Alliance Grain Traders Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2012 AND JUNE 30, 2011

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The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operation has been prepared by Management to help readers interpret Alliance Grain Traders Inc.'s ("AGT" or the "Company") consolidated financial results for the three and six months ended June 30, 2012 and June 30, 2011 and should be read in conjunction with AGT's audited consolidated financial statements and related notes thereto for the year ended December 31, 2011. The consolidated financial statements have been prepared in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS"). Additional information related to AGT, including periodic quarterly and annual reports and the Annual Information Forms ("AIF"), filed with Canadian securities regulatory authorities, is available on SEDAR at www.sedar.com and on AGT's website at www.alliancegrain.com.

This MD&A has been prepared as at August 7, 2012. All references to AGT or the Company include its subsidiaries. All amounts are in Canadian dollars unless otherwise stated.

Caution about forward looking statements

This MD&A contains certain forward-looking statements. Forward-looking statements include, but are not limited to, those with respect to the price of lentils and other crops, the estimated size and quality of future harvests of lentils and other crops, costs of production, currency fluctuations, the growth of AGT's business, strategic initiatives, planned capital expenditures, plans and reference to future operations and results, critical accounting estimates and expectations regarding future capital resources and liquidity of the Company. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of AGT (including its operating subsidiaries) to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risks and uncertainties include, among others, the actual results of harvests, fluctuations in the price of lentils and other crops, failure of plant, equipment or processes to operate as anticipated, accidents or labour disputes, risks relating to the integration of acquisitions or to international operations, as well as those factors referred to in the section entitled "Risk Factors" in AGT's most recent AIF, which is available on SEDAR at www.sedar.com and on AGT's website at www.alliancegrain.com and which should be reviewed in conjunction with this document. Although AGT has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Although AGT believes the assumptions inherent in forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as at the date of this MD&A. In addition to other assumptions identified in this MD&A, assumptions have been made regarding, among other things, Western Canadian, U.S. Northern Plains, Southern Australian crop and Turkish production quality in 2011 and 2012 and subsequent crop years; the volume and quality of crops held on-farm by producer customers in North America; demand for and supply of open market pulses; movement and sale of pulses in Australia and Turkey, particularly in the Australian states of South Australia, New South Wales and Victoria; agricultural commodity prices; demand for lentils, peas, chickpeas and bean crop products and the market share of these products that will be achieved; general financial conditions for Western Canadian, U.S. Northern Plains, Turkish and Southern Australian agricultural producers; market share of pulse deliveries and sales that will be achieved by AGT; the ability of the railways to ship pulses to port facilities for export without labour or other service disruptions; the ability to maintain existing customer contracts and relationships; the impact of competition; the ability to obtain and maintain existing financing on acceptable terms; and currency, exchange and interest rates.

AGT expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required in accordance with applicable securities laws.

Non-IFRS Financial Measures

AGT provides some non-IFRS measures as supplementary information that Management believes may be useful to investors to explain AGT's financial results. These non-IFRS measures include EBITDA* (earnings before interest, income taxes, depreciation and amortization, restructuring costs and any effects of non-recurring and other costs and non-cash foreign exchange adjustment), Adjusted Net Earnings* (earnings before any effects of non-recurring and other costs, restructuring costs and non-cash foreign exchange adjustments), Net Debt* (bank indebtedness, short term financing and long term debt less cash) and Net Working Capital* (current assets less current liabilities). Management believes that these are important measures in evaluating performance and in determining whether to invest in AGT. However, EBITDA*, Adjusted Net Earnings*, Net Debt* and Net Working Capital* are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. In addition, AGT may calculate these measures differently than other companies; therefore, such measures may not be comparable. Investors are cautioned that EBITDA*, Adjusted Net Earnings*, Net Debt* and Net Working Capital* should not be construed as an alternative to net earnings (loss) or cash flows as determined in accordance with IFRS as an indicator of AGT's performance or liquidity. For a reconciliation of net earnings (loss) determined in accordance with IFRS to EBITDA* and Adjusted Net Earnings*, see the table on page 29.

Market Share, Industry Data and Other Statistical Information

This MD&A includes market share, industry data and other statistical information that AGT has obtained from independent industry publications, government publications, market research reports and other published independent sources. Such publications and reports generally state that the information contained therein has been obtained from sources believed to be reliable. Although AGT believes these publications and reports to be reliable, it has not independently verified any of the data or other statistical information contained therein, nor has it ascertained or validated the underlying economic or other assumptions relied upon by these sources and cannot, and does not, provide any representation or assurance as to the accuracy or completeness of the information or data, or the appropriateness of the information or data for any particular analytical purpose and, accordingly, disclaims any liability in relation to such information and data. AGT has no intention and undertakes no obligation to update or revise any such information or data, whether as a result of new information, future events or otherwise, except as required by law.

Highlights of Three and Six Months Ending June 30, 2012

• **Net earnings**[*] were $1.7 million or $0.08 per common share ($0.08 on a diluted basis) for the three months ended June 30, 2012, compared to net earnings of $2.8 million or $0.14 per common share ($0.14 on a diluted basis) for the three months ended March 31, 2012.

• **Adjusted net earnings**[*] were $0.44 million or $0.02 per common share ($0.02 on a diluted basis) for the three months ended June 30, 2012, compared to an adjusted net loss of $2.6 million or $(0.13) per common share ($(0.13) on a diluted basis) for the three months ended March 31, 2012.

• **EBITDA**[*] was $9.3 million for the three months ended June 30, 2012 compared to $6.1 million for the three months ended March 31, 2012.

• **Consolidated revenues** were $201.8 million for the three months ended June 30, 2012 compared to $197.4 million for the three months ended March 31, 2012.

• **Reduction of net debt** of $31.2 million or 11.6% at June 30, 2012 when comparing to March 31, 2012.

• **Reduction of interest bearing debt** of $51.6 million or 16.1% at June 30, 2012 when comparing to December 31, 2011.

• **Cash flow from operating activities ("CFFO")** of $49.4 million for the six months ended June 30, 2012 compared to negative CFFO of $36.6 million for the six months ended June 30, 2011.

• **Dividend** of $0.15 per share for the quarter ($0.60 per share on an annualized basis).

Business Overview

AGT's subsidiaries and facilities in Canada, the U.S., Turkey, Europe, Australia, South Africa, Russia and China handle a full range of pulses and specialty crops including lentils, peas, chickpeas, beans and canary seed, flax and other specialty seeds. AGT's durum wheat milling operations in Turkey produce semolina, pasta (under the Arbella brand) and bulgur wheat. AGT is also involved in milling medium grain and long grain rice in Turkey. Other specialty products such as sunflower seeds, popcorn and grass seeds are produced in other origins as well.

AGT owns twelve processing plants in Canada, two in the U.S., four in Australia, one in China, nine in Turkey, and one in South Africa. Wholly owned foreign subsidiaries include the Arbel Group in Turkey ("Arbel"); United Pulse Trading Inc. ("United Pulse") in Williston and Minot, North Dakota, U.S.A.; Australia Milling Group Pty Ltd. ("Australia Milling Group") in Victoria, South Australia and New South Wales, Australia; Advance Seed Pty Ltd. and its subsidiary Pouyoukas Foods ("Advance Seed") in South Africa; A. Poortman (London) Limited in London, U.K. ("Poortmans") with merchandising offices in the Netherlands and Spain; and Alliance Grain Traders (Tianjin) Co. Ltd. ("AGT China") in Tianjin, China. AGT also operates an origination office located in Rostov on Don, Russia ("AGT Rostov").

AGT is among the world's largest value-added processors and splitters of pulse crops and an international exporter of staple food products to over 100 countries. The Company's common shares are currently listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol "AGT".

Market Outlook – Summary

Market developments over the recent three month period appear to show signals of improvement for pulses and staple food markets. The economic conditions that have adversely affected markets, including importer credit liquidity, unstable currencies and banking and economic stability in the Eurozone region resulting in lower import volumes to emerging markets appear, in the near term appear to have begun to correct themselves, providing importers with positive signals of market stability.

The full impact of harvest results in Turkey and India are still being interpreted by global pulse markets; however, general sentiment is that production has been average to decreasing, resulting in an earlier entrance into global markets by Indian importers than is typically seen. The April through June period is not a typical purchasing period for these markets; however, low or depleted market stocks, demand as a result of an earlier start to Ramadan, decreases in local production and reported deficiencies in monsoon season rains in India and neighboring countries are factors that are expected to provide positive market sentiments, assisting in pulses market recovery. This may translate into a return to normalized trade flows of pulses, specialty crops and staple foods which have historically showed relative inelasticity to macro-economic events.

North American pulses production has been advancing normally, with most regions reporting good-to-excellent growing conditions through the second quarter period and into harvest. Reported drought conditions in the U.S. Midwest are not reaching into the sourcing area of North Dakota and Montana for AGT's U.S. operations, allowing for this region to experience potential for significant gains in production when compared to the 2011 harvest, when floods limited acreage and yields. Overall, growing conditions for the upcoming harvest in 2012 have been reported as positive. Canadian harvest season is expected to begin in early August in regions that seeded early, in late April to early days of May 2012 period. With yield and acreage forecasts unchanged from last year and significant volumes of carry-out stocks from 2011 crop, Management expects ample supply of crops to be available for the 2012-2013 marketing years.

Australian crops are also reported as progressing well in South Australia and Victoria. Desi chickpea and other crops in the northern states of New South Wales and Queensland are showing good yield potential as well.

Current export data from Canada and Australia are showing year-over-year increases for the period, reversing the trend for much of 2011 and early 2012. This has also manifested itself in prices for pulses and staple foods moving marginally higher, in part as a result of depleted local market stocks and drought conditions affecting corn and soybean production in the U.S. The drought damage to these widely-produced crops in the U.S. may have the result of increasing protein price levels overall globally. With pulse price increases, peas and lentils remain one of the cheapest sources of protein available. This may also have the effect of stimulating demand and pricing for pulses, staple foods and regular protein consumption in traditional markets, as well as alternatives to these affected products in the food and ingredient segments. This may also have the result of providing a catalyst for pulses in core consumption markets, providing higher prices and giving local importers confidence that market conditions are unlikely to turn down in the near term. Monsoon deficiencies in the Indian subcontinent regions, drought conditions in the U.S. and lower supply expectations from spring 2012 harvests in India and Turkey are seen by AGT management as positive signals for the anticipated demand recovery in the 2012-2013 crop year.

Generally, pricing for pulses and staple foods has been reported as stabilized to slightly higher with improving market conditions, giving importers optimism for earlier re-entry to the markets. This may have the result of increased import activity to core consumption markets in the upcoming periods that would be the start of resupplying low or depleted local market stocks in advance of high traditional consumption periods later in the year. Current reactive buying to bring minimum stocks to market is expected to give way to traditional buying patterns through late 2012 and 2013.

Current conditions appear to be consistent with AGT management outlook for a second half 2012 return to more normalized business, driven by potential increased import activity to key consumption markets and higher prices, resulting in an estimated return to more normal margin and earnings levels. The current period is traditionally the slowest for AGT business globally, with markets resetting in advance of production results in India and Turkey and estimates from North America. Capacity utilization of AGT facilities globally has been increasing from the low levels seen in 2011 and early 2012 which would be estimated to assist in normalization of margins and earning activities.

In the latter parts of the three months ended June 30, 2012, utilization improved and margins began to show modest improvements, signalling to AGT management signs of recovery of its core pulses processing and distribution business. Red lentil demand recovery is an essential element in the recovery of AGT's earnings, with key markets being North Africa and Turkey and Indian subcontinent markets. Buying patterns in the Indian subcontinent region historically show that the April to June period is a slow period with very little buying activity, as local crops are harvested in March and April and fresh vegetable harvests are consumed in this period. AGT sales in this period showed improved demand when compared to the same period in 2011 and 2010, reinforcing management's view that the region will be an important customer in the 2012-2013 periods. It is important to note that AGT's marketing program success in the region may not be illustrated only by India's own imports, as Bangladesh, Pakistan and Sri Lanka are also important consumption markets where AGT has demonstrated historical market penetration.

The demand for non-GMO, vegetable-based protein found from pulses and staple foods has been historically viewed as a relatively inelastic need-to-have item for a large number of the world's population. Management maintains this view of demand inelasticity and hypothesizes that the temporary demand impairment was caused by the severe global macro-economic shock of the Euro-zone crisis. The indicators for a restart to import demand to fill pent-up consumption demand are now appearing, requiring large scale supply replenishments in most core consumption markets. The estimated production shortfalls in core consumption markets may drive import demand higher and are expected to assist in drawing down high carry-in stocks and ample production in many regions. Combined with positive economic indicators, these conditions are expected to be the catalyst needed to restart the movement of pulses globally and a return to normalized business for AGT.

For detailed discussion of crop conditions and production estimates for significant markets and geographies AGT operates in, please refer to the Appendix 1 – "Regional and Production Summary" at the end of the management's discussion and analysis.

Strategy Implementation

With gradual and steady recovery in pulses and staple foods markets in advance of the traditional shipping periods in the second half of the year, AGT management is optimistic about its ability to develop sales opportunities in its three core platforms for growth: (1) pulses and special crops processing, (2) packaged foods and ingredients and (3) trading and distribution through the balance of 2012. Specifically, this includes offerings such as split and value-added lentils, peas and chickpeas and newer offerings of beans, pasta, bulgur wheat, semolina and rice, as well as a planned pulses ingredient business including flour, protein, starch and fibre. AGT's diversified operating divisions in virtually every pulse and staple food producing origin, with value-added processing infrastructure and origination strength taking advantage of freight options, provide a position of strength with respect to AGT competitors both regionally and globally. A continuing focus on these products and maximizing sales opportunities for these offerings is a key component to generate consistent earnings and margin growth.

Global economic indicators appear to show improving credit liquidity and availability of credit as well as stabilizing local currencies and prices in core consumption markets. These conditions are viewed by AGT management as necessary for more normalized business operations to be achieved, which in turn may have a positive effect on earnings and margins.

Pulses, as a staple consumption item providing non-GMO, gluten-free, low allergen vegetable protein for large numbers of the world's population, are not typically considered a discretionary item, where consumers may choose to purchase another item or substitute one for the other. Pulses generally have no obvious substitution and demand for them is viewed as relatively inelastic. In past periods, importers had delayed purchasing decisions, buying only the minimum needed to supplement local production and maintain local market stocks.

As local production has decreased and import levels have remained low, consumption has generally remained static or increased due to increasing population. The result of this is declining local market stocks and increasing prices. Importers who have hesitated to replenish their stocks because of concerns surrounding credit, currency or fear of being caught in a falling market are expected to begin their replenishment activities in the near term. Market issues are not viewed as supply-related, as available stocks for export from most origins are high due to carry-in stocks and new production and therefore shipments are expected to resume at traditional or potentially increased levels.

AGT management remains optimistic that capital will flow to staple foods in times of macroeconomic crisis, as was demonstrated in the 2008 global economic and banking crisis. Short-term macroeconomic events typically will affect agricultural supply and demand fundamentals much less severely than other sectors. This provides the basis for the expected recovery in 2012. Improvements in customer ability to open letters of credit and clear documentary collections on-time for shipments in the current period are illustrating improvements from the periods in late 2011 and early 2012. Banks, which have been experiencing their own liquidity issues, have re-opened credit facilities for many of AGT's strong importers, allowing for more reliable flows of orders to be shipped from AGT's plants around the globe.

AGT management views the overall impact of drought and production conditions in many of the world's agricultural origins as having a potentially positive effect on AGT's performance in later 2012 and 2013. This may be realized through positive demand trends for peas, lentils and pulses overall consumed in food and ingredient markets as a cheaper protein substitute to the affected crops or as an alternate origin for locally produced supply. Currently, some of these conditions include those affecting corn and soybean growing regions of the U.S.; Russia and Ukraine experiencing drought and the resulting lowered agricultural output; the short monsoon rains in India lowering rabi and potentially kharif harvests; and competition between crops overall for available arable land.

The overall increase in value of protein globally may be interpreted as a further positive signal to international buyers that markets may continue appreciating, which may result in advancement in restocking of depleted pulses inventories in key consumption markets.

Global pulse markets traditionally follow a cycle of traditional and non-traditional shipping periods determined by periods of changes in global supply, such as seeding or harvest in a particular production origin. Harvest periods in North America and Russia/Ukraine (August/September harvest), Australia/South Africa (December harvest), India (March harvest), Argentina (April harvest) and Turkey (June harvest) and the carry-in stocks from these activities determine global supply. This has historically translated to peak global shipment periods in the latter half of the third quarter, the fourth quarter and the first quarter periods following North American and Australian harvest. A reset in the second quarter in advance of Indian and Turkish production, where local production is consumed, and looking ahead to North American seeding intentions typically results in lower volumes shipped before a restart in the third quarter, filling import volumes from the remaining carry-in stocks and early harvest in North American and other origins.

Strategic diversification of origination through investments in U.S. and Australia as well as new sourcing initiatives in Russia and the Ukraine are meant to open up new sources of supply for AGT and are expected to assist in a reduction over time on overall reliance on AGT's Canadian operations. Operations in the U.S. and Australia are seen as expanding operations with key strategic advantages meant to balance Turkey and Canada in the coming periods. Progress on these operational diversification projects has been positive, and AGT management is keen to realize the benefits of the new Minot, U.S.A. facility producing pulses food ingredients and proteins, starches and fibres for the global food industry. The addition of desi chickpea, mung bean and lupin platforms in New South Wales and Queensland in Australia will also advance AGT's operational diversification strategy. AGT has also added a new Director of Northern States in Australia to assist in the opening of a marketing, origination and sales office in Toowoomba, Queensland to complement the current Managing Director in Australia, who resides in Victoria near AGT's operations in the southern Australian regions.

In the long term, AGT management believes demand flow will continue through traditional shipping periods. While this has not been the case in recent periods, when importers continued to buy stocks as needed in their local market, this has resulted in lower export levels which have impacted margins and therefore earnings results. With production shortfalls in the Indian and Turkish crops in the traditional reset period in 2012, local buyers have started to enter the market with purchases for import earlier than they typically would have, which may result in higher sales volumes, margins and earnings.

As a result of the recent impacts that global economic issues have had on AGT's business, initiatives surrounding streamlining of operations have been undertaken by AGT management, particularly surrounding operational efficiency and administration costs aimed at boosting processing margins and management of inventory, risk and short-term or working capital debt. These initiatives are ongoing and have resulted in the lowering of short-term working capital debt required to operate AGT's business. Additionally, cost reduction has begun to provide the desired streamlining effect on operations overall and is positively impacting earnings. These activities are expected to continue in 2012 and 2013 and is expected to allow AGT to manage its debt positions as demand recovers.

As global markets continue their recovery, AGT management forecasts improvements in capacity utilization in the second half of 2012 that would see facility capacity move away from potentially lower margin products such as whole peas, flax and canary seed to higher margin, value-added products such as split and football lentils, as well as colour sorted and sized pulses which may also have a positive impact on margins and earnings. It is anticipated that margin improvements observed in the late part of the three months ended June 30, 2012 may continue as demand recovers in subsequent periods.

Other initiatives, such as scaling back of facility staffing and overheads, cost reductions and capital projects restrictions are forecast to continue in the near term, as these initiatives are viewed by AGT management as providing significant opportunity to continue streamlining operations as markets and earnings improve. Many of the permanent staff reductions were carried out in the first half of 2012 and the beneficial improvement of operating cost reductions will flow through financial results later in 2012.

With regard to integration of previous acquisitions, processes are continuing as planned. Corporate reporting initiatives and information technology standardization to provide AGT management with better tools and information to manage AGT's global operations have continued. These programs are aimed at providing positive contributions through operational efficiency to AGT business in future periods by providing a scalable platform to support the anticipated future growth in 2013 and future years.

In Canada, facility operations are beginning to return to normal in advance of traditional shipping periods after harvest. Canadian lentil and pulse exports are forecast to increase with customer orders driven by low or depleted local market stocks and high demand periods of new crop harvest products. Increased activity is expected in the coming periods as global credit issues continue to be alleviated and local currencies stabilize. Ample stocks are available in Canada and the U.S. for AGT's North American origin sales programs, with significant carry-in stocks and forecasted good prospects for North American lentil harvest for 2012.

In the U.S., activities surrounding the commissioning of the acquired facility in Minot, North Dakota continue with a focus on implementation of ingredients (flours, proteins, starches and fibres) derived from pulses for the food ingredient sector as well as value-added processing of pulses to bolster U.S. processing capacity with AGT's existing Williston, North Dakota facility. These improvements are slated for completion in late 2012.

Commissioning of a new food ingredient research and development laboratory in AGT's Saskatoon, Saskatchewan office is nearing completion. The laboratory facility is expected to assist in the development of new products as well as new uses for pulse-based ingredients for supply to food companies, pet food manufacturers, aquaculture and industrial uses of fibres and starches around the globe. The laboratory facilities will also assist AGT in strategic quality analysis of pulse and staple food products targeted at specific markets, which may benefit AGT in capitalizing on the growing demand for non-GMO and gluten-free pulses and ingredients opportunities. AGT has added two senior positions: Director of Research, Development and Innovation and Director of Ingredient Commercialization, bringing over forty years of pulses and grains ingredient development and commercialization to its team. These staff additions are anticipated to strengthen this new initiative and allow AGT to engage in collaborative research and development programs with leading international companies. Construction planning of the bean processing and pulses ingredient processing plant in China is also ongoing, with the plant slated for completion in early 2013, allowing AGT to have another production point for this new market initiative. The China program is largely funded from previous allocations of capital.

In Turkey, pasta facilities are running at near capacity, with semolina expansions adding an approximately 50% increase in semolina milling capacity. This new production capacity provides enough semolina for the fifth production line and is anticipated to be sufficient for an additional three new lines that may be added in the future if needed. AGT has strong export programs driven by demand for Arbella pasta globally, particularly in Africa and the Middle East. Pasta market development activities continue, with Arbella pasta now sold in over seventy countries and new private label activities in Europe, Africa and the Middle East expected to allow AGT to fully utilize existing pasta capacity by 2013.

Capacity utilization in AGT's Turkish pulse processing facilities is increasing through a combination of imported and local stocks, with product originated in Russia, Ukraine and Kyrgyzstan complementing domestic Turkish production as well as product from Canada, the U.S., China, Argentina and Australia. AGT management continues to focus on import/re-process/re-export activities using free-zone warehousing to provide opportunities for AGT's regional business in the Middle East/North Africa region in addition to domestic business in Turkey. The newly commissioned rice mill in Edirne, Turkey is expected to contribute gains to AGT's rice business in Turkey in the upcoming harvest period in the second half of 2012. Turkish assets are expected to provide increased business opportunities in future periods, with normalization of regular business operations as regional markets stabilize after political unrest and democratic development continues in nearby markets in 2011 and 2012. AGT management forecasts Turkey to continue to provide potential as a strategic asset base for AGT as Turkey continues its movement towards establishing itself as the geo-political, financial and food processing center for the region.

Plans including facility design for the new pasta and / or pulses milling production facility in Regina, Saskatchewan are ongoing. As was announced earlier, AGT management had deferred the start of construction of this facility to 2013 to focus on initiatives aimed at strengthening balance sheet metrics and operational efficiency as well as monitor the impact of changes in the Canadian grain industry. Evaluation of acquisition and expansion opportunities in key consumption markets and other origins is ongoing; however, no immediate plans are being made. Capital programs are reviewed annually and AGT management has been clear on its desire to see improved earnings and margins as well as a stabilization of global financial environments prior to the deployment of large-scale capital for acquisitions or new facilities.

In Australia, opportunities for AGT's Australian business units in Victoria, South Australia and New South Wales continue to grow. Integration of acquired assets are ongoing and on track, with these facilities expected to continue to create opportunities to capture pulses into AGT's newly commissioned storage and processing systems for red lentils, desi and kabuli chickpeas, faba beans, mung beans and lupins. Australia is a key component of AGT's strategy to diversify its revenues and earnings away from its reliance on Canada and Turkey. Australia is emerging as a stable production origin for pulses with freight advantages the Indian subcontinent regions, which are the principal markets for these products. In addition, Australia produces significant world volume of faba, lupine and broad beans, all crops consumed in AGT's core marketing regions of North Africa and the Middle East.

South African integration is ongoing, with existing facilities for processing and packaging in Johannesburg as well as packaging and distribution facilities in Cape Town and Durban. Advance Seed also provides seed grains and agronomical consulting services to growers of pulses, grains and popcorn in Southern Africa, which is viewed as providing potential for the advancement of pulses and grains production in the region. Additionally, Advance Seed's branded products and private label business through the Pouyoukas Foods brand is seen as a platform for growth of the AGT retail platform for popcorn, packaged pulses, rice and Arbella pasta in the region.

AGT management continues to reiterate that the key components to long-term value creation in its business are intact and that it will continue down the path of building a truly global and profitable origination, processing and distribution business for staple foods: lentils, chickpeas, peas, beans, faba beans, pasta, medium grain rice, bulgur and semolina in Canada, U.S., Turkey, Australia, China, India, Eastern Europe and Southern Africa. With markets returning to normalized flow of products, potential for a return to traditional margins and earnings levels may be possible. By focusing on the core competencies and strengths of AGT's business, including the strength of the management team, the geographic diversification of AGT's assets, the Company's 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, AGT management is optimistic about the Company's ability to normalize business operations and strengthen shareholder value in the long-term.

Management will continue in its efforts to reduce costs, optimize working capital by managing its cash cycle, reduce debt utilization and boost margins and earnings. AGT management and its board of directors remain committed to growth and yield and will continue efforts to improve free cash-flows to provide capital for debt reduction, growth and acquisitions and improvements to dividend yield.

The staple foods sector has been affected, as have all sectors of the global economy through the past four years of economic turmoil and supply issues in agriculture. Management is optimistic that AGT's strategy implementation over the past periods will demonstrate the earnings power and compelling global footprint of assets, markets and products developed in its efforts to become a global leader in the origination, processing and distribution of pulses, staple foods and pasta.

Summary of Quarterly Results [1]

(in thousands of Cdn. $ except as indicated, unaudited)

	3 Months Ended Jun 30, 2012	3 Months Ended Mar 31, 2012	3 Months Ended Dec 31, 2011	3 Months Ended Sept 30, 2011	3 Months Ended June 30, 2011	3 Months Ended March 31, 2011	3 Months Ended Dec 31, 2010	3 Months Ended Sept 30, 2010
Sales	201,768	197,405	231,450	190,556	169,915	168,053	169,003	137,559
Cost of sales [2]	185,148	183,275	212,387	165,001	153,011	146,763	154,769	122,142
Gross profit	**16,620**	**14,130**	**19,063**	**25,555**	**16,904**	**21,290**	**14,234**	**15,417**
Deduct: General and administrative expenses	(6,975)	(6,738)	(7,911)	(6,709)	(5,400)	(4,612)	(7,053)	(6,228)
Deduct: Marketing, sales and distribution expenses	(4,266)	(4,769)	(9,322)	(5,817)	(5,990)	(4,760)	(3,550)	(6,187)
Add (Deduct): Other expenses	-	-	16	4	(2)	-	2	-
Add (Deduct): Finance income (expense)	492	317	1,327	(258)	121	(335)	524	(33)
Add: Amortization in cost of sales	2,402	2,401	1,809	1,531	1,625	1,761	905	1,893
Add: Amortization in general and administrative expense	805	726	2,447	311	1,920	828	1,649	213
Add: Non-recurring and other costs [3]	184	80	1,785	409	-	-	667	-
EBITDA [*]	**9,262**	**6,147**	**9,214**	**15,026**	**9,178**	**14,172**	**7,378**	**5,075**
Deduct: Interest	(3,837)	(4,448)	(2,907)	(3,549)	(2,328)	(2,193)	(2,432)	(1,139)
Deduct: Depreciation and amortization	(3,207)	(3,127)	(4,255)	(1,842)	(3,545)	(2,589)	(2,554)	(2,106)
Add (Deduct): Provision for income taxes	(1,779)	(1,198)	(1,178)	905	1,252	(2,814)	(1,013)	(1,382)
Adjusted net earnings (loss) [*]	**439**	**(2,626)**	**874**	**10,540**	**4,557**	**6,576**	**1,379**	**448**
Adjusted basic net earnings (loss) per share	0.02	(0.13)	0.04	0.53	0.23	0.33	0.05	0.02
Adjusted diluted net earnings (loss) per share	0.02	(0.13)	0.04	0.53	0.23	0.33	0.05	0.02
Non-recurring and other costs [3]	(184)	(80)	(1,785)	(409)	-	-	(667)	-
Non-cash foreign exchange effect	1,415	5,473	218	(21,205)	(8,433)	606	(1,017)	5,467
Net earnings (loss) per financial statements	**1,670**	**2,767**	**(693)**	**(11,074)**	**(3,876)**	**7,182**	**(305)**	**5,915**
Basic net earnings (loss) per share	0.08	0.14	(0.04)	(0.56)	(0.20)	0.36	(0.02)	0.30
Diluted net earnings (loss) per share	0.08	0.14	(0.04)	(0.56)	(0.20)	0.36	(0.02)	0.30
Total assets	624,580	651,052	689,512	615,556	575,397	566,609	529,404	453,274
Bank indebtedness	171,227	185,782	197,868	129,493	116,397	99,150	80,336	-
Short term financing	21,073	40,436	42,371	37,093	28,958	9,703	24,925	25,005
Long-term debt including current portion	77,069	77,468	80,765	73,968	66,416	69,654	36,056	21,792
Shareholders' equity	274,598	273,742	270,965	276,011	290,862	302,604	303,090	319,633
Dividends declared per share	0.150	0.150	0.150	0.150	0.150	0.135	0.135	0.135
Total tonnes invoiced	275,905	275,123	272,196	282,847	227,132	251,267		
Gross profit per metric tonne	60.24	51.36	70.03	90.35	74.42	84.73		
EBITDA (*) per metric tonne	33.57	22.34	33.85	53.12	40.41	56.40		

Certain Management estimates were employed to facilitate the reclassification of comparative cost of sales and operating expenses related to the allocation of wages and benefits for IFRS comparatives.

Notes:

(1) Calculated from the unaudited interim financial statements for the quarters ending September 30, 2011 and 2010 and June 30, 2012 and 2011 and March 31, 2012 and 2011, and the audited IFRS annual financial statements for the year ending December 31, 2011 and 2010.

(2) Cost of sales includes depreciation on equipment used to process inventory. Total depreciation is added back for EBITDA*.

(3) One-time costs deemed to be non-recurring by Management, relating to acquisitions, financing and other.

Discussion of Quarterly Results

Revenues were $201.8 million for the three months ended June 30, 2012 compared to $169.9 million for the three months ended June 30, 2011 and $197.4 million for the three months ended March 31, 2012. The year over year increase is attributable to additional capacity in Australia and South Africa that resulted from business acquisitions in 2011. Revenue increased for the three months ended June 30, 2012 compared to the three months ended March 31, 2012 due to slightly higher commodity prices.

Gross Profit was $16.6 million or 8.2% (adjusted 9.9%)** for the three months ended June 30, 2012 compared to $16.9 million or 9.9% for the three months ended June 30, 2011 and $14.1 million or 7.2% for the three months ended March 31, 2012. The increase in gross profit percentage is due largely to higher margins on bean sales, chick pea sales and pulse sales in higher valued-added segments. In the latter part of the quarter, margin improvements in the lentils platform from North America and Australia were observed.

** In 2012 Management was able to identify costs that are specific to cost of goods sold and as a result is now able to capture specific costs that were not tracked separately in the past. As a result of this additional information, expenses in the amount of $3.3 million are being classified in cost of goods sold for the three months ended June 30, 2012, affecting our ability to compare the three months ended June 30, 2012 to the three months ended June 30, 2011. When reviewing the three months ended June 30, 2012, the effect of the reclassifications of certain expenses to cost of sales was a decrease in gross profit percentage from 9.9% to 8.2%.

EBITDA* was $9.3 million for the three months ended June 30, 2012 compared to $9.2 million for the three months ended June 30, 2011 and $6.1 million for the three months ended March 31, 2012. EBITDA* is consistent when comparing the three months ended June 30, 2012 to the three months ended June 30, 2011. The increase in EBITDA* when comparing the three months ended June 30, 2012 to the three months ended March 31, 2012 is due to the easing of the effects of global liquidity issues and demonstration of margin improvement in the latter part of quarter two.

General and administrative expenses increased slightly from $6.7 million for the three months ended March 31, 2012 to $7.0 million for the three months ended June 30, 2012 and compared to $5.4 million for the three months ended June 30, 2011. The increase when comparing the three months ending March 31, 2012 to the three months ending June 30, 2012 is not material and when removing certain non-recurring costs such as restructuring costs, the costs are consistent. The increase when comparing the three months ending June 30, 2012 to the three months ending June 30, 2011 reflects the larger scale of operations due to additional capacity and new operations that were brought on line with the acquisition of New South Wales in Australia and Advance Seed in South Africa. Management continues in its efforts to identify cost savings and efficiencies in operations globally.

Marketing, sales and distribution expenses were $4.3 million for the three months ended June 30, 2012, compared with $6.0 million for the three months ended June 30, 2011 and $4.8 for the three months ended March 31, 2012. The decrease in expense when comparing to the three months ended March 31, 2012 is a direct result of cost savings initiatives taken to reduce costs such as advertising, discretionary travel and other marketing sales and distribution expenses. In addition, in 2012 Management was able to identify costs that are specific to cost of goods sold and as a result is now able to capture specific costs that were not tracked separately in the past. As a result of this additional information, expenses that were formerly included in marketing, sales and distribution expense are now included in cost of sales. The decreases due to cost savings and re-allocation of expense are partially offset by the overall increase in the AGT platform and resultant higher costs when comparing the three months ended June 30, 2012 to the three months ended June 30, 2011.

Interest expenses for the three months ending June 30, 2012 were $3.8 million compared to $4.4 million for the three months ending March 31, 2012 and compared to $2.3 million for the three months ending June 30, 2011. Interest expense increased when comparing the three months ended June 30, 2012 to the three months ended June 30, 2011 due to increased credit utilization. Interest expense decreased when comparing the three months ended June 30, 2012 to the three months ended March 31, 2012 due to interest bearing debt decreasing from $303.7 million at March 31, 2012 to $269.4 million at June 30, 2012. Management efforts are ongoing to centralize credit facilities and allow AGT to reduce its global cost of capital to minimize future interest expenditures.

Provision for income tax shows an expense of $1.8 million for the three months ended June 30, 2012, an increase from the expense of $1.2 million for the three months ended March 31, 2012 and an increase from the recovery of $1.3 million for the three months ended June 30, 2011. The increase in income tax expense from the three months ended June 30, 2011 is a result of a loss shown for that period. The income tax expense is calculated for each subsidiary at the individual rate for that country, therefore can fluctuate depending on the earnings reported for each tax jurisdiction.

Depreciation expenses for the three months ended June 30, 2012 were $3.2 million compared to $3.1 million for the three months ended March 31, 2012 and compared to $3.5 million for the three months ended June 30, 2011. Depreciation expense is consistent with the three months ended June 30, 2011 and March 31, 2012.

Non-cash foreign exchange was a recovery of $1.4 million for the three months ended June 30, 2012 compared to a recovery of $5.5 million for the three months ended March 31, 2012 and compared to an expense of $8.4 million for the three months ended June 30, 2011. The change in non-cash foreign exchange from the three months ended March 31, 2012 and June 30, 2011 to the three months ended June 30, 2012 is due to changes in foreign exchange rates associated with certain foreign denominated loans, receivables, payables and derivative contracts.

Discussion of Year to Date Results

Revenues were $399.2 million for the six months ended June 30, 2012 compared to $338.0 million for the six months ended June 30, 2011. The year over year increase is attributable to additional capacity in Australia and South Africa that resulted from business acquisitions in 2011.

Gross Profit was $30.8 million or 7.7% (adjusted 9.6%)** for the six months ended June 30, 2012 compared to $38.2 million or 11.3% for the six months ended June 30, 2011. This is due earnings impairment resulting from macro-economic issues, credit liquidity, currency volatility and Euro-zone crisis resulting in margin compression.

** In 2012 Management was able to identify costs that are specific to cost of goods sold and as a result is now able to capture specific costs that were not tracked separately in the past. As a result of this additional information, expenses in the amount of $7.4 million are being classified in cost of goods sold for the six months ended June 30, 2012, affecting our ability to compare the six months ended June 30, 2012 to the six months ended June 30, 2011. When reviewing the six months ended June 30, 2012, the effect of the reclassifications of certain expenses to cost of sales was a decrease in gross profit percentage from 9.6% to 7.7%.

EBITDA* was $15.4 million for the six months ended June 30, 2012 compared to $23.4 million for the six months ended June 30, 2011. EBITDA* is consistent when comparing the three months ended June 30, 2012 to the three months ended June 30, 2011. While the EBITDA for the three months ended June 30, 2012 is relatively consistent with the EBITDA for the three months ended June 30, 2011, the EBITDA for the three months ended March 31, 2012 is lower than the EBITDA for the three months ended March 31, 2011. This is due earnings impairment resulting from macro-economic issues, credit liquidity, currency volatility and Euro-zone crisis resulting in margin compression.

General and administrative expenses increased from $10.0 million for the six months ended June 30, 2011 to $13.7 million for the six months ended June 30, 2012. The increase reflects the larger scale of operations due to additional capacity and new operations that were brought on line with the acquisition of New South Wales in Australia and Advance Seed in South Africa.

Marketing, sales and distribution expenses were $10.8 million for the six months ended June 30, 2011, compared with $9.0 million for the six months ended June 30, 2012. The decrease in expense is a partially a result of cost savings initiatives taken to reduce costs such as advertising, discretionary travel and other marketing, sales and distribution expenses. In addition Management, in 2012, was able to identify costs that are specific to cost of goods sold and as a result is now able to capture specific costs that were not tracked separately in the past. As a result of this additional information, expenses that were formerly included in marketing, sales and distribution expense are now included in cost of sales. The decreases due to cost savings and re-allocation of expense are partially offset by the overall increase in the AGT platform and resultant higher costs.

Interest expenses for the six months ended June 30, 2012 were $8.3 million compared to $4.5 million for the six months ended June 30, 2011. The increase is due to increased credit utilization resulting from the overall growth of AGT and the temporary lengthening of the cash cycle due to macro-economic effects. In addition, cost of funds for credits in emerging markets have increased. As a result, AGT is continuing its efforts to reduce costs of borrowing in Turkey, South Africa, China and Russia.

Provision for income tax shows an expense of $3.0 million for the six months ended June 30, 2012, an increase from the expense of $1.6 million for the six months ended June 30, 2011. The income tax expense is calculated for each subsidiary at the individual rate for that country, therefore can fluctuate depending on the earnings reported for each tax jurisdiction.

Depreciation expenses for the year ended June 30, 2012 were $6.3 million compared to $6.1 million for the six months ended June 30, 2011. Depreciation expense is slightly higher for the six months ended June 30, 2012 due to additional asset improvements and acquisitions.

Non-cash foreign exchange was a recovery of $6.9 million for the six months ended June 30, 2012 compared to a loss of $7.8 million for the six months ended June 30, 2011. The change in non-cash foreign exchange is due to changes in foreign exchange rates associated with certain foreign denominated loans, receivables, payables and derivative contracts. In addition, the Turkish lira devalued by 7.8% from December 2010 to June 2011 compared to an increase in value of 4.2% from December 2011 to June 2012. This resulted in foreign denominated accounts payable and loans in Turkey showing a significant non-cash foreign exchange loss for the six months ended June 30, 2011.

Net Debt and Working Capital

Net debt* is comprised of bank indebtedness, short term financing and long term debt, less cash and cash equivalents and totalled $236.9 million at June 30, 2012 compared to $268.1 million at March 31, 2012 and compared to $264.8 million at December 31, 2011. The decrease in net debt of $27.9 million or 10.5% when comparing to December 31, 2011 and $31.2 million or 11.6% when comparing to March 31, 2012 is a result of accounts receivable collections and sales of inventory and the subsequent repayment of operating facilities. Metrics are being calculated for each facility and performance targets are being tied to inventory and accounts receivable turns. Management believes that the correlation of performance metrics to inventory and accounts receivable turns has had a positive effect on the results.

Current assets were $342.4 million at June 30, 2012 compared to $372.4 million at March 31, 2012 and compared to $419.2 million at December 31, 2011 (see table on page 21). The current asset base is largely accounts receivable and inventory. It is important to note that the receivables are largely insured by Export Development Canada, significantly reducing the risks associated with this current asset class as buyer risk is being replaced by Government of Canada risk through the export insurance. Inventory levels reflect the diversification efforts of the Company to carry a full range of products processed in AGT factories for its global distribution clients.

Accounts receivable decreased by 8% to 157.8 million at June 30, 2012, compared to $171.5 million at December 31, 2011 and decreased by 3.6% compared to $163.8 million at March 31, 2012 (see table on page 21). This is due to continued focus on collection policies and the resultant increase in cash flows.

Inventory levels decreased by 21.6% to 143.7 million at June 30, 2012, compared to $183.3 million at December 31, 2011 and decreased by 11.8% compared to $163.0 million at March 31, 2012 (see table on page 21). The decrease in inventory levels are the result of a stronger focus on inventory levels at each factory and the continued efforts to increase and monitor inventory turns has resulted in lower inventory levels.

Working capital management in the areas of accounts receivable and inventory continue to be a focus of AGT management. While the inventory value is $143.7 million at June 30, 2012, this value represents a number of different commodities globally. Much of this inventory is also pre-sold and will remain as inventory until substantial risks transfer from seller to buyer under AGT's revenue recognition policy. AGT management continues the practice of examining stock levels at each of its foreign operations to achieve an optimization of inventory levels. In addition, inventory management practices include book to physical inventory reconciliations monthly to ensure accurate recording of inventory values.

The majority of AGT sales are insured through Export Development Canada ("EDC") providing coverage on receivables in the event of customer default on payment. The policy has been implemented for all sales globally at all subsidiaries. In addition, ownership of the original documents for the cargo in transit remains with AGT in most cases, due to the terms of sale. If a customer defaults on the contract, AGT can choose to resell the cargo to another customer or divert the cargo to another market. With extensive market reach and facilities or warehouses in key consumption markets, AGT has numerous options available to minimize or mitigate risk and exposure in these areas. AGT also has the option to make a claim to EDC to cover up to 90% of the receivable in question. AGT has extended its EDC coverage to all foreign operations, excluding China, to ensure that additional financial risks are largely mitigated in the current macro-economic environment.

Working capital, or short-term debt, is typically used by AGT to finance its export program and customer orders due to the long transit times. In addition, costs associated with the goods, such as processing costs, payments to the farmer from whom raw materials were purchased and freight costs, must be paid prior to receiving payment for sale. Customer purchases are typically backed by irrevocable letters of credit (LC) or cash against document (CAD) terms and payment risk is therefore mitigated. The EDC policy remains in place to ensure that a catastrophic loss in any particular region will not hinder payment. Management has implemented steps to monitor accounts receivable aging and inventory turns at each facility. Metrics are calculated for each facility and correlate to facility compensation.

In addition, much of the bank financing availability is determined based on a borrowing base calculation and this financing is therefore backed by the inventory and accounts receivable. It is important to note that AGT has current assets of $342.4 million as compared to total interest bearing debt of $269.4 million, and as a result AGT has liquid capital resources available to cover all debt obligations, including long term debt.

Dividends - AGT paid a dividend in July 2012 of $2.97 million ($0.15 per share) in the aggregate to its shareholders of record as at July 6, 2012.

It is currently anticipated that, going forward, AGT will continue to pay a quarterly dividend, the amount of which will be determined by the Board of Directors. AGT's dividend policy will be subject to the discretion of the Board of Directors and may vary depending on, among other things, AGT's earnings, financial requirements, the satisfaction of solvency tests imposed by the *Business Corporations Act* (Ontario) for the declaration of dividends and other relevant factors. AGT and its predecessors have declared and paid the quarterly dividend each quarter since its inception in 2005. Management does not anticipate a reduction of the current dividend in the coming periods.

AGT's financial statements are presented in Canadian dollars, but AGT's operating subsidiaries earn revenues and incur expenses in several currencies, including U.S. dollars ("**US$**" or "**USD**"), Turkish lira ("**TL**"), Australian dollars ("**A$**" or "**AUD**"), Pounds Sterling ("**£**" or "**GBP**"), Euros ("**€**" or "**EUR**") South African rand ("**R**" or "**ZAR**") and the Renminbi of the People's Republic of China (" **¥**" or "**RMB**").

Balance sheet accounts of subsidiaries are valued at June 30, 2012 and December 31, 2011 foreign exchange rates as follows:

	June 30, 2012	Dec 31, 2011
USD/CDN	1.01810	1.02133
AUD/CDN	1.04310	1.03867
TL/CDN	0.56370	0.54089
GBP/CDN	1.59840	1.58206
EUR/CDN	1.28710	1.32150
ZAR/CDN	0.12460	0.12606
RMB/CDN	0.16040	0.16197

For each subsidiary, any difference between the June 30, 2012 exchange rate and the average exchange rate used to record revenues and expenses is recorded as other comprehensive income (loss) on AGT's Consolidated Statement of Comprehensive Income and Consolidated Statement of Changes in Equity.

Liquidity and Capital Resources

AGT has been able to generate sufficient cash from its operations and through access to equity, operating lines and other facilities to maintain its operations, fund development, and to pay its declared dividends. AGT's ability to generate sufficient cash resources from its operations will depend, among other things, on future harvests of and demand for pulses and special crops. Please see “Discussion of Second Quarter Results - Dividends” above, “Outlook” and “Appendix A” discussing geographic crop conditions for a discussion of these factors. Further information relating to the risks and uncertainties to which AGT and its subsidiaries are subject is summarized in AGT’s most recent AIF, which is available, together with additional information relating to AGT, on SEDAR at www.sedar.com and on AGT’s website at www.alliancegrain.com.

AGT’s working capital requirements fluctuate from quarter to quarter as the supply of pulses and special crops fluctuates, since payments to suppliers form the largest item of the working capital requirements. AGT’s working capital requirements are met from its earnings, with its credit facility providing bridge financing until payments for sales are received.

At June 30, 2012, AGT had total operating lines and other facilities available of $280.3 million (March 31, 2012 - $272.9 million and December 31, 2011 - $280.2 million), a portion of which is secured by a general security agreement. Interest rates on CDN and USD operating credits range from 3% to 8% with varying maturity dates. Since some facilities are denominated in local currency, the available amount in CDN dollar terms will vary.

The Canadian credit facilities have floating interest rates, and Management regularly monitors interest rates to make adjustments to its fixed versus floating interest rate management program. AGT also uses fixed rate banker’s acceptances from time to time to mitigate a portion of its floating interest rate risk in its operating credit facilities. As a result of the low interest rates prevailing in Canada in recent years, Management has decided to leave its Canadian credit facilities largely at floating interest rates. Turkish Lira denominated borrowings are basis Turkish Central Bank rate and prevailing market premiums at the time of utilization. At June 30, 2012, AGT is in compliance with its financial covenants under all credit agreements.

AGT has implemented a global foreign exchange management program to effectively manage its net exposure to the U.S. dollar, while matching its local currency operations to minimize net exposure to any one foreign currency. AGT’s operations in Canada, Australia and Turkey are managed such that net exposures to local currencies are mitigated through offsetting local currency receipts with local currency requirements and borrowings, and hedging programs where appropriate.

Capital Management

AGT manages its capital to ensure financial flexibility and to increase shareholder value through a combination of acquisitions and organic growth. This allows AGT to respond to changes in economic and/or marketplace conditions. AGT also strives to maintain an optimal capital structure to reduce the overall cost of capital. In the management of capital, AGT includes bank indebtedness, long term debt and shareholders’ equity. It may be difficult to accurately predict market requirements for attracting capital. There were no changes in AGT’s approach to capital management during the year.

AGT includes Net Debt* and shareholders' equity as components of its capital structure. AGT also monitors EBIDTA*. The calculation of shareholders' equity, Net Debt* and capital is set out in the following table:

	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011
Long term debt and finance leases	$ 71,651,108	$ 72,997,002	$ 74,561,817
Bank indebtedness, short term financing and current portion of long term debt and finance leases	197,718,277	230,688,530	246,442,213
Cash and cash equivalents	(32,503,225)	(35,626,096)	(56,220,307)
Net debt*	**236,866,160**	**268,059,436**	**264,783,723**
Shareholders' equity	274,597,819	273,741,995	270,965,391
Capital	**511,463,979**	**541,801,431**	**535,749,114**

Selected asset and liability information

	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011
Cash and cash equivalents	$32,503,225	$35,626,096	$56,220,307
Accounts receivable	157,840,955	163,755,151	171,522,366
Inventory	143,710,002	163,005,058	183,309,771
Bank indebtedness, short term financing and current portion of long term debt and finance leases	197,718,277	230,688,530	246,442,213
Accounts payable and accrued liabilities	63,744,826	57,104,625	82,312,029
Long-term debt and finance leases	71,651,108	72,997,002	74,561,817
Total current assets	342,402,520	372,367,295	419,193,075
Total current liabilities	264,948,140	290,757,543	331,820,115
Net working capital*	77,454,380	81,609,752	87,372,960

Cash Flow Summary

	Six months ended June 30, 2012	Six months ended June 30, 2011	Difference
Cash flow from operating activities	$ 49,397,226	($36,588,866)	$ 85,986,092
Cash flow from financing activities	(60,465,150)	67,256,934	(127,722,084)
Cash flow from investing activities	(13,747,782)	(16,549,849)	2,802,067
Effect of exchange rate changes on cash	1,098,624	(836,772)	1,935,396
Change in cash	($23,717,082)	$13,281,447	($36,998,529)

Cash flow from operating activities for the six months ended June 30, 2012 was an increase of $49.4 million compared to a decrease of $36.6 million for the six months ended June 30, 2011.

Cash flow from financing activities for the six months ended June 30, 2012 was a reduction of $60.5 million compared to an increase of $67.3 million for the six months ended June 30, 2011.

Cash flow from investing activities for the six months ended June 30, 2012 was a reduction of $13.8 million compared to a reduction of $16.6 million for the six months ended June 30, 2011.

The change in cash generated from operating activities from the six months ended June 30, 2011 to the six months ended June 30, 2012 was $86.0 million. This change, along with the change in cash on hand in the amount of $37.0 million was primarily offset by reduced interest bearing debt and dividends paid.

Cash Flow Information – Non Cash Working Capital:

The change in non-cash working capital for the six months ended June 30, 2012 was an increase of $52.2 million compared to a decrease of $44.6 million for the six months ended June 30, 2011. This difference of $96.8 million due primarily to decreased inventory during the first quarter of 2012 compared to the same period in 2011 in addition to improved accounts receivable collection and lower prepaid expenses. The funds generated were used primarily to pay down bank indebtedness and short term financing, which went from an increase of $40.8 million for the six months ended June 30, 2011 to a decrease of $50.7 for the six months ended June 30, 2012, a change of $91.5 million. In addition, AGT continues to negotiate with vendors to achieve favorable payment terms and this is an area of continued focus. Further details on working capital change during the six months ended June 30, 2012 is included below.

Accounts Payable:

Accounts payable increased by $6.6 million, from $57.1 million at March 31, 2012 to $63.7 million at June 30, 2012. This is largely due to initiatives to achieve more favorable credit terms.

Leases:

AGT classifies leases as either finance or operating. Leases that transfer substantially all of the benefits and risk of ownership to AGT are accounted for as finance leases. Assets under finance leases are depreciated on a straight-line basis over the term of the lease unless the terms contain a bargain purchase option in which case the asset is amortized over the asset's estimated economic life on a straight-line basis. Rental payments under operating leases are expensed as incurred.

Transactions with other related parties:

Certain key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. As noted below, one of these entities transacted with AGT in the reporting period. The terms and conditions of the transactions were on an arm's length basis. The transactions were conducted in the normal course of business and were accounted for at the exchange amount.

Related party transactions

Transactions with corporations whose directors are also AGT directors

	June 30, 2012	June 30, 2011
Revenues	$ 36,130	$ 215,663
Purchases	1,403,213	2,105,830

	June 30, 2012	Dec 31, 2011
Accounts receivable	$ 48,368	$ 772,645
Accounts payable	795,259	420,875

The Arslan family, who own approximately 27.5% of the outstanding shares of AGT, also own a chain of gas stations and convenience stores. Arbella pasta and pulses are sold at some of these locations. AGT also contracted labour and construction support for ongoing construction projects. The amounts in the above table are largely attributable to these transactions.

Critical Accounting Estimates:

Note 3 to AGT's consolidated financial statements for the year ended December 31, 2011, describes AGT's significant accounting policies.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Valuation of Inventory:

Inventories consist of direct costs related to the purchase such as cost of product, direct materials, direct labour, operational overhead expenses, depreciation and freight costs. Inventory on hand is valued at the lower of cost and net realizable value which is generally considered to be the selling price of the finished product in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale. Cost of sales is based upon incurred costs. The estimate relates to the net realizable value of the inventory based upon product quality and market factors.

Income Taxes:

AGT operates in a number of tax jurisdictions and is required to estimate its income taxes in each of these jurisdictions in preparing its financial statements. In calculating income taxes, consideration is given to items such as tax rates in each jurisdiction, deductibility of expenses, valuation allowances, changing tax laws and management's expectations about future results. AGT estimates deferred income taxes based on temporary differences income and losses for financial reporting purposes and income and losses determined under the applicable tax laws. The tax effect of these temporary differences is recorded as a deferred tax assets or liabilities in the financial statements. The calculation of income taxes requires the use of judgements and estimates. If these judgements and estimates prove to be inaccurate, future earnings may be materially impacted.

Estimate of Useful Life and Impairment Property, Plant and Equipment:

Property, plant and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, interest and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is calculated based on the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized in net earnings on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that AGT will obtain ownership by the end of the lease term.

Valuation of Intangible Assets and Goodwill:

The intangible assets of AGT are recorded at their estimated fair values at their acquisition date and amortized over their estimated useful life. Indefinite life intangible assets and goodwill are subject to impairment tests under IFRS, at a minimum, annually or more frequently if events or circumstances indicate a potential impairment.   If the carrying value of such assets exceeds the greater of value in use or fair value, the assets are written down to fair value. The treatment of intangible assets such as trademarks, brands and licenses is subject to separate impairment testing from the values contained in goodwill.   No impairment was required as at June 30, 2012.

Financial Instruments:

AGT, as part of its operations, carries a number of financial instruments that include cash and cash equivalents, bank indebtedness, short term financing, accounts receivable, investments, accounts payable and accrued liabilities, dividends payable, and long-term debt and finance leases.   The fair value of cash and cash equivalents, bank indebtedness, short term financing, accounts receivable, accounts payable and accrued liabilities, and dividends payable approximate their carrying value given their short-term maturities.   The fair value of long-term debt and finance leases are not materially different than their carrying value. Available for sale assets are measured at fair value with changes therein recognized directly in other comprehensive income (loss).

To mitigate risks associated with certain financial assets, AGT utilizes sales terms such as letters of credit, cash against documents, prepayments and accounts receivable insurance. Sales are made to customers that Management feel are creditworthy.

To mitigate risk associated with foreign currency, AGT enters into sales denominated in U.S. currency for which the related revenue and accounts receivable balances are subject to exchange rate fluctuations. AGT has entered into certain foreign exchange contracts with maturities of less than one year to manage risks associated with entering into new sales contracts denominated in U.S. dollars and Euros. For Arbel, transactions in foreign currencies expose AGT to foreign currency risk, arising mainly from the fluctuation of foreign currency used in the conversion of foreign denominated assets and liabilities into Turkish lira. Foreign currency risk arises as a result of trading transactions in the future and the difference between the assets and liabilities recognized. Management reviews the foreign currency open position and takes risk management measures if required.

To mitigate risk associated with fluctuations in the market price of the commodities AGT buys and sells, Management monitors inventory turns and overall grain position and enters into purchase contracts with suppliers and sales contracts with buyers.

Disclosure Controls and Procedures

Disclosure Controls and Procedures ("Disclosure Controls") are designed to provide reasonable assurance that all relevant information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to Management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. Management, including the CEO and the CFO, do not expect that AGT's Disclosure Controls will prevent or detect all error and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected.

National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators ("CSA"), requires CEOs and CFOs to certify that they are responsible for establishing and maintaining Disclosure Controls for the issuer, that Disclosure Controls have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's Disclosure Controls, and that their conclusions about the effectiveness of those Disclosure Controls at the end of the period covered by the relevant annual filings have been disclosed by the issuer. The Company's CEO and the CFO evaluated AGT's Disclosure Controls as at June 30, 2012 and concluded that the design of AGT's Disclosure Controls were effective.

Internal Controls over Financial Reporting

National Instrument 52-109 also requires the CEO and CFO to certify that they are responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined by the CSA, that the ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS, and that AGT has disclosed any changes in its ICFR during its most recent interim period that have materially affected, or are reasonably likely to materially affect, its financial reporting.

As discussed above, the inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, have been detected. Therefore, no matter how well-designed, ICFR have inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

As at June 30, 2012, Management, including the CEO and CFO, evaluated the design of AGT's ICFR. Based on the evaluation, the CEO and the CFO concluded that the design of AGT's ICFR was effective as at June 30, 2012.

There have been no other changes in AGT's ICFR that occurred during the period that have materially affected or are reasonably likely to materially affect AGT's ICFR.

New Standards and Interpretations

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and amendments that have not been applied in preparing these condensed consolidated interim financial statements, as their effective dates fall in annual periods beginning subsequent to the current reporting period.

Proposed standards	Description	Previous Standard	Effective Date
IFRS 10 - Consolidated Financial Statements	Builds on the existing principles of control and elaborates on the definition of control when determining whether an entity should be consolidated or not.	SIC-12 -Consolidation - Special Purpose Entities IAS 27 -Consolidated and Separate Financial Statements	January 1, 2013
IFRS 11 - Joint Arrangements	Focuses on the rights and obligations of an arrangement rather than its legal form and requires a single method to account for interests in jointly controlled entities.	IAS 31 - Interests in Joint Ventures SIC 13 - Jointly Controlled Entities - Non-Monetary Contributions by Venturers	January 1, 2013
IFRS 12 - Disclosure of Interest in Other Entities	A new standard detailing disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off-statement of financial position vehicles.	Various - no direct replacement	January 1, 2013
IFRS 13 - Fair Value Measurement	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	Various - no direct replacement	January 1, 2013
IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial Instruments: Disclosures	Issued in December 2011. Clarifies the presentation and disclosure requirements related to the offsetting of financial assets and liabilities.	IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial Instruments: Disclosures	IFRS 7- January 1, 2013 IAS 32- January 1, 2014
IFRS 9 - Financial Instruments	Initially issued in November 2009 to address the classification and measurement of financial assets. Additional guidance issued in October 2010 on the classification and measurement of financial liabilities.	IAS 39 - Financial Instruments: Recognition and Measurement	January 1, 2015

Management continues to assess the potential impact of standards and amendments effective in future years on both quantitative and qualitative disclosure.

Outstanding Share Data

As at the date hereof, there are issued and outstanding 19,808,852 Common Shares.

Risks and Uncertainties

Information relating to the risks and uncertainties to which AGT and its subsidiaries are subject is summarized in AGT's most recent AIF, which is available, together with additional information relating to AGT, on SEDAR at www.sedar.com and on AGT's website at www.alliancegrain.com. To Management's knowledge, no significant changes to these risks and uncertainties have occurred in the quarter ending June 30, 2012.

Commitments and Contingencies

AGT enters into production contracts with producers. The contracts provide for delivery of specific quantities and include specific prices based on the grade that is delivered. The terms of the production contracts are not longer than one year.

AGT has in place a letter of credit in favour of the Canadian Grain Commission in the amount of $10 million. The letter of credit is callable by the beneficiary in the event of a producer grain payment default. The letter of credit expires December 31, 2013.

In the normal course of operations AGT may become involved in various legal matters, both claims by and against AGT. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Based on the information provided by legal counsel, there does not appear to be significant litigation risk for AGT at June 30, 2012.

Interest Rate Risk

Fluctuations in interest rates impact the future cash flows and fair values of various financial instruments. With respect to its debt portfolio, AGT addresses interest rate risk by using various floating rate instruments. The exposure is also managed by aligning current and long term assets with outstanding debt and making use of global credit facilities.

Commodity Price Risk

AGT is a significant processor and supplier of pulse crops and bears significant exposure to changes in prices to these products. A substantial change in prices will affect the Company's net earnings, working capital and operating cash flows. Prices for AGT's products are volatile and are influenced by numerous factors beyond the Company's control, such as supply and demand fundamentals, geographical events and weather.

AGT's sales contracting strategy focuses on reducing the volatility in future earnings and cash flow while providing both protection against decreases in market price and retention to future market price increases. To mitigate the risks associated with the fluctuations in the market price for pulse crops, AGT maintains a portfolio of product sales contracts with a variety of delivery dates and pricing mechanisms that provide a degree of protection from pricing volatility.

Reconciliation of Net Earnings, Adjusted Net Earnings* and EBITDA*
(In thousands of CDN $)

	For the Three Months Ended Jun 30, 2012	For the Six Months Ended Jun 30, 2012	For the Three Months Ended Jun 30, 2011	For the Six Months Ended Jun 30, 2011
Net earnings (loss)	$ 1,670	$ 4,437	($3,876)	$ 3,306
Add (deduct):				
Income tax expense (recovery)	1,779	2,977	(1,252)	1,562
Depreciation and amortization	3,207	6,334	3,545	6,134
Interest	3,837	8,285	2,328	4,521
Non-cash foreign exchange	(1,415)	(6,888)	8,433	7,827
Non-recurring and other expenses [(1)]	184	264	0	0
EBITDA*	9,262	15,409	9,178	23,350
Less:				
Interest	3,837	8,285	2,328	4,521
Depreciation and amortization	3,207	6,334	3,545	6,134
Income tax expense (recovery)	1,779	2,977	(1,252)	1,562
Adjusted net earnings (loss)*	439	(2,187)	4,557	11,133
Basic adjusted net earnings (loss)* per share	0.02	(0.11)	0.23	0.56
Diluted adjusted net earnings (loss)* per share	0.02	(0.11)	0.23	0.56
Basic weighted average number of shares outstanding	19,791,505	19,743,077	19,712,524	19,709,319
Diluted weighted average number of shares outstanding	19,907,776	19,953,136	19,970,487	19,978,778

(1) One time costs deemed to be non-recurring by Management, relating to acquisitions, financing and other

Reconciliation of Net Working Capital* and Net Debt*
(In CDN $)

	For the Six Months Ended Jun 30, 2012	For the Year Ended Dec 31, 2011
Current assets	$ 342,402,520	$ 419,193,075
Current liabilities	264,948,140	331,820,115
Net working capital*	$ 77,454,380	$ 87,372,960
Long term debt and finance leases	$ 71,651,108	$ 74,561,817
Bank indebtedness, short term financing and current portion of long term debt and finance leases	197,718,277	246,442,213
Cash and cash equivalents	(32,503,225)	(56,220,307)
Net debt*	$ 236,866,160	$ 264,783,723

AGT provides some non-IFRS measures as supplementary information that Management believes may be useful to investors to explain AGT's financial results. These non-IFRS measures include EBITDA (earnings before interest, income taxes, depreciation and amortization, restructuring costs and any effects of non-recurring and other costs and non-cash foreign exchange adjustment), Adjusted Net Earnings* (earnings before any effects of non-recurring and other costs, restructuring costs and non-cash foreign exchange adjustments), Net Debt* (bank indebtedness, short term financing and long term debt less cash) and Net Working Capital* (current assets less current liabilities). Management believes that these are important measures in evaluating performance and in determining whether to invest in AGT. However, EBITDA*, Adjusted Net Earnings*, Net Debt* and Net Working Capital* are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. In addition, AGT may calculate these measures differently than other companies; therefore, such measures may not be comparable. Investors are cautioned that EBITDA*, Adjusted Net Earnings*, Net Debt* and Net Working Capital* should not be construed as an alternative to net earnings (loss) or cash flows as determined in accordance with IFRS as an indicator of AGT's performance or liquidity.

APPENDIX 1 – REGIONAL AND PRODUCTION SUMMARY

North America: Canada and the U.S.

Current crop estimates for Canada and the U.S. for pulse crops are showing positive advances with respect to production. In Saskatchewan, the Ministry of Agriculture in its July 10 - 16, 2012 Crop Report estimates 79% of lentils, 85% or peas and 84% of chickpeas as being excellent-to-good condition. Warm dry weather over the early July period has assisted crops in advancing quickly. Harvest in Saskatchewan is estimated to begin en masse in mid-August, with some areas of southern Saskatchewan potentially starting by early August. All indications are for a normal harvest period in Saskatchewan resulting in ample stock of normal quality pulses.

Specific production decreases in lentils in Canada are expected to be offset by high carry-in stocks from 2011 resulting in ample supply. Production levels of other pulses have increased and would be categorized as ample. High carry-in stocks of other pulses are also being reported. AGT management does not expect any supply constraints from Canada for upcoming shipment periods.

Production estimates reported by Statistics Canada ("StatsCan") for pulses by Canadian farmers for 2012 as at July 2, 2012 are as follows:

- Lentils estimated at 2,610,000 acres and production of 1,530,000 mt (a 0.12% decrease from 2011) based on yield of 1,292 lbs
- Peas estimated at 3,495,000 acres and production of 3,042,000 mt (a 44% increase from 2011) based on yield of 1,919 lbs
- Chickpeas estimated at 180,000 acres and production of 109,000 mt (a 20% increase from 2011) based on yield of 1,335 lbs
- Beans estimated at 282,000 acres and production of 222,000 mt (a 54% increase from 2011) based on yield of 1,735 lbs

Early harvest has begun in the U.S., with pulse crops in the Northern Plains states reporting as good condition by the United States Department of Agriculture ("USDA"), indicating a recovery in pulse growing from 2011 in the U.S. The severe drought conditions reported in most of the U.S., particularly in the corn and soybean growing areas of the Midwest, have not impacted the North Dakota and Montana areas, although some parts of eastern North Dakota and Minnesota were reporting moderate drought levels (Drought Monitor – July 17, 2012). Significant carry-in stocks for pulses in the U.S. are also being reported, resulting in some of the highest levels of supply in the U.S. over the past 4 years.

Production estimates, reported by the USDA for pulses by U.S. farmers for 2012 are as follows:

- Lentils estimated at 478,000 acres and production of 251,000 mt (a 17% increase from 2011) based on yield of 1,158 lbs

- Peas estimated at 600,000 acres and production of 464,000 mt (an 82% increase from 2011) based on yield of 1,705 lbs

- Chickpeas (or garbanzo beans as they are known in the U.S.) estimated at 184,700 acres and production of 120,640 mt (a 24% increase from 2011) based on yield of 1,440 lbs

- Beans (excluding chickpea production) estimated at 1,448,000 acres and production of 1,119,706 mt (a 40% increase from 2011, with 582,869 mt estimated in North Dakota, Montana, Minnesota and South Dakota for 2012) based on average yield across all varieties of 1,898 lbs

Export results from StatsCan for the April and May 2012 periods showed a reversal of the negative trends reported through late 2011 and early 2012 with regards to lentil exports. An increase of 18.9% in April 2012 over April 2011 and 33.9% in May 2012 over May 2011 was reported. This is a positive signal for Canadian lentil exports because this period is not a traditional shipping period, showing that import demand appears to be starting to translate into shipment volumes. Variability in other pulse exports month-over-month were also reported; however, even though these other products are processed and exported by AGT, lentils are AGT's most significant product in Canada.

In the same period U.S. lentil exports were flat, with increases of 3% in April and 1% in May over the same month of 2011. Pulse exports from the U.S. were generally flat to slightly increased in other pulses except beans, which were up sharply at 79% in May 2012 over 2011 levels. This is in part attributable to the low production levels for U.S. beans due to flooding in the 2011 crop season in Minnesota and North Dakota.

In its July 2012 Pulse and Special Crops Outlook report, Agriculture and Agrifood Canada ("AAFC") stated that overall pulses exports are forecast to rise by 12% due to higher exportable supply and world demand. This would translate to increases from 2011-2012 levels as Canada expects to regain some of its export market share in the Indian subcontinent and maintain its market share in the Middle East, South America and the EU-27.

Durum wheat production as estimated by AAFC is expected to rise in Canada and the U.S. for 2012 by 10% to 4.6 million mt and 63% to 2.23 million mt respectively. Global production is forecast to decrease by 0.4 million mt to 36.3 million mt, with supply estimated to decrease to 43.9 million mt. The average price of durum is estimated to decrease due to higher Canadian and U.S. supply.

Turkey

The 2012 Turkish pulses harvest, which occurs in the May-June period, is expected by various sources, including the Food and Agriculture Organization of the United Nations (“FAO”), USDA Foreign Agriculture Service (“FAS”) and the Turkish government, to be average and produce flat to slightly decreased production levels. Wet weather conditions in the Southeastern region of the country have not been favourable for lentils during the growing season and have resulted in decreasing yields. Other regions estimate decreases because of competition with other cereals, oilseeds and other crops such as cotton. These conditions are the basis for reports by various outlets estimating current lentil production for 2012 to continue these decreasing trends from 2011 levels. Industry sources and statistics continue to show the possibility for variability, with estimates ranging in a wide band of 250,000 mt to 450,000 mt. AGT management, based on consultation with industry sources and reviewing the statistical data that is available, would estimate approximately 350,000 mt to 400,000 mt of production, well within the estimated band by most outlets. This wide range may illustrate that there are underlying risks associated with crop volume in Turkey in lentils, leading to potential for increased import levels to cover crop requirements for local markets and regional exports. Chickpea acres, which are seeded in April and May and harvested in August, are estimated at flat to slightly decreased levels for 2012 over recent average levels, producing an estimated 450,000 mt. Lower production levels for pulses in Turkey are estimated to result in higher import levels to meet high domestic and regional demand in the Middle East/North African region.

Turkish durum wheat production was earlier forecast by the International Grains Council at 3 million mt; however, lower production caused by yield losses in the Central Anatolian region may result in the projected production volumes dropping to approximately 2.5 to 2.7 million mt. However, favourable production conditions in the Southern Anatolian region are expected to offset production decreases overall. With overall production volumes at these levels, Turkey may require imported durum wheat to meet domestic production requirements for semolina, bulgur and pasta.

USDA GAIN reports estimates of strong production driven by export demand to Africa and the Middle East for Turkish pasta production for 2012. Annual production in 2012 of approximately 800,000 mt is forecast and further potential for increases in pasta production are projected for the future, meaning that maintaining a steady supply of staple durum wheat is important to ensure that these production increases can continue.

Rice production is estimated by USDA GAIN and the Turkish Rice Millers Association to remain at average levels for the near term, which would place production at approximately 750,000 mt for 2012. Imports of rice to meet the high levels of demand in Turkey are also expected to remain consistent with previous periods.

Australia

The 2011 harvest has been the second significant production season in a row for the Australian pulse industry, with record levels of pulse production of 2,325,140 mt of production reported by the Australian Bureau of Agricultural and Resource Economics and Science ("ABARES"). Preliminary estimates on production for 2012 forecast a slight 6% decrease to 2,188,400 mt, with decreases in lupin and lentil production being offset by significantly higher chickpea and slightly increased faba bean production.

Current production estimates by ABARES for Australia in 2012 are as follows:

- Lupins estimated at 1,040,291 acres and production of 539,000 mt (a 40% decrease from 2011)

- Peas estimated at 691,880 acres and production of 302,000 mt (a 0.6% decrease from 2011)

- Chickpeas estimated at 1,368,934 acres and production of 797,000 mt (a 64% increase from 2011)

- Faba Beans estimated at 425,012 acres and production of 275,000 mt (a 2.6% increase from 2011)

- Lentils estimated at 383,005 acres and production of 188,000 mt (a 34.7% decrease from 2011)

With its chickpea and faba bean processing infrastructure in Australia, AGT management estimates current forecasts as a good mix of products for AGT, with shipping advantages to Indian subcontinent markets for chickpeas and Egyptian markets for whole and split faba beans. As with other origins AGT operates in, adequate supply of lentils is required to maintain processing and export programs, and these levels would be categorized in this fashion.

Export data from the Australian Bureau of Statistics estimates significant increases in exports of most Australian pulses on a year-over-year basis for the November to May 2011-2012 period, including a 68% increase in lentil and chickpea exports and a 14% increase in faba beans. Monthly gains in lentil exports from March to May 2012 have been reported, with a 47% gain in that period.

India and Subcontinent Markets

In a February 2012 report in advance of spring (rabi) harvest, the U.S. Agricultural Attaché estimated 2012/13 pulse production to be 5% lower at 17.3 million mt as compared to 2011/12. Pulse imports are forecast in 2012/13 to increase to 3 million mt and remain strong provided international prices remain stable. Pulse consumption in 2012/13 is estimated in the same report to increase to 19.5 million mt, driven by strong domestic demand, sufficient domestic supplies and expected stronger import levels. As a point of comparison, consumption levels in 2011/12 have been estimated at 18.5 million mt.

Since this report was issued, unofficial estimates of short monsoon rains resulting in lower than estimated production for rabi have been made, meaning that this production may be lower than required for domestic use, which would result in import requirements to the Indian subcontinent market earlier than would traditionally be the case. As approximately 55 percent of India's agricultural land is rain-fed, monsoon rains are vital for sustaining agricultural production, particularly for kharif (fall harvest) planted crops such as rice, oilseeds, sugarcane, cotton, corn and pulses.

The Economic Times/India Times reported on July 18, 2012 that monsoon rains have been deficient by about 20 per cent so far in 2012, affecting sowing of paddy, pulses, coarse cereals and oilseeds with pulses acreage falling by 37 per cent as compared to the same period in 2011.

As a significant producer and consumer of pulses, India and subcontinent markets, such as Sri Lanka, Bangladesh and Pakistan, are important drivers of the global pulse industry. However, in periods where local production is short, the reported ample carry-in stocks and significant production from fall harvest in North America would assist in supplying the forecasted increased demand from this region, as well as potentially having the effect of stabilizing global prices, giving importers market stability required to begin regular import activities.

The lack of reliable statistical data and messaging from the Indian government, which is intended to curbing food inflation and supply concerns domestically, also contributes to the difficulty in understanding the true condition of Indian and subcontinent production. However, market indicators are that production is short, and therefore would need to be supplemented by imported product.

Relative currency stability, improving liquidity of importers and domestic supply requirements to fill significant demand in advance of traditional buying periods to Indian subcontinent markets are expected by AGT management to assist in normalization of global pulse markets, contributing to the optimistic outlook for the second half 2012 period.

Russia and Ukraine

Hot and dry weather through the growing season has negatively impacted Russian production, with USDA GAIN estimating lower levels than previously reported. Leading into harvest, updated figures are not available; however, available sources (Stat Publishing, Leftfield Commodities) and internal estimates compiled from available data indicate that approximately 2.5 million mt of pulses have been produced in Russia and Ukraine, consistent with the last USDA GAIN report where production estimates were provided. This would include approximate production levels of 1.2 million mt of pea and 180,000 mt of chickpeas in Russia and 475,000 mt of peas and 50,000 mt of chickpeas in Ukraine. Lentil production in the combined Russia and Ukraine region could reach as high as approximately 50,000 mt to 70,000 mt of lentils.

The effects of drought affecting U.S. corn and soybean crops are expected to lead to strong European feed market demand for regional peas and pulses to fill the void of unavailable corn and other feedstuffs. The regional Russia/Ukraine stocks are not expected to be significant to the India subcontinent region, as European feed values are expected to outpace food demand prices from India, leading to increased European shipments.

Russia and the Ukraine are emerging as potentially important production regions for pulses including peas, lentils, chickpeas, broad beans, beans and lupins in upcoming years. These opportunities could be further realized, considering the availability of shipping lanes through the Black Sea and the Bosphorus to processing locations and markets in Turkey. At this time, the necessary processing infrastructure for large scale value-added processing of pulses does not exist in the region. Therefore, the region is currently viewed as a source of raw material for grain origination. To facilitate this, Russian and Ukrainian production regions have been identified and local Turkish staff has been positioned in Rostov on Don, Russia to assist in grain buying and origination to facilitate the flow of peas, chickpeas and beans from Russia, Ukraine and Kyrgyzstan to AGT's Arbel facilities in Turkey.

South Africa

Pulses acres for beans, lupins and other products in South Africa are trending down due to competition with corn and other higher priced cereals as reported by the South Africa Grain Information Service. The Southern African region, with its availability of significant farmland, is viewed as a future production growth region in pulses and specialty crops for import substitution, growing and supply programs for local retail markets, capturing potential duty and tax advantages for locally produced products. In the near term, however, the region is a consumer of pulses. AGT's global operations and local distribution infrastructure provide the view of this region as a source of import/re-process/re-export opportunities to cross-sell with locally produced popcorn and other products.

China

China continues to emerge as a significant potential origin for pulses, particularly in the area of beans. Although limited official data on pulses production in China is available, USDA GAIN reports 2011-2012 production levels as trending upward. Production in China is generally forecast at approximately 4.2 million mt of pulses production, largely consisting of broad beans, kidney beans, mung beans and adzuki beans. With production at these levels, China is viewed as a significant potential export origin to major bean markets such as the U.S., Latin America, Europe, Southern Africa and India for light speckled kidney beans, black beans, navy beans, mung beans and white beans.

Previously reported estimates of high levels of pea imports for domestic starch extraction for vermicelli noodle production, moon cakes and snack foods, support the view by AGT management that planning surrounding new Chinese assets may be a key development for AGT's business in the region. This could provide an entry point for Canadian, U.S. and Australian whole green peas, pea starch, green pea powder and sprouting green peas. Expansion plans for AGT's planned new bean processing plant have been slower than anticipated, as AGT management continues to evaluate options on location, scope and scale of the investment. Plans for construction in 2012 of a new facility located in Tianjin, 35 km from Beijing, are ongoing.

Flax imports to China for the industrial processing sector are also a growing segment for AGT's North American assets, providing another product to utilize excess capacity.