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Alliance Grain Traders First Quarter 2013 Financial Results Conference Call Transcript

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Speakers: **Murad Al-Katib**
President and CEO

Lori Ireland
Chief Financial Officer

Gaetan Bourassa
Chief Operating 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, Operator. Good afternoon and thank you for joining us on our first quarter 2013 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 with some comments, 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?

MURAD AL-KATIB:

Thank you, Omer, and I thank you all for joining us on our conference call this afternoon. Market normalization that we have been forecasting throughout the 2012 year and now in 2013 appears to be picking up its pace based on export statistics from a number of the origins and geographies that AGT is active in. In fact, a number of the conditions we had earlier indicated as requirements for normalization in pulse markets that would aid in the normalization of our business are appearing in the market presently.

Most significantly in the current market are the estimates surrounding production shortfalls in India, which some sources indicate may result in a significant level of pulse imports to India and



the Indian subcontinent markets. These estimates particularly impact AGT in that current harvest volumes are important for India and Indian subcontinent red lentil supplies, a core consumption item for the region.

We have targeted further meaningful improvement of our overall annual utilization in the second half of 2013, as we expect traditional supply and demand periods to show a return to business seasonality that we have seen in past years.

The shortfalls in local production in India and key pulse regions may have a widespread impact not only on red lentil markets but also pulse markets globally. The conditions may represent a demand catalyst that we expect may continue through the second half of the year.

For AGT, the significance of recovery of lentil markets is in margin improvement potential as well as the boosting of utilization for Canada and Turkey, two of our largest platforms for processing. Canada in particular is a key supplier of red lentils to this market, with carry-in stocks from lower export levels in past periods.

India is a large part of the global pulse sector, and imports to this region can assist to drive market prices and volumes to other regions and other origins as well. As pulse demand improves and with them our utilization improves, the greatest impact can be seen with respect to our earnings due to the high fixed cost nature of our business. These conditions may reverse the underutilization of our assets or the change in product mix we saw in 2012, as the temporarily impairment of lentil demand led to lower exports and certainly led to the earnings compression we did report in past periods.

With the late start to spring this year in Canada and in North America, many statistical outlets are estimating rationalization of acres and possible delays of seeding in Canada and the U.S. Weather conditions have improved over the past few weeks in May, which has actually allowed for the gradual progression of seeding activities in North America. Today it is 27 degrees Celsius in Regina. However, rationalization of acres based on seeding intentions of farmers is



being reported by some sources and may result in lower production estimates in Canada and the U.S. for the 2013 season in North America. This may provide a positive with respect to rebalancing supply and exports which have been misaligned recently. Lower supply, decreases in carry-in stocks and increased import demand may have the result of correcting global pulse prices as well as providing positive impact on our earnings. With the better weather in May, later seeding may favour a switch of some acres to pulses that were intended for oilseeds.

Farmers are typically still evaluating seeding options and traditionally continue to do so until they are right in the middle of seeding in May and possibly into early June. This may lead in a reduction in the magnitude of rationalization in Western Canada. Our expectation is that import demand may increase in core consumption regions; with lower supply for production, we expect to see decreases in carry-in to support export activities. This may also have the result of correcting global supplies as well as prices and giving that impact on our earnings that we mentioned earlier.

Of course we continue to always mention credit liquidity constraints, local currency volatility; but these factors seem to be becoming more predictable and the effects of these seem to be dissipating. This is estimated to assist in this normalization, giving local importers more access to credit and more stability in currency to commence larger-scale replenishment programs. We have expected to fill estimated low or depleted local market stocks.

Overall, signals are pointing to a continuation of the more upbeat tone in global pulses, staple foods and ingredient markets that we expect will continue through the first half of 2013 and into the North American grains harvest in August-September and beyond.

With these positive signals in markets, we are happy to report positive results in the first quarter of 2013. I would like to ask our CFO, Lori Ireland, to comment on our first quarter results.

Lori?

**LORI IRELAND:**

Thanks Murad.

The quarter ended March 31, 2013 showed a fairly large increase in invoiced tonnes, both in the pulses and grain processing and the supply chain management and distribution segments, when compared to the same quarter last year. We also saw the gross profit, adjusted gross profit and EBITDA per tonne increase significantly from the same period last year, from \$51.36, \$61.24 and \$22.34 per metric tonne in quarter one 2012 to \$52.45, \$71.05 and \$38.17 in quarter one of 2013.

The first quarter is typically a quarter of ramp-up and high working capital usage. This is demonstrated by the net debt increase from December 31, 2012 to March 31, 2013. The increase is due to increased accounts receivables as well as inventory and a decrease in accounts payable. In addition, approximately \$8.3 million was spent on property, plant and equipment, which was mainly related to the construction of the Minot facility.

We are pleased to report though that net working capital increased to \$283.6 million at March 31, 2013, compared to \$66.6 million at December 31, 2012. This is due to the restructuring of our operating lines to longer-term facilities. This has provided not only an improvement in working capital for AGT but also has provided balance sheet certainty for us.

Although accounts receivable and inventory have increased in absolute value when compared to the December 31, 2012 quarter end number, the days outstanding have decreased when compared to both the annualized December 31, 2012 results and when compared to the first quarter of 2012.

Inventory days outstanding decreased to 68 days for the quarter ended March 31, 2013 as compared to 86 days for both the quarter ended March 31, 2012 and for the year ended December 31, 2012.



Accounts receivable days outstanding decreased to 61 days for the quarter ended March 31, 2013 as compared to 77 days for the quarter ended March 31, 2012 and compared to 76 days for the year ended December 31, 2012.

EBITDA showed an improvement, from \$6.1 million for the quarter ended March 31, 2012 and \$12.5 million for the quarter ended December 31, 2012 up to \$13.6 million for the quarter ended March 31, 2013.

One-time costs include costs incurred during the quarter relating to certain financing and legal expenses, costs relating to the 2012 train derailment in Australia and establishment of the food ingredient platform.

General and administration costs for the quarter ended March 31, 2013 were fairly consistent with the quarter ended December 31, 2012, and include approximately \$600,000 of one-time costs as discussed above. General and administration costs were higher than the quarter ended March 31, 2012 due to AGT's larger global operations, including growth in Australia, South Africa, China, India and the North American food ingredient platform.

Marketing sales and distribution costs for the quarter ended March 31, 2013 were also fairly consistent with the quarter ended December 31, 2012 and were lower than the quarter ended March 31, 2012 due to continued efforts at reducing discretionary costs.

Finance expense of \$5.8 million was an increase over the same quarter last year as well as an increase over the quarter ended December 31, 2012 due to increased utilization of operating credits as well as approximately \$500,000 in prepayment and interest rate penalties associated with the pay-out of debt following the new syndicate and second lien notes.

Income tax for the quarter ended March 31, 2013 was a recovery of \$1.2 million due to the utilization of tax losses in various tax jurisdictions. AGT estimates that the overall corporate tax



rate is in the range of 26% to 26.5%, depending on the jurisdiction of earnings or losses each period.

Non-cash foreign exchange for the quarter ended March 31, 2013 was an expense of \$4.9 million and was largely due to mark to market adjustments on derivative contracts.

As reported last quarter, AGT has now finalized new banking facilities, including a \$270 million senior secured facility with a \$30 million accordion, as well as an offering of senior secured second lien notes, due in five years, with gross proceeds of \$124.4 million. In addition to general corporate purposes, the proceeds of the notes have been used towards the retirement of high risk operating credits and has allowed AGT to “de-risk” our balance sheet by replacing short term foreign subsidiary credits with a 5 year facility and ensuring more interest rate certainty on our emerging markets operating credits, which have illustrated volatility in past quarters with escalating interest costs.

AGT has also finalized an accounts receivable factoring agreement for certain foreign subsidiary accounts. AGT and its subsidiaries are in compliance with covenants as of March 31, 2013. Finally, we reported a dividend paid in January of 2013 of 15 cents per share (or 60 cents annualized). Thank you.

MURAD AL-KATIB:

A number of other initiatives are contributing to our optimism of positive developments for our business. Earlier in the year, as Lori mentioned, we had announced our new credit facilities. We feel this is a critical competitive advantage for AGT as markets normalize and we begin to achieve more traditional volumes in our business. Our ability to execute our sales and expansion strategy has always been a critical component to the strength as a company. And the availability of the correct debt instruments to fund our growth in particular in emerging markets, will continue to build this competitive advantage. With certainty on our balance sheet, we feel that is very positive.



The initiatives we have undertaken with regard to efficiency and cost reduction, working capital management and product diversification continue to progress. We expect they will provide positive results in our business and we have reported success in this area as evidenced by the dramatic improvement in our inventory and receivables turn metrics reported in this period as compared to 2012. Decreases in our costs along with increases in our utilization will certainly significantly impact our earnings in a positive way.

Our core pulses business is returning to more normal and we are continually working towards diversification of that segment to reduce the reliance we have on global lentils.

As I mentioned earlier, lentil exports appear to be increasing, which may have positive effect on our business. However, as a managements group, we are committed to insulate our company as much as possible from fluctuations in global markets in the future. An added focus on chickpeas, beans and other products we have not handled or focused on as much are being pursued. This includes boosting our efforts in new products such as cereal grains, oilseeds, flax seeds and canary seeds in many of our jurisdictions. As well, we have renewed merchandising and distribution activities in non-traditional or secondary markets to create sales opportunities such as a continued focus on developing opportunities in Latin America.

Finally, we continue to grow our packaged foods business, such as Arbella pasta and our bulgur and rice products group. We expect that these initiatives will certainly continue to be a component of our growth plans.

Another component—a very key component—to our diversification endeavour is our new pulse ingredient platform focused on flours, proteins, starches and fibres. We expect this platform to provide new margin opportunities with our new plant in Minot, North Dakota, where construction with material was complete at the end of Q1 and which started with commissioning activities in Q2. Completion of these commissioning activities to ramp up to production is targeted for completion late in this quarter—of Q2—and this is in time for the commencement of shipments



through our exclusive marketing agreement with Cargill as well as opportunities through our own marketing endeavours to food and feed companies globally.

These products are attractive to food and feed companies producing branded products for retail and food service sale as well as pet food, our branded animal feed products, to consumers around the globe demanding a high-protein, high-fibre, non-GMO vegetable source of ingredients. We forecast these opportunities may be significant, and we feel as a company we have taken the correct steps to set up and implement this business unit. Our agreement with Cargill, the multiyear exclusive supply marketing agreement for North American pulse proteins, demonstrates recognition by major ingredients and food companies that pulses and ingredients can provide nutritional benefits, cost savings and product advantages to food, branded feed and pet food suppliers.

Food and pet food markets are looking for new protein sources and are attempting to solve emerging allergen issues such as corn, soy, wheat and egg allergies. Pulse proteins, starches and fibres are showing great promise as an ingredient line that may provide solutions for our clients. This is certainly a position that we have held for a long time.

Positive feedback regarding the pulse ingredient platform we have introduced is also leading our Management group to investigate opportunities for future conversion of some of our under-utilized Canadian facilities to pulse ingredient production as well as in the addition of ingredient production in Turkey to complement our U.S. facility and planned Chinese plant. This platform, we expect, may create opportunities for the growing demand for these non-GMO and gluten-free pulses and ingredients and provide significant margin potential as well.

We are entering the seasonally quiet period in this second quarter where pulse markets "reset" with India and Turkey harvest and North America seeding; however, we remain positive regarding the balance of 2013 and 2014 with markets returning to normalized flow of products, potential for a return to traditional margins and earnings; we anticipate these to materialize slowly as we move through the end of this year. By focusing on the core competencies and



strengths of our business, including the strength and experience of our management team, the geographic diversification of our assets, our global reach for sales and distribution to virtually all pulse consumption markets around the globe, a clearly defined and executed risk management program, and adequate access to capital in a capital-constrained global market, these are all particular elements of a success strategy. We continue to be optimistic about our ability to normalize our business and deliver long term value of cash flow and earnings to our shareholders. I thank you for your interest in AGT and Omer will open it up for a brief Q&A.

Operator, we will take the first question.

OPERATOR:

Thank you. The first question is from Steve Hansen of Raymond James. Please go ahead.

STEVE HANSEN:

Yes, good afternoon everyone. Murad, with respect to your pulse protein ingredient business here, I was just hoping that you could, one, give us some sort of maybe a anecdotal or quantitative count of how well these initial marketing efforts are going by Cargill? It certainly seems that yes, they are going well but I am just trying to get some sort of sense as to how much they seem to be able to sell going forward from your plant's perspective and, two, just give a sense for your conviction towards these conversion opportunities that you are speaking to.

MURAD AL-KATIB:

Well I think, you know, Steve, as everybody says with regards to AGT, the proof will be in the results that we generate and report. We are planning, as we ramp up, the end of this quarter will substantially complete our commissioning, and so we expect that later on this year and probably into Q3 we will potentially look at a new reporting segment to be able to give you the ability to track the results of this as it starts to ramp out. We are very positive on the initial feedback in terms of the pilot and the test loads of product that went out of our Williston, North Dakota factories, so we have a pilot line producing flours and fibres currently. The laboratory that we



built in Saskatoon that is working on ingredient and product development which is fully commissioned as of end of last year—it is a group of scientists working collaboratively with both pet food, branded feed ingredient and food companies. We are very encouraged by the results of not only the Cargill agreement but the other initiatives that we have into the food and the feed sector, the starch and fibre side. So the foreshadowing and this is our comments regarding—we have started to look at the potential of conversion of other facilities. We need to bring Minot onto stream. We have the capability to triple the production of that facility with a limited capital expenditure because when you build a factory like this, Steve, you build the infrastructure, meaning all of the storage, receiving, primary processing, peeling and splitting, flour milling and then you just have to do the large scale fractionation which we can add capacity for. So our focus right now is ramp up of Minot facility to full utilization in as quick a fashion as we can and then start to look at additional incremental production in Canada and Turkey.

Our conviction remains very strong in this area and it is not just our view. The Cargill agreement really provided verification that this isn't just Murad, Gaetan, Lori's view that this is a great opportunity. What is driving it is multiple factors; protein demand. You know, it's there, but really what is driving this more as we get more into it is this desire for protein that is of a different allergenicity than soy and eggs and corn and wheat, and we see that as a really good opportunity, but also, surprisingly, we are seeing a lot of opportunities in using pulses in complementary fashion. I like to tell people that delve into this area that cereal grains and pulses together actually give you a complete protein. So the cereal protein has one amino acid profile but pulse protein has another and together they are complete. So that is one of the other areas that we are seeing strong interest from the food industry. So stay tuned, Steve. You are going to see it ramp up and you are going to get to see it in a segment—that is our plan. So I think it is going to really be quite visible and positive for us.

STEVEN HANSEN:

Very helpful. Thank you.

OPERATOR:



Our next question is from Jacob Bout of CIBC. Please go ahead.

JACOB BOUT:

Good afternoon. You were making the comment that capacity utilization was up in the quarter, and certainly volumes were up nicely, but margin was down and just could you talk a little bit about what was driving that; I would have thought with as far as capacity utilization should have been higher. And then maybe as a follow up here, Canadian exports are up of lentils in general. Maybe just talk about the split of red versus green and processed versus unprocessed. Is there more stuff going out of Canada that is less processed?

MURAD AL-KATIB:

I guess let's start with one thing, I guess the first part on your margin Jacob, if we look at Q1 2012 versus Q1 2013 our margins actually were improved, so I think that one of the things that we have to recognize is that the seasonality of the business is that you do typically see a Q1 margin profile that could be a little bit tighter because India is harvesting and Turkey is getting ready to harvest and the shipping period is leading up so importers are very cautious about pricing. When you are seeing demand, it is very cautious demand, even with improved tonnage going out; I think that is one of the things that we always see in the Q1 period. So I think that what I took away from the quarter that I think is very positive is that we saw a strong demand period. We were able to boost our utilization on our processing segment up from low 50s to low 60s, and I think that what that allows us to see is it allows us to see the positive potential that, as we continue to get into more traditional periods of demand, like the Q3 and Q4 periods, that if we see that demand fluidity and the regular seasonality of our business, then we will be able to drive sales programs in the right direction.

GAETAN BOURASSA:

This is Gaetan here. On the split of lentils in the first quarter, it was fairly even. It probably would have been about 180,000 tonne of red lentils and the balance being green split over the three times, the large, medium and small green and then on the Q1 margins—I would say that that is probably—a big part of it was the red shipping. It's a large program for us, and with the cold



weather through January, February, March, there was some rail fall-downs. We had to use alternate means of transport to get our product to market. So that probably did make a good part of that difference.

MURAD AL-KATIB:

Yeah, very good point, that is not something that we actually really talked about a lot, but many of you following the ag sector saw trains buried in snow in Saskatchewan and I think this is one of our top ten snowfalls in the metrological history. So certainly those kinds of things affected a bit of the ability to get product into market in a timely fashion. I think in general, as I keep saying, I am encouraged by the fact that demand is coming back. Part of the strength of AGT is our ability in a normalized demand scenario to pick our spots, to originate in market into margin opportunity. When there are no demand catalysts and no demand regularity, it is very difficult to produce margin. So I think from that side of things, we are quite encouraged.

JACOB BOUT:

And then as far as that question, but the processed versus the unprocessed?

MURAD AL-KATIB:

Yeah, the processed versus unprocessed, listen, there is unprocessed bulk vessel shipment that is going. The target of that will only be two main markets: India, and—I think Turkey had how many vessels, one vessel or something?

GAETAN BOURASSA:

A couple, yeah.

MURAD AL-KATIB:

One or two.

GAETAN BOURASSA:

Very similar to last year; at this time, lentils from Canada in between that 150-160 range August to April.

JACOB BOUT:

In the unprocessed?

GAETAN BOURASSA:

Yeah, now that is the majority of unprocessed to be in the bulk vessels.



MURAD AL-KATIB:

Yeah, so we are not seeing any major shift Jacob. Remember, we compete with the unprocessed bulk vessel shippers. They take it into large importers who then have to bag it, put it in the warehouse and then put it into smaller buyers. We go directly to those buyers. So we are not seeing any major shift in terms of overall composition.

OPERATOR:

Next question is from Marc Robinson of Cormark Securities. Please go ahead.

MARC ROBINSON:

Thanks. My question was basically answered but just to get maybe a little bit more colour, it was around this idea that the volumes, you had a monster quarter in terms of volumes and you really didn't see a lift in margin sequentially, so Gaetan, in terms of the weather-related impact of some of those logistics issues on margin, are we talking like \$5.00 a ton, \$10.00 a ton? I am just trying to get a sense of how much of that was weather...

GAETAN BOURASSA:

It would be close to \$10.00 a tonne for that period.

MARC ROBINSON:

That particular issue? Okay.

MURAD AL-KATIB:

Yes, it is not a new material impact Marc, but you know, once again it is the business and when I look at it, again, I don't want everyone to think I am being overly optimistic but it is Q1 and it is an improvement over Q1 of 2012. We are optimistic on our ability to lift margins in 2013 over what we saw in 2012. Now if we can lift margins in general, quarter over quarter, and demand catalysts provide the ability to increase our utilization, we have a much better result in 2013 than we did in 2012. So when I look at things today, those that are following the company quarter after quarter will see that things are playing out as we had suggested. We saw now 2nd quarter,



3rd quarter, 4th quarter, Q1, four consecutive quarters of improvements and Q2 is a seasonally weaker quarter which is normal in this business but we are foreshadowing strong Fall periods. So we are quite happy with the position that we are seeing today.

OPERATOR:

The next question is from John Chu of Altacorp Capital. Please go ahead.

JOHN CHU:

Hi everyone. So just maybe following up on the demand that you are forecasting for this fall, how important is India to that equation then and I guess when do we start to really get that first sign? Is it really come the harvest and we will start to get a sign of that or are there other signs that we can point to as the months come by to give us a better sense that that is starting to really pick up?

MURAD AL-KATIB:

Well you know the issue John for you as an analyst is that the statistics do lag a little bit. But I think the one thing that we take away is the strong export performance in Jan.-Feb.-March really does give some support to the hypothesis that India did have quite a core spring condition and so demand continued through a period where—you know, in traditional years, if India has a normalized crop, we don't ship anything to India in February-March-April. So it is a market that would go silent because they would only consume their own local crops. So I think that we have got to watch the next events that we see, the Q2 periods. You know, the Q2 period we saw continued strength in the early part of the quarter. We usually see a bit of weakness towards the end of that quarter, but I think we're going to see a post Ramadan restock in August and then into our new crop in September and beyond. So India is a big part of it, but the rest of the world will also, you know, kick in some market strength along with India, I think.

OPERATOR:

The next question is from Christine Healy of Scotiabank. Please go ahead.



**CHRISTINE HEALY:**

Thanks, hi, guys. Just changing gears a bit, I wanted to ask about competition. Murad, I know that Viterra was a main competitor of yours on lentils and some other specialty crops in both Canada and South Australia. I know it hasn't been long, but have you guys seen any changes to date with Glencore taking over the helm, or does your team expect any? Do you think that Glencore could exit the business and would other large players?

MURAD AL-KATIB:

Well, I think, Christine, at this point it's still really early to tell. I think that there's a lot of transition in the Glencore strategy, going on around and we just saw the completion of the asset transfer to Richardson on the Canadian platform within the last month or six weeks. So, we expect as we see Glencore around the world focusing very strongly on large bulk commodities and cereals and oilseeds and those types of commodities were, in my opinion, certainly a driver of the acquisition. It certainly wasn't beans and lentils that drove the acquisition of Viterra by a very successful company like Glencore.

So we expect the bulk shipping program in pulses to continue to complement their bulk programs elsewhere. We don't anticipate it becoming a focus of any of the bulk players because the volume isn't there compared to the commodities of corn, soybeans, cereals, oilseeds. You know, that's what those big companies are all about; it's bulk conventional shipments.

I always remind people, their success is based on 50,000 tonne Panamax. Our success is based on 20-tonne process containers guaranteeing the maximum percentage of cracked seed coats to a European bean processor to guarantee the viscosity of their beans. Very different business.

OPERATOR:

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



**ANOOP PRIHAR:**

Just a question on the receivables balance and the inventory balance. I know when we spoke about this exact issue on the Q4 conference call, you had indicated that the inventory receivable levels were higher than they had been typically just because you had a bunch of sales that were sitting there waiting to be booked and that we should see those numbers drop sequentially as we move into Q1. Now, that hasn't happened and I'm wondering why that is the case.

MURAD AL-KATIB:

I think that there're two factors. One is price has escalated quite dramatically in the first quarter, so overall revenues and size of inventory receivables were affected at Q-end snapshot. And we have to remember, we aren't snapshotting any March 31st, so we look at a very heavy shipping period in mid-Feb. to end of March. You know, of course, the receivables and inventory levels to meet the shipment programs that we had in place and even spreading into the Quarter 2 period, they were evident on the balance sheet. I think one of the things to focus on, Anoop, is the significance of the days inventory and the days receivable outstanding.

I mean the reduction we reported in Quarter 1 on a Q4 measurement and a Q1 2012 measurement. We're talking about, I think, what's the number, Lori, 30 days combined improvement in those two metrics? You know, that is a very significant improvement that will rear its head in terms of results in the coming quarters. So when we see the seasonality of the business returning to normal, we expect balance sheet to lever and de-lever as the seasonality of the business shows itself in any cycle in an annual period.

And so what I can tell you is that when Gaetan and I look at the metrics that we put in place for our country operations, we are ahead of target and ahead of schedule. And we won't take our eye off of that particular metric. So you will see that translate into lower levels; we're expecting to see that in the coming periods.

OPERATOR:



As a reminder, for anyone who wishes to ask a question, press * and 1 on the touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. If you're using a speakerphone please lift the handset before pressing any keys. The next question is from Steve Hansen of Raymond James. Please go ahead. It seems Steve dropped. Should I continue with the next question, and Steve, if you can re-queue, Steve Hansen?

MURAD AL-KATIB:

Okay, let's take the next one.

OPERATOR:

Okay, the next question is from Robert Winslow of National Bank Financial. Please go ahead.

ROBERT WINSLOW:

So I just wanted to follow up on I guess two questions ago talking about opportunities in the bulk side, and you mentioned that, you know, whether it's wheat, cereals, corn, what have you, that's the big bulk players. It's a very different business. But also in your MD&A you talk about assessing various asset utilization alternatives, and one of those is, in particular, expansion into beans, cereal grains and oilseeds. So maybe you can just walk us through what your competitive advantage would be given, as you say, that is a very different business. Thank you.

MURAD AL-KATIB:

Yeah, I think you have a very good point, Robert. We're looking at specific niche opportunities in cereals, so when we look in particular at Malaysia, Thailand, the Philippines, Indonesia, we look at the opportunity. In particular, right now our cereal grains platform is aimed at utilization of our Australian asset base. So we have regular millers of wheat that are looking for guaranteed protein wheat opportunities in containers and, you know, we're seeing some of our snack food manufacturing companies are also involved in wheat milling.

And so we see them as an opportunity to put, you know, 100-container blocks of product to utilize underutilized South Australian and New South Wales assets in particular into that. We're



seeing the same thing on the oilseed side of containerized shipments out of Russia, Ukraine and also out of our Australian platform for both canola, flaxseed; sorghum is another one where we see the containerized sorghum trade as another opportunity.

So when we look at these, you know, again we're not looking at bulk vessel quantities. We're looking at 1,000 to 3,000 tonne regular scale buyers, and these buyers are always buyers of other products from us, so they would buy faba beans, broad beans, green peas. And part of this cross selling strategy, Robert, is utilization of unutilized assets, cross-selling into the same distribution platform, taking more of their dollars on the liquid, safe buyers in the world. We like that ability to boost our revenue for a customer over time.

OPERATOR:

The next question is from Steve Hansen of Raymond James. Please go ahead.

STEVE HANSEN:

Yes, sorry, guys, sorry about that earlier. You know, I understand that volume is a key component to ramping utilization in hopefully, you know, bolstering margin over time. But your commentary does seem to suggest that tightening supply of lentils and in particular commodity pricing is an important aspect to this margin enhancement effort now as well. And I'm just wondering how important that pricing aspect of the commodity really is from your margin perspective.

MURAD AL-KATIB:

Well, Steve, don't misunderstand. I mean we're not talking about... We're turning our inventory, you know, to a point where depending on the platform, if I look at my days inventory outstanding, a lot of the inventory outstanding would be in places like my pasta business, the durum wheat and the pasta that we have to keep for retail programs in the Turkish domestic market and others.

So we're not looking at price appreciation that's benefiting us on a margin improvement basis just from the raw commodity price escalation. What we see is that commodity price escalation



provides importer fundamentals to drive their purchasing and demand decisions. It also—I've got to tell you, it allows us to skim the best market opportunities in each market, so when a market is going up we're able to, because we're the originator, we're not the trader of the commodity—I can tell you if the lentil price is going up in a country we're advising our area in the country, in Canada, let's say, we're advising our importers to buy.

And so we're able to, you know, generate margin in an escalating environment by picking our spots and picking our product mix and picking our opportunity. You know, when you've got a deflated market where you're basically pushing uphill every day, like we did over the last say 18 months, late in 2011 and early in '12, you know, it's difficult to generate margin because you're just trying to keep assets busy, whatever you can do.

So I think it's important to note—don't mistake my comments—positive demand catalyst and price fundamentals provide the enabling environment for us to improve margins. That's the environment in which AGT has flourished in the past; that's what I think we're going to be able to show later in 13 and 14.

OPERATOR:

The next question is from John Chu of Altacorp Capital. Please go ahead.

JOHN CHU:

Yeah, maybe just following up on Steve's last question there, maybe is it possible to rank how you expect some of the key drivers to help improve your margins per tonne going forward? So obviously increasing asset utilization, product mix and even rising prices would all be factors, but for your assessment of seeing margins per tonne improving in 2013 and 2014, how would you rank those contributing factors.

MURAD AL-KATIB:

Number one: demand catalysts. We want fluidity of demand. We want normalized seasonal flows going into markets. You know, part of the strength of AGT has always been the fact that



we are geographically diversified in both origins and markets and we're able to arbitrage in normal demand conditions. I think that's a really big part of it. I think that the other big side of this margin improvement, number two, product mix: we believe that the pulse ingredient platform will provide over the coming period a meaningful ability to boost our average margin per tonne across our platform globally.

And, you know, we like the upstream nature of the ingredient market; we like the nature of the business being more of a different macroeconomic profile, John, than the traditional pulse business. So I can tell you that a pet food manufacturing company in New Jersey is not affected by the same macroeconomic effect of currency volatility of the rupee in India. We like that.

So I think that those are the two main things, demand catalyst and product mix. Number three is utilization. When we get back to our target of 67% utilization with a program in '14 and beyond, 3% boost in utilization annually, with the high fixed cost component nature of our business, it will be a meaningful margin or meaningful earnings improvement over the course of the five-year cycle.

OPERATOR:

Our next question comes from Robert Winslow of National Bank Financial. Please go ahead.

ROBERT WINSLOW:

Yeah, Murad, I just wanted to follow up on the earlier question about the transportation issues that cropped up due to the weather in Q1. Was there a deferral? Are we going to see some catch-up of that, in other words get some of those costs back in tons back here in Q2? Have you seen that already?

MURAD AL-KATIB:

Well, I think that there're two things. Listen, part of them, Robert, you just end up losing spots, right. These are spots that you don't get back. So when you miss a rail spot, some of it, you



know, you may find you'll fill in, but I can tell you that if we look at our Canadian platform, there's two things that I don't think we've made clear enough that I'd better mention. Margins overall improved Q1 versus Q1 of '12, but when I look at margins overall for Canada and Turkey in Q1, we saw an improvement, even over Q4.

So, you know, this is a very positive sign because the Canadian and Turkish platforms, being our largest platforms, where the underutilized asset base and margins were constrained as a result of the size of those platforms. So when you have an asset base that's well-utilized, you may lose those spots and you won't see a catch-up. When we look at what we saw though later in March, on rails drops and things like that, we did see an ability to carry over some of those tons into April.

And, you know, the quarter has followed a normal seasonal pattern, which is we're usually busy in the first half or two-thirds of the quarter, then we'll see a bit of a lull which is a predictable lull because India's harvested. Even if it's bad, they still consume what they harvested. Turkey then comes into their harvest May, June. That's a very normalized period where the North Africa market will truly freeze for a period to assess Turkey and then keep rolling.

So we're expecting with Ramadan to be over in late July, we expect a replenishment of demand coming in July-August, leading into our new crop in September. We're optimistic that we'll be able to try and pick up a bit of that.

OPERATOR:

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

STEVE HANSEN:

Just a last one, if I may. Can you speak to your efforts to secure some additional strategic partners or customers on the pulse ingredient side of things sort of as you speak to the global market opportunities beyond just Cargill?

**MURAD AL-KATIB:**

Well, Steve, I can tell you that, you know, because things are running along well enough now, I'm dedicating a lot of my own personal effort with the team that Gaetan has built with the country managers and things. You know, the traditional pulses business, we're expecting it to continue to improve. The pulse ingredient initiative, you know, is one that we're putting significant management effort into developing additional strategic partnerships and sales opportunities.

And, you know, part of this is that although we're only talking about it with a lot of vigor over the last few quarters, you know, this is an initiative that has been in the works for over four years, you know, looking at the R&D side, the building of the factory, recruitment of the scientific team, building of the science product development, ingredient development center in Saskatoon, you know, which some of you analysts I think are going to have a chance to see that in the coming months.

Some of you have requested to come and see. It's really something to see actually, to be able to see the development of the different products that we have in the development on a business to business strategy. You know, we're developing ingredient products that have widespread application in food, pet food, branded feed, aquaculture and industrial uses. So, you know, I think that there'll be a combination. We may see additional strategic partnerships like the Cargill, but many of these agreements are going to be closed-loop, confidential contracts that companies are going to sign.

A lot of these aren't one-offs; this is what we also like about the ingredient business is that once you secure an ingredient solution into a branded product, it becomes a long-term supply contract. We like that. We think it's a very different business than the spot nature, the macroeconomic-affected nature of the current global pulse business.

Now also don't take our comments the wrong way. We're not going to give up on our current business because it's making us money; it will improve. But this new business is one that we



see a lot of potential in. So North America and Western Europe are the big focuses; we'll also see a bit of focus in Southeast Asia, but Canada, U.S., U.S. in particular, and then the European side on the gluten-free, non-GMO, that's a big push in Europe.

OPERATOR:

The next question is from Christine Healy of Scotiabank. Please go ahead.

CHRISTINE HEALY:

Thanks for the follow-up. Murad, you talked last quarter about AGT supplying much more product to U.N. Food Aid this year. It's lower margin but good volumes and good payment terms. Can you tell us roughly how much volume that was this quarter and when those volumes are expected to fall off?

MURAD AL-KATIB:

You know what, Christine, I don't have an exact figure, but I can tell you that in the trading and distribution platform, we did have some pretty significant volumes. It was a big part of the jump and when you see, of course, the geographic proximity of the Arbel Group compound in Mersin, Turkey to the United Nations refugee camps that are located on the inside of the Turkish border, we have that regular program ongoing.

To be honest, Christine, we don't anticipate these volumes necessarily tailing off until 2014. We expect it will be a good, incremental, 14-day payment kind of business that we like to augment our earnings as we go forward. You know, this is all part of the catch-up of the '11 and '12 disruptions caused by Arab Spring and the political unrest.

We're seeing continued contracting programs in Algeria, Egypt, Libya, Syria, Iraq, Iran, we're seeing all of these governmental programs, Kuwait, also continuing and we like the profile of those. So some are lower margin, some are okay, so we're seeing pasta, you know, also being part of the tenders, lentils, rice and those.



OPERATOR:

Our final question is from Robert Winslow of National Bank Financial. Please go ahead.

ROBERT WINSLOW:

Hi, sorry again, question three. Murad, can you tell us please: Cargill, your relationship with Cargill. Do they have any restrictions or covenants for your balance sheet? What I'm getting at, is do they put some kind of limitations on you, they want to keep your balance sheet at a certain level for their comfort? Is that something that you can talk about or maybe there is no such restriction?

MURAD AL-KATIB:

Well, I can tell you, Robert, first of all there is none, but I can tell you with \$434 million of current assets that are EDC insured and that are inventory that is booked and physically reconciled every month, I don't think there's anyone except maybe our analyst and a few of our investors that are looking at debt levels and not considering the cash conversion nature of our current assets. So the answer is no, there's nothing like that, and frankly when I look at the rebalancing of our net working capital position, we have a balance sheet that I think in our industry is the envy of our competitors.

So I'm pretty comfortable that the working capital initiatives are going to lead to absolute debt reductions over time. But, you know, in order to do our business we must acquire pulses, we must process them, we must ship them to a client, we must use our risk management program to protect our payment risks and we must convert it to cash and start the cycle over again.

That's the business that we're in and the syndicate and the senior notes offering took our short-term credit, converted it to long-term, provided us with our interest rate certainty. And I will tell you that our prediction is very strong. This financing will become a major competitive advantage for AGT in the coming two-year cycle because our competitors are largely, globally, family undercapitalized companies that will not have access to a balance sheet like ours.



So I think I'm very comfortable representing to Cargill and to every major food company in the world that we are financially in a very strong position to be a long-term supplier for them.

ROBERT WINSLOW:

That's helpful, thanks.



OMER AL-KATIB:

And that brings us to the end of our questions in the session. I'd like to thank you all for joining us on the call today. I'd like to remind everyone that's 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'd like to wish everyone a good day.