From Producer to the World

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Alliance Grain Traders
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Speakers:

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Chief Operating Officer

Lori Ireland
Chief Financial Officer

Omer Al-Katib
Director Corporate Affairs and Investor Relations

OPERATOR:

At this time I would like to turn the conference over to Omer Al-Katib Director, Corporate Affairs and Investor Relations. Please go ahead Mr. Al-Katib.

OMER AL-KATIB:

Thank you. Good morning and thank you for joining us on our Second Quarter Conference Call. On the line with us today, we have Murad Al-Katib, President and CEO of Alliance Grain Traders; Lori Ireland our Chief Financial Officer and Gaetan Bourassa our Chief Operating Officer. Before we get started, I would like to remind everyone that today's call may include forward-looking statements. Such forward-looking statements are given as of the date of this call and involve certain risks and uncertainties. A number of factors and assumptions were applied in the formulation of such statements and actual results could differ materially. This call may also include references to certain non-IFRS financial measures.

For additional information, with respect to forward-looking statements, factors and assumptions, as well as reconciliation to IFRS measures, we direct you to our news release, our website, as well as our recent filings on SEDAR.

With that, I'll turn things over to Murad for some comments and then we'll go to questions.

MURAD AL-KATIB:

Thank you Omer, good morning. The spring is an exciting time in the agri business sector with lots of optimism and a fresh start to the season. Farmers begin seeding, the landscape is changing and in our business markets begin planning for what the season may bring. However, in some ways, the late summer and fall period is the most exciting time of the year as the puzzle pieces and plans made through the growing season start to come into focus. Opportunities become clearer and our real work begins.

In 2011, we were pleased to report first quarter that we saw a return to more normalized business operations and export programs following the challenges we have discussed at length, that 2010 brought to the agribusiness sector as a whole and our company as well.

This positive result was reflected in the reported numbers for that quarter, we feel, demonstrating that the value added capabilities and the deep management strength we have in our company, the quality of our facilities, our market position and the experience that we have that guides our business. We feel the positive momentum is picking up. That is why we're equally pleased with the direction that the last half of 2011 is taking, with demand expected to rise for export, projected near-optimum conditions for harvest in North America and a reported good start to cropping seasons in other origins like Australia.

While the second quarter of 2011, as we see it this time of every year, was a period where markets recalibrate themselves and slower sales during this month; there is still though a lot to look forward to. Even with the slower period we reported sales of $169.9 million, adjusted EBITDA of $9.2 million and adjusted net earnings of $4.5 million.

Our second quarter 2011 financial results are available on SEDAR or from our website at http://www.alliancegrain.com. We view these results positively, as an indicator of what we may be able to expect in the last half of 2011 with regard to our global sales and export program. I would like to have our CFO, Lori Ireland give you a brief summary of our quarterly results.

LORI IRELAND:

Good morning. This quarter is the second interim reporting period under IFRS, so once again, we've recasted all of the comparative figures to be restated from GAAP to IFRS.

AGT sales, as Murad mentioned, were $169.9 million for the three months ended June 30, 2011, which compares to $149.2 million for the three months ended the same period last year and $168.1 million for the three months ended March 31, 2011. Sales were consistent with the most recent quarter; however, sales volume decreased in North America and Turkey with a slight increase in Australia and the Poortman divisions as compared to last quarter. Overall, sales volumes were down approximately 10% when comparing this quarter to last.

Segmented sales data: if you check out the segmented sales data in the notes to the financial statements, you'll see that the quarter ended June 30, 2011 compared to June 30, 2010 showed rice revenues down from $15.5 million to $3.5 million. This decrease is as a result of the one-time Turkish government tenders that were recorded in 2010. The second quarter is traditionally a slower period for rice production as paddy rice supply in Turkey is largely exhausted. Pulse sales for the same period increased from $124 million to $141.7 million reflecting the higher commodity prices, and pasta sales also showed improvement from $9.7 million to $17.6 million when comparing the quarter ended June 30, 2010 to the same quarter this year.

Gross margins for the three months ended June 30, 2011 improved compared to the three months ended June 30, 2010, but decreased compared to the three months ended March 31, 2011. With similar sales revenues in the quarter ended June 30, 2011 and the quarter ended June 30, 2010 gross margin percentage improved to 10% but was down compared to the quarter ended March 31, 2011 at 13%. The gross margin per ton remained consistent for the quarter ended March 31, 2011 to the quarter ended June 30, 2011. The reduction in dollar value is attributable to less volume invoiced in the period.

AGT's adjusted EBITDA, as Murad mentioned, was $9.2 million for the three months ended June 30, 2011 comparing to $4.4 million for the three months ended June 30, 2010 and $14.2 million for the three months ended March 31, 2011. The adjusted EBITDA -- the increase in the adjusted EBITDA, from the quarter ended June 30, 2010 to the quarter ended June 30, 2011 was due to a change in product mix. In 2010 there was a lack of available lentil stock so AGT focused on peas and canary seed more than in the past. In 2011 this volume was concentrated in lentils, chickpeas and beans which accounted for the improved gross margins and adjusted EBITDA. The decrease in adjusted EBITDA from the quarter ending March 31, 2011 was due to a couple of things including a decrease in demands for commodities, lower volumes amidst more tons processed as well as challenges in procuring the remaining higher-quality crops in North America.

Operating expenses for the quarter ended June 30, 2011 were $9.3 million, the same as the three months ended June 30, 2010, but slightly higher than the $8.8 million recorded for the three months ending March 31, 2011. Operating expenses— the increase in them are due partially to the additional costs associated with ramping up the new capacity in Australia, as well as some equipment and maintenance programs in North America facilities.

Interest expenses were $2.3 million compared to $1.2 million, last year at this time and $2.2 million for the prior quarter. The increase over last year was due to additional working capital requirements as AGT grows and interest expense remains relatively consistent when comparing to the prior quarter due to AGT continuing to utilize various bank instruments which -- they are favourable interest rates for us.

When looking at debt, when we combine bank indebtedness, short-term financing, long-term debt and deduct cash and cash equivalents the total amount was $174.9 million at June 30, 2011 which compares to $171.3 million at March 31, 2011, and $117.7 million at December 31, 2010. And the debt increases have funded our capital asset additions and the build-up of inventory in Australia and Turkey.

Current assets totalled $323.6 million at June 30, 2011 which compares to $313.8 million at March and $279.7 million at December 31, 2010. We're unable to -- this is important to note, we're unable to entirely fund our accounts receivable and our inventory using our accounts payable and this is because our accounts payable cycle is much shorter than the inventory and the accounts receivable churn cycle.

We pay our growers and our vendors quickly, but it takes time to process, ship and collect on our product.

It's also important to note that we have several types of inventory and even within the inventory types such as lentils, there are several distinct product types. So the current asset base, which is largely accounts receivable and inventory, reflects the growth in sales and distribution that AGT has experienced in the recent months and the growth in the size of our company.

Depreciation expenses for the quarter ended June 30, 2011 was $3.5 million compared to $2.6 million for the quarter ended March 31, 2011 and $2.5 million for the quarter ended December 31, 2010, and the higher depreciation amount for the quarter ended June 30, 2011 is attributable to assets previously under construction which are now being put into use and depreciation is being recorded on.

Provision for income tax shows a recovery of $1.2 million for the quarter ended June 30, 2011 as compared to an expense of $2.8 million for the quarter ended March 31, 2011, and it's similar to the recovery of $1.1 million for the quarter ended June 30, 2010. The recovery amounts for the quarter ended this year and last year, June 30th, 2011 are the result of the losses for the quarters.

And finally, the unrealized foreign exchange shows a large number, but it is an unrealized foreign exchange number. It's a snapshot of the open forward exchange contracts at June 30th, and it's a comparison of the average rate hedged on these contracts versus the month-end rate. Also included in the unrealized loss is a calculation of foreign currency loans, accounts receivable and accounts payable with comparisons between the average foreign exchange rate to the month-end snapshot rate. We've added this number back in for our adjusted net earnings and our adjusted EBITDA. And if it was a gain, on the other hand, we would be deducting it from these numbers.

MURAD AL-KATIB:
Thank you, Lori. We see the first half of 2011 as providing a more normalized operating environment, with demand currently stable and estimated to rise in key consumption markets. We feel that buyers must, after prolonged periods of delays in buying activities, look to replenish their stocks. As we have indicated in the past these delays on buying cannot continue forever and at some point, and we estimate that time to be the last half of 2011, buyers may come to the market and when they do we'll be ready for what we project will be a busy last half of the year.

Those of you who have heard me speak before know that I find this period of transition in global markets the most interesting part of our business. New stocks come online and imports begin to move. Much of the global production is either in a state of harvested, as we see in Turkey and India, or harvesting as we see in Canada and the U.S. with Australia preparing for the crops season there. And this is a time of year where we feel a company with our assets, expertise and market distribution can really show our strengths.

Crops in India and Turkey are completed and are reported as simply below average in terms of quality and quantity. Much of the products produced in these origins are estimated to be consumed in domestic markets locally, thereby decreasing immediate reliance on imported products. Timing impacts around harvest and supply coming into local markets were felt in these regions with later harvests in both. We would categorize these as simply shifting business to more traditional times of the year, the second half of 2011 and early into 2012. But demand, particularly Indian subcontinent demand, is expected to pick up to fill the supply not filled by their current harvest.

North American harvest is upon us; in fact, in some parts of the Prairies farmers are already out and some early harvest samples have been filtering in to our facilities. With a slow, wet start to the season, it is projected to finish well with a good sized-crop, good quality and some estimated yield gains helping to make up some of the seeded acreage declines.

We expect, based on reports on crop conditions, that farmers in Canada will be out harvesting full-scale by next week, and unlike last year with the conditions we see delaying harvest until October in some cases, this is when we expect harvest to happen and when markets expect new crops to be available. So we're right on time.

Australia is estimated to continue its growth as an emerging, major origin for pulse crop production. It is becoming a significant origin for the production and supply of pulses and certainly one that we feel has great potential, and our recent investments reflect that.

There have been some reports surrounding the quality and quantity of North American production we expect a return to the norm with respect to both. These conditions we see, we expect will result in ample new crop product with good quality and with the addition of carry-over stocks from 2010 we see the overall result as significant available product for processing and export.

I'd like to have our COO, Gaetan Bourassa give you an update on conditions in the major origins that we operate in.

GAETAN BOURASSA:

Thanks Murad. Damp conditions in Canada and the U.S. delayed seeding progress slightly, but good weather in June-July period gave the crops a chance to catch up with near optimal conditions. The southeastern portion of Saskatchewan and eastern North Dakota, southern Manitoba were hit with high levels of rainfall resulting in flooding and loss of acres, however, mostly in cereals and canola.

In the last report, SaskAg reports conditions as good to excellent in 76% of lentils, 79% of peas and 68% of chickpeas. These results move up into the 80% ranges when the southeast is taken out, showing the impact one region can have. Notably, this region typically would have 5% of Canada's lentils seeded. Seeding intentions for pulses in Canada over the 2011 crop year are currently estimated by Statistics Canada to be at the following: lentils at 2.8 million acres for potential production of 1.5 million metric tons; peas at 2.5 million acres for potential production of 2.1 million metric tons; edible beans at 160,000 for potential production of 132,000 metric tons; and chickpeas at 105,000 acres for a potential production of 60,000 metric tons. With an estimated carry-over of approximately 500,000 metric ton of lentils we estimate ample stocks for processing and export programs in Canada, given our value-added processing capabilities.

We expect farmers in Saskatchewan to be in full harvest mode, as Murad mentioned, by the third week of August with samples of early harvest already arriving and being of excellent quality so far. Yield gains are possible given the good, late-season rain conditions which will assist in the increasing overall production from Canada. In the U.S. early estimates of record seeding for lentils is not realized, largely due to the weather and inability of farmers to seed as intended. U.S. pulse acres are down from last season; however, we are well-positioned to procure our requirements as usual.

In Turkey, we see reports of generally good conditions for crops with a lower quality and quantity of lentils, chickpeas harvested in the spring at approximately 400,000 metric tons. Durham wheat and rice crops are providing some bright spots with good conditions on Durham which helps to ensure supply needed for our milled wheat platform and an estimate on good conditions for upcoming rice harvest at approximately 800,000 metric tons which is similar to last year.

Chickpea production, as with other origins, is generally trending down which may require import and reprocessing as we do with other pulses, to Turkey, for regional sales -- the regional sales program.

Pasta facilities are running at near peak capacity and expansions on semolina production are underway to keep pace with the newly commissioned pasta line and strong demand for our Arbella line.

In Australia, we see the continuation of our Aussie emergence as a major pulse producing origin. Chickpeas are trending down due to the remains of flooding from 2010, but this is mostly affecting the desi production in Queensland, our newly acquired New South Wales operations are expected to give us ability to process and export desi, Kabuli, local bean varieties like faba, lupin and mung beans, for the Indian and Egyptian export programs. Victoria and South Australia operations are expected to have a good season with expected increases to lentils seeding at 434,000 acres, gains in Faba are expected as well.

India continues to be a bit of question mark, with the Indian government reports on decreases in imports being questioned, mixed reports on the potential yield of the current crop, also continue. We continue to plan for our Chinese expansions with reports of significant pulse production in beans and import programs for peas into the region.

Thank you, I'll turn it back over to Murad.

MURAD AL-KATIB:

Thanks Gaetan. Our other staple foods businesses are, as we expect, in a position to capitalize on advantages in local growing regions. For example, while lentil harvest in Turkey may not have delivered as projected, as Gaetan mentioned, Durham and rice have a lot of positives that will assist us with consistent supply.

Our strategies, acquisitions and expansions have been built for the conditions we see on the horizon. Our focuses have been on bolstering capacity and technology in our existing facilities. This provides benefits to weather storms like what we've seen in the first half of 2011 where the upgrade opportunities to maximize earnings and margin, exist, even in slow times with lower quality product. For example, if we had waited until now to upgrade our value-added processing infrastructure in Canada, the U.S. and Australia, we would have missed the opportunity for the utilizations on these expansions.

Our focus is on diversified origination to mitigate our risk exposure, but also so that we can feed our assets in regions like Turkey, where local supply may not be enough to support domestic and regional export programs. The ability to import, reprocess and re-export products from Canada, the U.S. and Australia utilizing free zone and other warehousing is an advantage because it stabilizes price volatility and allows us to increase our capacity utilization. This also serves as a model for our potential entries into other similar consumption markets with local production, such as India.

Focusing on acquisitions to add capacity in growing new regions, like we have with the New South Wales acquisition, provides us with new opportunities for market distribution, like beans and chickpeas to the Indian subcontinent.

These small strategic tuck-ins, while they don't make a big splash in terms of dollar value, the ways they produce continue to assist us in moving our strategy forward and growing our business.

Finally, our focus on market distribution both in traditional markets like India and the Middle East and non-traditional markets like North America and Western Europe, we expect will assist us in becoming the preferred pulses, stable foods and ingredients supplier to markets around the world. The demand for staple protein from pulses and other staple foods, we estimate remains high even in the current economic conditions with the risk of food inflation. However, as we stated, we're confident that end-use markets must replenish local market stocks.

We have seen more stable buying activities in the past couple of months through the year for some of our other staple foods like pasta, bulgur wheat and rice. We expect positive demand from the key regional consumption markets like India, but we must not also forget about the demand we see from countries in their region like Pakistan, Bangladesh and Sir Lanka, and also North Africa and Middle East markets. Buyers in these regions have their eye on new crop from Canada, the U.S. and Australia. The world is closely following the early harvest signals in North America, as well as news from Australia, to plan their buying activities.

We as a company have taken great strides in the past year towards our initiatives aimed at smoothing the quarters of our year. On pulses the biggest component of our earnings, currently, diversification of origins and products, will certainly help us in this initiative. Rather than having a big quantity of product to move all at one time, we would expect more activity from other origins outside of the traditional North American harvest period, as well as products like chickpeas from New South Wales to India or red lentils from Horsham to Turkey. But these moves into non-traditional markets for consumption and origination we expect will assist us in our smoothing our seasonality initiative.

We have been clear on our intentions to expand into regions such as India, a larger presence in the U.S., Southern Africa, and China. There is strong growth potential in these markets for our pulses business with advantages like new growing regions, freight and local distribution and new markets. And as we grow we must, and will, look at these regions. Outside of this strong growth potential for our pulses business we do not forget about the continuing opportunities we've identified to strengthen our position in medium-grain rice, pasta, bulgur and entries into new distribution markets in some of these regions.

Expansions of our facilities in Turkey provide us with the capacity we need to grow these lines of business. Our continued focus on the diversified offerings like beans and chickpeas as well as packaged retail food business and a deeper commitment to the ingredients sector for proteins, starches and fibres will further assist us in providing potential for smoothing our earnings throughout the year.

New markets, new opportunities, do exist and we're working to uncover those that fit best with the abilities and the strength of our company. Ultimately, as I stated many, many times, our commitment to our strategy remains intact and unwavering. Our processing expertise, our market distribution globally, our origination reach, we feel positions us well to mitigate the risks, the challenges we face as a global company in the international agricultural processing industry. These are key components in the continued growth of Alliance Grain Traders as a truly global, pulses, staple foods and ingredients company.

I thank you now for your interest in Alliance Grain Traders. I'll turn things back over to Omer and we'll answer a few questions for our audience.

OMER AL-KATIB:

Thanks Murad. Operator we'll take the first question.

OPERATOR:

Certainly, sir. We will now begin the question-and-answer session. If time does not allow for a response to all of the questions, the Alliance Grain Traders' Investor Relations group will follow up after the call.

The first question comes from Jacob Bout of CIBC World Markets. Please go ahead.

JONATHAN LO:

Hey guys, this is Jonathan Lo standing in for Jacob Bout. Your field numbers look pretty strong this quarter, particularly to Europe, Middle East and North Africa. Could you provide a little more detail to where they're going, what margins we're getting from them?

And the back half of that question would be, your margins were a little lower than the previous quarter and why was that, given the relatively strong sales and throughput? And maybe just touch on what your utilization levels were for the quarter?

MURAD AL-KATIB:

Jon, I'll tell you, just as a preface for the benefit of our investors and our analysts, starting in Q3 of 2011 reporting, we're actually going to be introducing a new metric that we'll be publishing which will be our total tonnage that we're handling in each particular quarter. So from that perspective you'll be able to get a little bit more insight into this type of question prior to this call.

JONATHAN LO:

That’s great.

MURAD AL-KATIB:

So to give you a little bit of colour, on the first part of the question, of course one of the things – if you look at our segmented sales data it really tells you a very compelling story of AGTs distribution reach and our nimbleness in terms of our ability to react to the market demand that exists.

If you look at our segmented reporting and our Notes to our Financials, if you look at June 30, 2010 our sales to Europe, Middle East and Africa were about $18 million in the quarter and this year in the same period, $102 million so that's not -- just so you understand, $18 million to $102 million, shows you our ability to go into a region and capture the sales opportunities. In the same vein, Asia-Pacific-Rim, which would include the Indian subcontinent, decreased from 2010 sales of $73 million down to $33 million. Now I can tell you that's not because we're losing our market position, it's because those markets weren't in a position to buy because of their local supplies.

So it's not a surprise that the Middle East, North Africa region in particular, strong demand, political turmoil, food supplies are very important component of stabilizing civil unrest. We expect that to continue and we expect that trend, in terms of our strong regional presence and bolstered of course, by our presence in Turkey, to continue.

On your question about our sales, of course I think it's a pretty strong consensus that we don't have a problem generating sales, we have a great market reach unparalleled in our industry in the world and when demand is out there we'll get it. And when you look at our asset base we continue to improve our ability to capture market share. There was much data and many of the analyst colleagues of yours have been publishing about lentil exports being down dramatically and we're still able to maintain or gain market share because of our asset base.

In terms of margin, remember we said very clearly that volumes were down about 10%. So when you look at it, margins aren't eroded. Margins were consistent with Q1, it's actually a tonnage issue and it's a demand issue in Q2. And so from that perspective we see a very positive move going forward

JONATHAN LO:

Thanks guys.

OPERATOR:

The next question comes from Christine Healy of Scotia Capital. Please go ahead.

CHRISTINE HEALY:

First question, you just touched on. But this morning we saw that June lentil exports in Canada were up year-over-year. So this is the first improvement we've seen year-over-year in 2011. So I'm just curious on your thoughts on this, should we view this as a sign that lentil exports have finally turned a corner here? Maybe you can talk to us about what you've seen in July and August in terms of volumes and capacity utilization versus Q2 and maybe a typical Q3; that would be helpful.

MURAD AL-KATIB:

Okay, thanks Christine, just saw the data as I was walking into the conference call room. So I haven't analyzed it, but I'll tell you, it's not a surprise to us, probably somewhere around the fifth or eighth of June, usually we kind of term May the 25th as kind of a date, which is about two months after what we expect, typically, the end of the Indian harvest to be; it's kind of a demand tipping point.

This year, because of the late harvest in Turkey, coming in first to second week of June, we saw the tipping point kind of being a confirmation from Turkey that the crop's going to be average to below average and nothing better than that. So, demand did pick up.

In terms of our results for quarter two, we didn't see a lot of the demand pick-up actually reflected. Because, as you know, with our revenue recognition and the transit time to ports, if we started shipping increased volumes in the first week of June, maybe 10 days or eight days of that actually got into quarter two.

So demand has been much stronger. We have traditional buying in North Africa, Middle East, going on. We had pre-Ramadan demand filled in terms of June shipments that could be done promptly to arrive late July. That got there before Ramadan.

And then we've seen continued buying in terms of a replenishment of post-Ramadan stocks. So Ramadan will end at the end of August. On the 29th of August is the end of Ramadan. Stock levels will be at a low level, because if you're familiar with the culture, everyone breaks fast with quite large, extravagant feasts. And so there is a lot of food consumed, and pulses and pastas and rices and bulgur are a very important element of the Ramadan celebrations in terms of traditional cuisine.

Canadian new crop will not be available for a post-Ramadan replenishment of stock, so we saw a tipping of old crop stocks being taken in to be able to arrive late August, early September and move in.

With the new crop coming upon us, we've got very positive fundamentals. You want old crop at a cheaper price. We have the facilities to be able to deliver that to you.

You want new crop, better quality? We have the facilities to deliver that to you.

And so, from that perspective, that kind of leads to the optimism. We get what I would consider to be, in terms of our North American situation, the best of all worlds. We have cost-effective product. It's harder to process, but we can do it. And that may be at a cheaper price. And we've got the brand new stuff that's really looking good. I think it's -- I'm very optimistic about it going forward.

CHRISTINE HEALY:
So it sounds like you've seen some good volumes in July and August then.

MURAD AL-KATIB:
Correct.

CHRISTINE HEALY:
Okay. And then --

MURAD AL-KATIB:
And from the utilizations, definitely picked up dramatically.

Like, I can tell you that our utilization of assets, in particular the month of May, was, I think, the second-worst utilization in our history, only second to May of 2010. So it was definitely a period where we had assets that were sitting idle; but on the other hand, as the company prepared for a new crop season, our assets were idle, but they were maintained, so we did all of our annual maintenance. We had staff taking scheduled vacations, so we're ready to roll for the second half, Christine.

CHRISTINE HEALY:

Okay. And then just moving on to this year's crop, so I agree with your comments that there is mixed reports on Canada's crop this year. Maybe you guys can clarify a few things.

On quality, I just want to confirm here, if we see that three-quarters of lentil crops from good-to-excellent condition, is that not a decent measure of what proportion of lentils will fall in the top two grade categories, number one and number two?

And then second, maybe you can give us AGT's estimates of average lentil yield this year? Because StatPub's using 1,100 pounds, AgCan is using 1,200, but I'm hearing reports that it's closer to 1,400, so the yields are trending well above expectations. Maybe you can comment on that?

MURAD AL-KATIB:

Okay. Let's take the first part of your question. Traditional Canadian lentils fall 75% into the number two or better quality. Okay? This is 70% to 75% is the traditional average year, in the top two grades. This was why 2010 was such a year in 40 years, where 70% of our crop actually was in the bottom grades, not in the top two grades. So the good-to-excellent conditions are actually trending higher than the historical average, which bodes well in terms of lentil conditions.

Now -- so we're expecting that to be a very good, indicative representation of the quality parameters that we're going to see. And in fact, with the hot, dry weather, I'm sitting in a -- looking out a window at a glorious 28-degree Celsius day today with the sunshine in Saskatchewan and we can just hear the combines humming as we drive down the road here. So it's very ideal conditions.

In terms of yield estimates, one of the fundamental flaws of the historical, statistical usage of average data is that the lentil varieties today grown are significantly higher yielding than the older varieties that are taken at a 10-year average.

If you look at the yield data from the Crop Development Centre's trials on red lentils, the -- let's say our king red lentil that we like to talk about, last year, was approximately 147% of the base line yield data in the trials. So that's a 47% yield gain over the base line, which is the old crimson lentil variety from 10 years ago. And so that was just a one-year trial, but it shows you the trend, Christine.

So, while I'm not going to be in a position to peg the exact pounds per acre, we'll leave that to the economists, who don't actually do our business every day, they just like to talk about it, we'll let them all stew about that.

But certainly yield gains are potential and we're hoping for tending days -- 14 days of nice sunshine to get it all done.

CHRISTINE HEALY:
All right. The last question for me, and I'll pass it on, but what should we expect for CapEx this year? I know you guys have a lot of major projects that have just been completed and there's still some in the works, so what's a reasonable estimate for us to use?

MURAD AL-KATIB:
I mean, if we're talking about capital expansions and things, we've been quite vocal about continuing on our path of multiple tuck-in acquisitions per year and for those of you who do know me from the past, we were a little bit quiet for the last few months, but we'll continue down the path of solidification of the U.S., China, Australia, Southern Africa, Turkey and India. So we've got a full plate ahead of us.
I don't have an exact dollar figure. It'll depend on the flow of our deals. Because we don't overpay, we wait for the right deals.

In terms of maintenance CapEx, we continue down the path of $6 million to $8 million on maintenance CapEx. We have a continuous maintenance program, and we go from there. So we'll move on. I think we've got the next question.

OPERATOR:
The next question comes from Steve Hansen of Raymond James. Please go ahead.

STEVE HANSEN:
Oh, yes, good morning, everyone.

Murad, just -- I'll just limit it to one here, but with respect to Australia, it seems your recent acquisition has helped augment the geographic footprint from product diversification and your distribution. But can you speak to what type and perhaps what scale of assets you still -- are still on your wish list for the country?

MURAD AL-KATIB:

Yes. I mean, in terms of Australia, I mean, if you look at the footprint that we've developed now, we've got a very strong base of assets within the three main pulse producing regions, Victoria, South Australia and now the New South Wales acquisition.

I think that a very important point of it is two of our three locations are directly serviced with rail service directly into either the port of Adelaide or the port of Sydney. And I can tell you the direct rail access for containers from your site into the various port locations is not something that's readily available, so they're not creating more train slots into these busy, congested port facilities. And so we have a very strong, logistical advantage from which to build our sales and distribution platforms out of Australia.

Further investments will be on processing plant infrastructure improvements. We do not subscribe to the view that bulk grain handling will dominate the pulse industry at any time in the future. This is a processed, differentiated, segmented, product grouping that is destined for direct human consumption and food ingredient use. And so, from that perspective, we are almost alone in our bid to build a modern and responsive processing infrastructure for the global food demand out of Australia. That's where we're going to continue to focus.

So the introduction of splitting plant in Victoria is done. We'll be looking at another splitting plant throughout Australia to focus on desi chickpeas and faba beans. We'll be looking at colour-sorting technologies, as we do in many of our plants. And we'll look at building out a platform that will supply our plant expansions into the Indian subcontinent and distribution and processing and our continued penetration of the North Africa-Middle East region.

STEVE HANSEN:

That's helpful. Thank you.

OPERATOR:

The next question comes from Keith Carpenter of Canaccord Genuity. Please go ahead.

KEITH CARPENTER:

Hi, good morning. Just a question on, if we look at G&A, how it's broken out on your income statement, we had $5.4 million in the quarter versus $4.6 million last quarter and then on the marketing and sales distribution, $6 million versus $4.7 million previously. Could you just comment on what part of that you think would be recurring? How we should think about those numbers going forward?

MURAD AL-KATIB:

I've got to see those numbers. I don't have them right in front of me. So, go ahead, Lori. Which numbers are we--

LORI IRELAND:

So you're comparing the quarter ended 2011 versus 2010?

KEITH CARPENTER:

No. Q2 versus Q1 this year.

LORI IRELAND:

Okay. Q2 versus Q1. I guess within the G&A expenses, what you're seeing in 2011, I think, will be a fairly -- in June 2011, should be a fairly recurring number.

KEITH CARPENTER:

Okay.

MURAD AL-KATIB:

Yes, I mean there was probably -- I'm just trying to see the table, if I can just have the -- I'm sorry, Keith, you caught me without my MD&A up here at the base. So you're talking about -- just which numbers did you ask about specifically? I didn't have it in front of me when you asked.

KEITH CARPENTER:

I -- the G&A in your income statement is $5.4 million Q2, it was $4.6 million in Q1 and then similarly the marketing sales and distribution expense was $6 million or $5.99 million in Q2 and $4.7 million in Q1. I was just wondering if we should look at that as more of a recurring run rate going forward, or is there some number in there that might come off a bit?

LORI IRELAND:

Well, included in there, as well, is in the G&A, is depreciation.

KEITH CARPENTER:

Yes.

LORI IRELAND:

But I think that those numbers should be fairly consistent.

KEITH CARPENTER:

Okay. Perfect.

MURAD AL-KATIB:

Yes, we have a little bit of the maintenance programs that were in the Q2 that may not be recurring because we had a concentration of maintenance expenses.

So that kind of counted toward, if I look at my MD&A table, on the op expenses, where the depreciation is broken out there.

KEITH CARPENTER:

Yes.

MURAD AL-KATIB:

You can see a very slight increase, Keith, from one quarter to the next; only $8.9 million up to $9.35 million, and so part of that is a ramp up in Australia. So you can probably safely say it's pretty close, but you might take it down just a little bit.

KEITH CARPENTER:

Okay. That's helpful.

Can you talk to, just a little bit more detail, two things here. It says in your press release that -- or, sorry, your MD&A, you're talking about China. I know you guys are just ramping up there, but you did make a comment specific to China that you guys are evaluating other opportunities. What that might look like, obviously, without giving complete specifics, over the next year, and you're trying the strategy… and, of course, coming back to India, which of course is a -- quite a market for you guys and how you guys are looking at India, over the next six to 12 months, with you being in there, through an acquisition point of view?

MURAD AL-KATIB:

All of our acquisition expansions into consumption markets, and we view both India and China are actually similar markets for us in terms of our view of them. And I'll tell you, they're very different in that India is a direct production and consumption region of product itself. And it imports significant quantities, due to their demand outstripping their ability to produce.

So a strategy there will kind of mirror a Turkish strategy, where you have facilities to import from Canada and Australia, in particular. You're able to import, you're able to buy local product. You're able to process and you're able to distribute. So we're not viewing India as an export origin. Turkey, we view as an import, distribution and reprocessing. But we also have the export side.

So if we mix China into this mix, China, for us, is also a major consumption market. But interestingly, as you know, Keith, it's not a pulses consumption market. It is a pulses components consumption market, meaning that they consume pea starch, they consume pea protein and they utilize pea fibre.

So our plays into China will be focused on processing and export of beans. So black beans, red kidney beans, light speckled kidney beans and white beans, grown in Heilongjiang, Inner Mongolia, Shenzhen region, out to our markets in North America, Western Europe, Southern Africa and the Middle East. And at the same time, simultaneously, we'll be looking at utilizing our asset base in China that we're going to be building out to import, process and distribute peas for the pea ingredient and snack food markets.

So it's a very exciting opportunity for us. It'll be a multi-phased investment platform. We recognize the difficulty in those two markets. So we will be very cautious in our deployment of capital, where we will deploy, prove our metrics and then deploy the next tranche. And so this will be a five-year kind of program, to be able to build a very significant, sustainable presence, focused on our core products.

KEITH CARPENTER:
That's perfect, all I had.

MURAD AL-KATIB:
Perfect. Next question?

OPERATOR:
The next question comes from Marc Robinson of Cormark Securities. Please go ahead.

MARC ROBINSON:
Good morning, guys.

MURAD AL-KATIB:
Hi.

MARC ROBINSON:

Just wanted to say great to hear you're improving disclosure on the tonnage going forward. So that's great.

MURAD AL-KATIB:

Yes, I know you've been an advocate of that from the beginning, Marc, so we'll do our best to help you.

MARC ROBINSON:

Okay, great. So I just want to explore this India situation a little bit. With them being, I guess, the -- in some ways, the swing buyer, and with the expectation for higher priced products, with -- driven by the higher quality, what's the potential to actually push that higher-margin product into that market?

MURAD AL-KATIB:

I mean, I guess if we knew the answer to that, I'd give you guidance on the earnings. But I mean, ultimately, listen, high quality certainly means the potential for higher prices. At the same time, it's a global market. Okay? Canadian growers, Australian growers, Turkish growers; no one acts in an island environment. And we have to match available supply with available demand and we have to be in a position where importers are able to import.

And we're in an environment where we have global economic strife going on, as we speak. We have volatile currencies against the U.S. dollar. So import values are getting more expensive in certain cases. These are all things that we have our eye on. At the end of the day, it's protein, staple food consumption and supply and demand find a price point at which product moves.

So from my perspective, I think that there's potential that India will come into the market in the second half of 2011, to fill their needs. We're watching very closely the development on their monsoon rains and their pigeon pea crop is really the tipping point. Because the pigeon pea consumption is significant and when it falls short, a substitution is lentils, and a substitution is chickpeas, so desi chickpeas, and a substitution is other pulses in general.

And so, from that perspective, we're under the opinion that monsoon rains are probably around average. But average means good in some regions and not so good in others.

And so that's -- since it's a balance of an average, it's that we're not seeing that’s everybody's average in India. We're seeing variability regionally. So that could play out in a yield problem for them.

I want to redraw to your attention to some of my comments, though. Traditionally in our best years, Bangladesh, Pakistan, Sri Lanka, played an important role in AGT's sales program. We see that continuing. Those are large volume consumption markets as well. And India tends to be high volume, bulk vessels of peas, which plays well in the grain handlers that you guys all cover.

But that's not what AGT is; we're not a grain handler. Any suggestions that we are a grain handler are absolutely a demonstration of the misunderstanding of our business model and from that perspective, ultimately, the Indian demand side, we're looking for the margin opportunities and we believe they'll exist and we'll go after them.

So—and the Australian acquisition, of course, Marc, is one of those that we think the desi chickpea and the mung beans and the albus lupins and the rest of them, those are good opportunities into that region.

We're going to focus on some of those, as well, going forward.

MARC ROBINSON:
Okay. Thanks.

OPERATOR:
Your next question comes from Max Vichniakov of Octagon Capital. Please go ahead.

MAX VICHNIAKOV:
Hi, guys. I've got to go back to the question on the gross margins. Help me understand here, if I missed something. It went down to 2% from 13% sequentially. The MD&A says that the gross margin per ton remains consistent. Is that because the cost of depreciation or the cost of sales went up in the quarter? Or just help me out?

MURAD AL-KATIB:
Max, I mean, basically commodity prices escalated, okay? So when we look at our sales volume, it looks consistent.

MAX VICHNIAKOV:
Yes.

MURAD AL-KATIB:

But we're telling you, the volumes went down about 10%. So if you want to look at it from a percentage basis, yes, gross margin percentage declined. But gross margin percentage is not a good indicator of success of this company because it's all tied to commodity price, which has no effect on our margin per ton. In our business model, we tell you that we try and preserve that margin, no matter what the price is. High or low, we make our money.

MAX VICHNIAKOV:

All right. Okay. I understand.

MURAD AL-KATIB:

When we start to be in a position next quarter, which you've all asked for and it'll give you an opportunity, then, to understand gross margin per ton as a metric, EBITDA per metric ton as a metric, going back to Robert Winslow's question, operating -- or sorry, Keith Carpenter's question, operating costs per metric ton, these are all going to be metrics that you're going to be able to follow AGT, maybe, and model a little bit more accurately. That's what we're going to try and achieve with that metric disclosure.

MAX VICHNIAKOV:

Yes. Perfect. And with the expected production decrease in the U.S., in 2011 crop year, can you comment on your U.S. expansion and acquisition strategy going forward, maybe?

MURAD AL-KATIB:

Max, I'm sorry, the U.S. acquisition strategy?

MAX VICHNIAKOV:

Yes. Or development strategy, going forward?

MURAD AL-KATIB:

I'm -- for us, the U.S. is all about North Dakota, eastern Montana, and it's all about the food industry ingredient platform.

We think that the U.S. food industry is ready for a non-GMO, gluten-free, food ingredient, high protein, high fibre, non-soy-based vegetable ingredient. And we think that the western European industry is even more ready than the U.S. for that type of an ingredient. So our U.S. strategy will be focused on increasing our processing capacity in North Dakota and eastern Montana. We are running at full utilization in our North Dakota plant. We've become the largest processor by driving that asset, and as a result of that, we're focusing so much now on peas and on chickpeas and on other things that we can't even do our lentil business in the U.S. So we will bolster our asset base to make sure that we can do that and make sure that we can focus on the food ingredient markets that are developing for us.

Domestic distribution of dry edible beans, split peas, chickpeas, for the hummus industry, the U.S. Hispanic industry, and for the growing health conscious consumer, that's a big focus for us. So U.S. distribution of our product base is growing dramatically and we're going to continue down that focus.

MAX VICHNIAKOV:

Yes. Great. Thank you.

OPERATOR:

The next question comes from Anoop Prihar of GMP Securities. Please go ahead.

ANOOP PRIHAR:

Good morning. I was just wondering what the abolition of the Wheat Board might mean for your business? There's a school of thought out there that believes you're going to see a large movement of acres out of pulses into grains, but at the same time I'm wondering if you think there's an opportunity there as well?

MURAD AL-KATIB:

Well, thanks, Anoop. I mean, listen, one of the fundamentals to recognize is that growers grow pulses on a rotational program with cereals and oil seeds.

We're in a position where we don't have corn and soybean competition. We're seeing consistently, around 20% to 25% of the acreage into pulse crops that AGT handles. We don't foresee that changing.

I mean, with -- if you look at the, sorry, if you look at the abolition of the Wheat Board, for every advocate that thinks that the grain handlers will generate more positive return than the Wheat Board, there would be an advocate that says that the Wheat Board, as a result of their monopoly status, generated a higher return for Prairie producers than any private grain handler could do on their own.

So from that perspective, our view is that the abolition of the Wheat Board will introduce competition, it will -- we have to remember, Canada is not the driver of the global wheat industry anymore. Canada is a significant player, but we are not in a price market maker position. And with the emergence and re-emergence of Ukraine, Russia, Kazakhstan, and increasing wheat production in other countries, Canada is one of the crowd. So from that perspective, we don't think that the return profile in cereal grains and growers' ability to actually have the benefit of price influence will happen in cereals, at the sacrifice of pulses.

In pulses, Anoop, today Canada is the market maker. Okay? In peas, we're the market maker. In lentils, we're the market maker. And with strong companies like ours, growers are in a position to market throughout the yearly windows, generate positive returns and I've boldly said that lentils and other pulses will remain top five earners, no matter what should transpire in the next coming years. I don't think acreage is going to sacrifice.

In terms of other opportunities for AGT, we are a major miller of durum wheat and we're certainly evaluating opportunities as we build out the Arbella platform in the Canadian market, which is our platform, development is underway.

We'll be looking at opportunities for a Canadian production presence to service Canada, U.S., Mexico, and our growing market; now, Arbella is being sold in five countries in Latin America very successfully. And so we see opportunities for that type of development as we continue to establish our Americas presence for our Arbella line of pasta.

ANOOP PRIHAR:
Thank you.

OMER AL-KATIB:
That brings us to the end of our questions in the session. I'd like to thank you all for joining us. I'd like to remind everyone still on the call that if you have any follow-up questions, you can feel free to contact us at our Regina head office and we'd be more than happy to follow-up with you.

Again, thanks for attending our conference call and I wish you all a good day.

OPERATOR:
Ladies and gentlemen, this concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.