reflected in the statement of financial position as follows				
Deferred tax assets	**33,621**	38,092		
Deferred tax liabilities	**(9,041)**	(8,960)		
Deferred tax assets, net	**24,580**	29,132		

Reconciliation of deferred tax assets, net

	2012 $	2011 $
Balance, January 1, 2012	**29,132**	33,599
Deferred tax expense during the period recognized in profit or loss	**(4,054)**	(5,743)
Deferred tax income during the period recognized in other comprehensive income	**(498)**	1,276
Balance, December 31, 2012	**24,580**	29,132

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences, loss carryforwards and investment tax credits become deductible. Based on the analysis of taxable temporary differences and future taxable income, the management of the Company is of the opinion that there is convincing evidence available for the probable realization of all deductible temporary differences of the Company's tax entities incurred in its Finnish operations other than losses [655 Euros]. Accordingly, the Company has recorded a deferred tax asset for all deductible temporary differences as of the reporting date and as at December 31, 2011.

At December 31, 2012, there was no recognized deferred tax liability [2011 – nil] for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries. The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which a deferred tax asset has not been recognized, aggregate to $622 [2011 – $622].

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

There are no income tax consequences to the Company attached to the payment of dividends in either 2012 or 2011 by the Company to its shareholders.

26. POST-RETIREMENT BENEFIT PLANS

Ag Growth contributes to group retirement savings plans subject to maximum limits per employee. The expense recorded during the year ended December 31, 2012 was $1,950 [2011 – $1,925]. Ag Growth expects to contribute $2,000 for the year ending December 31, 2013.

Ag Growth accounts for one plan covering substantially all of its employees of the Mepu division as a defined contribution plan, although it does provide the employees with a defined benefit [average pay] pension. The plan qualifies as a multi-employer plan and is administered by the Government of Finland. Ag Growth is not able to obtain sufficient information to account for the plan as a defined benefit plan.

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

[a] Management of risks arising from financial instruments

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

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

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as at December 31, 2012 and December 31, 2011.

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

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

- The consolidated statement of financial position sensitivity relates to derivatives.
- The sensitivity of the relevant consolidated statement of income item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2012 and December 31, 2011, including the effect of hedge accounting.

- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at December 31, 2012 for the effects of the assumed underlying changes.

Foreign currency risk

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

A significant part of the Company's sales are transacted in U.S. dollars and Euros and as a result fluctuations in the rate of exchange between the U.S. dollar, the Euro and Canadian dollar can have a significant effect on the Company's cash flows and reported results. To mitigate exposure to the fluctuating rate of exchange, Ag Growth enters into foreign exchange forward contracts and denominates a portion of its debt in U.S. dollars. As at December 31, 2012, Ag Growth's U.S. dollar denominated debt totalled U.S. $35.5 million [2011 U.S. $35.5 million] and the Company has entered into the following foreign exchange forward contracts to sell U.S. dollars and Euros in order to hedge its foreign exchange risk on revenue:

	Face value	Average rate
Settlement dates	**U.S. $**	**Cdn $**
January - December 2013	53,000	1.03
January - December 2014	41,000	1.02

	Face value	Average rate
Settlement dates	**Euro**	**Cdn $**
August - December 2013	500	1.33
August - December 2014	500	1.33

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

Ag Growth's sales denominated in U.S. dollars for the year ended December 31, 2012 were U.S. $185 million, and the total of its cost of goods sold and its selling, general and administrative expenses denominated in that currency were U.S. $126 million. Accordingly, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a $18.5 million increase or decrease in sales and a total increase or decrease of $12.6 million in its cost of goods sold and its selling, general and administrative expenses. In relation to Ag Growth's foreign exchange hedging contracts, a 10% increase or decrease in the value of the U.S. dollar relative to its Canadian counterpart would result in a $6.6 million increase or decrease in the foreign exchange gain and a $6.6 million increase or decrease to other comprehensive income.

The counterparties to the contracts are three multinational commercial banks and therefore credit risk of counterparty non-performance is remote. Realized gains or losses are included in net earnings and for the year ended December 31, 2012 the Company realized a gain on its foreign exchange contracts of $0.6 million [2011 – $5.0 million].

The open foreign exchange forward contracts as at December 31, 2012 are as follows:

	Notional amount of currency sold	Notional Canadian dollar equivalent		
		Contract amount	Cdn $ equivalent	Unrealized gain (loss)
	$	$	$	$
U.S. dollar contracts	94,000	1.02	96,086	1,625
Euro contracts	1,000	1.32	1,322	(14)

The open foreign exchange forward contracts as at December 31, 2011 are as follows:

	Notional amount of currency sold	Notional Canadian dollar equivalent		
		Contract amount	Cdn $ equivalent	Unrealized loss
	U.S. $	$	$	$
	60,000	0.9905	59,430	(1,828)

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

The cash flow hedges of the expected future sales were assessed to be highly effective and a net unrealized gain of $1,611, with a deferred tax liability of $429 relating to the hedging instruments, is included in accumulated other comprehensive income.

Subsequent to December 31, 2012, the Company entered a number of foreign exchange contracts for the period June 2014 to December 2014 totalling U.S. $13 million at an average rate of $1.0148, and for January 2015 and February 2015 totalling U.S. $5 million at an average rate of $1.0417.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Furthermore, as Ag Growth regularly reviews the denomination of its borrowings, the Company is subject to changes in interest rates that are linked to the currency of denomination of the debt. Ag Growth's Series A secured notes and convertible unsecured subordinated debentures outstanding at December 31, 2012 and December 31, 2011 are at a fixed rate of interest. As at December 31, 2012, the Company had outstanding $10,530 of U.S. dollar term debt at a floating rate of interest. A 10% increase or decrease in the Company's interest rate would result in an increase or decrease of $35 to long-term interest expense.

Credit risk

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

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

At December 31, 2012, the Company had two customers [2011 – two customers] that accounted for approximately 17% [2011 – 14%] of all receivables owing. The requirement for an impairment is analyzed at each reporting date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The Company does not hold collateral as security.

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

Liquidity risk

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

The tables below summarize the undiscounted contractual payments of the Company's financial liabilities as at December 31, 2012 and 2011:

December 31, 2012	Total	0 - 6 months	6 - 12 months	12 - 24 months	2 - 4 years	After 4 years
	$	$	$	$	$	$
Bank debt [includes interest]	42,442	1,016	1,016	14,128	26,282	—
Trade payables and provisions	19,771	19,771	—	—	—	—
Dividends payable	2,510	2,510	—	—	—	
Convertible unsecured subordinated debentures [include interest]	130,969	4,021	4,021	122,927	—	—
Total financial liability payments	195,692	27,318	5,037	137,055	26,282	—

December 31, 2011	Total	0 - 6 months	6 - 12 months	12 - 24 months	2 - 4 years	After 4 years
	$	$	$	$	$	$
Bank debt [includes interest]	45,497	1,073	1,073	2,133	14,351	26,867
Trade payables and provisions	24,486	24,486	—	—	—	—
Finance lease obligations	131	66	65	—	—	—
Dividends payable	2,509	2,509	—	—	—	—
Convertible unsecured subordinated debentures [include interest]	139,011	4,021	4,021	8,042	122,927	—
Acquisition price, transaction and financing costs payable	1,938	1,429	509	—	—	—
Total financial liability payments	213,572	33,584	5,668	10,175	137,278	26,867

[b] Fair value

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

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial assets				
Loans and receivables				
Cash and cash equivalents	**2,171**	**2,171**	6,839	6,839
Restricted cash	**34**	**34**	2,439	2,439
Accounts receivable	**51,856**	**51,856**	49,691	49,691
Available-for-sale investment	**2,000**	**2,000**	2,800	2,800
Derivative instruments	**1,611**	**1,611**	—	—
Financial liabilities				
Other financial liabilities				
Interest-bearing loans and borrowings	**34,923**	**38,082**	36,153	39,593
Trade payables and provisions	**19,771**	**19,771**	24,486	24,486
Finance lease obligations	—	—	131	131
Dividends payable	**2,510**	**2,510**	2,509	2,509
Acquisition price, transaction and financing costs payable	—	—	1,938	1,938
Derivative instruments	—	—	1,828	1,828
Convertible unsecured subordinated debentures	**109,558**	**113,501**	107,202	107,671

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

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

- Cash and cash equivalents, restricted cash, accounts receivable, dividends payable, finance lease obligations, acquisition price, transaction and financing costs payable, accounts payable and provisions approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Company enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts and one option embedded in a convertible debt agreement. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and foreign exchange spot and forward rates.

[c] Fair value ["FV"] hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

	2012			2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	$	$	$	$	$	$
Financial assets						
Cash and cash equivalents	**2,171**	—	—	6,839	—	—
Available-for-sale investment	—	**2,000**	—	—	2,800	—
Derivative instruments	—	**1,611**	—	—	—	—
Restricted cash	**34**	—	—	2,439	—	—

During the reporting periods ended December 31, 2012 and December 31, 2011, there were no transfers between Level 1 and Level 2 fair value measurements.

At December 31, 2012, Ag Growth has $34 of restricted cash, which is classified as a current asset [note 16].

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

28. CAPITAL DISCLOSURE AND MANAGEMENT

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

Ag Growth manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company is not subject to any externally imposed capital requirements other than financial covenants in its credit facilities and as at December 31, 2012 and December 31, 2011, all of these covenants were complied with [note 22].

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

29. RELATED PARTY DISCLOSURES

Relationship between parent and subsidiaries

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

Compensation of key management personnel of Ag Growth

Ag Growth's key management consists of 25 individuals including its CEO, CFO, its Officers and other senior management, divisional general managers and its Directors.

	2012	2011
	$	$
Short-term employee benefits	**110**	85
Contributions to defined contribution plans	**168**	165
Salaries	**4,576**	4,526
Share-based payments	**1,174**	2,038
Total compensation paid to key management personnel	**6,028**	6,814

Key management interests in an employee incentive plan

Share Awards held by key management personnel under the 2007 SAIP have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price	2012 Number outstanding	2011 Number outstanding
		$	#	#
2007	January 1, 2010, 2011 and 2012	0.10	—	40,000

Key management employees have been granted the following LTIP awards for the different vesting dates without any exercise price:

		Shares outstanding	
		2012	2011
Issue date	Expiry date	#	#
2008	2010 - 2012	—	2,675
2009	2011 - 2013	**40,352**	80,704
2010	2012 - 2014	**33,996**	50,997
		74,348	134,376

30. PROFIT PER SHARE

Profit per share is based on the consolidated profit for the year divided by the weighted average number of shares outstanding during the year. Diluted profit per share is computed in accordance with the treasury stock method and based on the weighted average number of shares and dilutive share equivalents. The following reflects the income and share data used in the basic and diluted profit per share computations:

	2012	2011
	$	$
Profit attributable to shareholders for basic and diluted profit per share	**17,188**	24,523
Basic weighted average number of shares	**12,471,757**	12,423,173
Dilutive effect of DDCP	**26,269**	16,719
Dilutive effect of LTIP	**74,348**	122,463
Diluted weighted average number of shares	**12,572,374**	12,562,355
Basic profit per share	**1.38**	1.97
Diluted profit per share	**1.37**	1.95

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

The convertible unsecured subordinated debentures were excluded from the calculation of the above diluted net earnings per share because their effect is anti-dilutive.

31. REPORTABLE BUSINESS SEGMENT

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

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

	Revenues		Property, plant and equipment, goodwill, intangible assets and available-for-sale investment	
	2012	2011	2012	2011
	$	$	$	$
Canada	**76,223**	63,746	**148,781**	152,411
United States	**166,183**	187,645	**61,954**	64,787
International	**71,936**	54,541	**8,295**	10,422
	313,342	305,932	**219,030**	227,620

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

32. COMMITMENTS AND CONTINGENCIES

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

As of the reporting date, the Company has entered into commitments to purchase property, plant and equipment of $4.3 million.

[b] Letters of credit

As at December 31, 2012, the Company has outstanding letters of credit in the amount of $1,354 [2011 – $1,987].

[c] Operating leases

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

	$
Within one year	959
After one year but not more than five years	2,667
	3,626

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

During the year ended December 31, 2012, the Company recognized an expense of $1,048 [2011 – $943] for leasing contracts. This amount relates only to minimum lease payments.

[d] Finance leases

The Company has finance leases for various items of manufacturing equipment. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments, are as follows:

	2012 $ Minimum lease payments	2011 $ Minimum lease payments
Within one year	—	131
After one year but not more than five years	—	—
Total minimum lease payments	—	131
Less amount representing finance charges	—	4
Present value of minimum lease payments	**—**	**127**

The leased equipment is pledged as collateral. Interest expense related to obligations under capital leases was $3 for the year ended December 31, 2012 [2011 – $20].

[e] Legal actions

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

33. SUBSEQUENT EVENTS

Subsequent to December 31, 2012, the Company entered into an agreement to sell redundant property for estimated net proceeds of $5.8 million. The transaction is expected to be finalized on March 31, 2013.

34. COMPARATIVE FIGURES

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

Effective March 14, 2013

Directors

Gary Anderson

Janet Giesselman

Bill Lambert, Board of Directors Chairman

Bill Maslechko, Governance Committee Chairman

Mac Moore

David White, CA, ICD.D, Audit Committee Chairman

Officers

Gary Anderson, President, Chief Executive Officer and Director

Steve Sommerfeld, CA, Executive Vice President and Chief Financial Officer

Dan Donner, Senior Vice President, Sales and Marketing

Paul Franzmann, CA, Senior Vice President, Operations

Ron Braun, Vice President, Portable Grain Handling

Paul Brisebois, Vice President, Marketing

Tim Close, Vice President, Strategic Planning and Development

Gurcan Kocdag, Vice President, Storage and Conditioning

Craig Nimegeers, Vice President, Engineering

Nicolle Parker, Vice President, Finance and Integration

Tom Zant, Vice President, Commercial

Eric Lister, Q.C., Counsel

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


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Ag Growth IPO: May 18, 2004 (Founded 1996)

Batco Manufacturing, Acquired: 1997 (Founded 1992)

Wheatheart Manufacturing, Acquired: 1998 (Founded 1973)

Westfield Industries, Acquired: 2000 (Founded 1950)

Edwards Group, Acquired: 2005 (Founded 1964)

Hi Roller Conveyors, Acquired: 2006 (Founded 1982)

Twister Pipe Ltd., Acquired: 2007 (Founded 1976)

Union Iron, Inc., Acquired: 2007 (Founded 1852)

Applegate Steel Inc., Acquired: 2008 (Founded 1955)

Mepu Oy, Acquired: 2010 (Founded 1952)

Franklin Enterprises, Acquired: 2010 (Founded 1979)

Tramco Inc., Acquired: 2010 (Founded 1967)

Airlanco Inc., Acquired: 2011 (Founded 2000)