From Producer to the World

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Alliance Grain Traders
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Speakers:

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Lori Ireland
Chief Financial Officer

Gaetan Bourassa
Chief Operating Officer

Omer Al-Katib
Director, Corporate Affairs and Investor Relations

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

OMER AL-KATIB:
Thank you, Operator. Good morning and thank you for joining us on our Conference Call.

On the line with us today we have Murad Al-Katib, President and CEO of Alliance Grain Traders, Lori Ireland, our Chief Financial Officer, and Gaetan Bourassa, our Chief Operating Officer.

Before we get started, I would like to remind everyone that today's call may include forward-looking statements. Such forward-looking statements are given as of the date of this call and involve certain risks and uncertainties. A number of factors and assumptions are applied in the formulation of such statements, and actual results could differ materially. This call may also include references to certain non-IFRS financial measures. For additional information with respect to forward-looking statements, factors and assumptions, as well as a reconciliation to IFRS measures, we direct you to our news release, our website, as well as our recent filings on SEDAR.

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

MURAD AL-KATIB:
Thank you Omer and thank you everyone on the call today.

The global economy has been quite challenging in 2011. Eurozone debt, threat of sovereign defaults, volatile currency, credit liquidity and questions around the world where the global economy is now, where it's heading, have been the main topics of conversation in business circles.

Commodity-based businesses have been affected dramatically and the agri-business sector has seen this impact. Following some of the 2010 weather and production related issues, we had an optimistic start to 2011 with some signs of market recovery. The global economic headwinds have become a significant factor in our business, translating into lower export volumes in the past few months. These global economic conditions continue to be a source of uncertainty, driving volatility in commodity prices and agricultural commodity shipment volumes, creating what we at AGT view as short-term liquidity issues for importers around the world.

While agricultural supply and demand fundamentals have appeared to be relatively immune to short term macro-economic events, this uncertainty has contributed to importers significantly lowering their buying activities, leaving local market stocks to remain in the low or relatively depleted states. Hand-to-mouth buying, replenishing only minimum amounts of stock, has resulted in significantly lower shipments in a period where we typically see some of our highest volumes. Obviously, this has affected our ability to execute our sales strategy in the past period. However, we have the view that these developments are short term, a view supported by manager's view that the demand profile for pulses and staple foods is relatively inelastic with few true substitutes. The market must come back to normalized purchasing soon. They cannot hold off indefinitely because people in these markets must consume the vegetable proteins and nutrition that pulses and staple foods provide.

The 2011 year would be categorized as among the most difficult the global pulse industry has ever faced, with political unrest from Arab Spring, Europe's debt crisis, currency devaluations and emerging markets liquidity each compounding the effects of the other, creating a perfect storm to affect our normal operations. Even in these difficult conditions, we've been able to report sales of $760 million, EBITDA $47.6 million and Adjusted net earnings of $22.5 million for the full year. With these difficult conditions in this quarter, we reported sales of $231.5 million, EBITDA of $9.2 million and Adjusted net earnings of 874,000. Our complete fourth quarter and year-end results are available on SEDAR or from our website at www.alliancegrain.com.

Before I get back to my comments, I'd like to ask Lori Ireland, our CFO, to provide a summary of the quarter and our financial statements. Lori?

LORI IRELAND:

Thanks Murad. I'm going to speak to a couple of significant items in the financial statement: page 30 of the MD&A outline, selected assets and liability information, as well as the calculation of net debt. Net debt has increased from $223 million at September to $264.8 million at December and it has more than doubled when compared to December 31st, 2010, which was at $117.7 million. The most significant reasons for the increases are inventory increased by 73 million when comparing December 2011 to December 2010 and by 7.3 million when comparing to September 2011. This is due to larger stock positions internationally which reflect AGT's move to more of a distribution and warehousing platform.

It is important to note that the range of product offerings has also expanded in scope. Management estimates that there are over 50 different products, grades and origins contained within our diversified inventory book. Also, we note that accounts receivable increased by 36.6 million when comparing December 2011 to December 2010 and by 14.6 million when comparing to September 2011.

Sales revenue increased when comparing December 2011 to December 2010 and to September 2011, which contributes partially to the increase in accounts receivable. In addition, we saw longer payment cycles from many of our customers, who are experiencing cash flow issues because of reduced credit availability with their lenders. We note again that the receivable position, while large in dollar value, is diversified through our sales program in over 100 countries and through our low concentration risks with any one buyer. Also, we continue to employ risk management techniques like utilization of accounts receivable insurance through EDC and private insurers, therefore trading buyer risk for export credit agency risk.

Term debt also increased, since we used our FCC $70 million facility to fund acquisitions and capital improvements throughout the year. We saw our accumulated other comprehensive loss increase once again. This number is calculated by valuing AGT's net investments at the year-end rate and comparing that to the net investment at the purchase state. Since many of the currencies devalued between the investment date and December 31st, 2011, a loss was booked into other comprehensive loss on the statement of financial position and on the statement of comprehensive income.

Of significance to note is that the Turkish lira has devalued by just over 25% from September 15th, 2009, the date that we acquired Arbel, between that date and December 31st, 2011. The lira has since come back slightly since year-end. I want to remind investors that investments in non-Canadian dollar denominated foreign subsidiaries are revalued each quarter end and the respective gains or losses are booked at those periods.

You will also see a line on the statement of comprehensive income called unrealized foreign exchange loss. This amount is a non-cash item and relates again to the devaluation of currencies and the effect of the devaluation on foreign denominated financial instruments such as accounts receivable, accounts payable, loans and derivative contracts. Again, if the currency strengthened, this amount will either be smaller or could be a gain as we have seen in the past quarters. AGT believes that this is a non-cash snapshot entry and, whether it's a gain or loss, it should be excluded from adjusted earnings and from EBITDA calculations.

Also, we're in the process of undergoing a few initiatives that we think will improve our profitability and our earnings per share. First, as mentioned in the MD&A, AGT, through its subsidiary Alliance Pulse Processors, has extended the $130 million operating credit with the banking syndicate of Scotiabank, HSBC and Rabel Bank. The line expires April of 2013 and there's a further one-year term out period to April 2014. We are pleased that the banks continue to show confidence in AGT and its management during times when others are struggling for financing.

AGT continues to investigate global credit facilities and it's anticipated that utilization of AGT's balance sheet strength will lower our global cost to capital, in particular in our emerging markets operations. Management estimates that this may lead to interest savings.

We are also investigating the implementation of our Export Development Canada accounts receivable policy globally, which will mean streamlined reporting as well as allowing us premium savings. This additional securitization of our receivable base will also contribute to lowering our global cost to capital.

We have engaged an accounting firm to assist us in international planning to ensure that we have a structure in place that is tax effective for AGT. Also, we are reviewing and updating our global information technology platform. Our goal is to have international metrics available at a glance at head office. This will help us to make better decisions across our global entity. Financial reporting has been integrated and now our focus is on management information.

Finally, our corporate infrastructure has been strengthened. We have added three individuals to the finance function. Our financial reporting continues to evolve. We have fully transitioned to IFRS with a clean audit opinion. We have tested our global internal controls across our subsidiaries and we feel we are well-positioned for growth.

MURAD AL-KATIB:
Thank you, Lori. In the early part of 2011, we were optimistic about the normalization of our business. I would really like to be clear. We still feel this way. The timing on the normalization has been pushed back with recent developments in the global economy. These are short-term issues that we feel will resolve themselves. Because of the fact that the products offered by AGT are staple consumption items—need to haves, not nice to haves—we expect the duration and magnitude of the slower buying activities caused by the global economic conditions will be minimized.

As this story unfolds in 2012-2013, I believe this will become increasingly clear. And it is in tighter difficult business environments that you must be most mindful about issues and events out of your control that can affect your business. We learned from 2008 when the global credit was again tightened due to the start of the global economic downturn. We took steps to strengthen our risk management program to ensure we were well positioned for trouble in the future.

In the exporting business, strength and sustainable competitive advantage come from knowing your business, managing your risks. The difficult conditions of late 2011 manifested themselves in a variety of ways. For example, it had been reported by some analysts that customer defaults in some markets had dramatically affected our business. There was worry of concentration risks in the Middle East and the effects of international sanctions on countries in this region. In reality, we have many problems due to the international economic environment, but I can say that the problems were not concentrated in any one country or region. Defaults have affected us and some of our customers exporting to what would be considered ancillary markets for our company. It certainly had an earnings impact and it had a margin impact for AGT; however, by diversifying your customer base, working with only the best agents and distributors in each region and ensuring that appropriate measures are in place such as export insurance covering your receivables, you manage through it.

I define the strength of our management team by the fact that we have managed through the 2008 to 2011 period, not normal by any means, in the global economic and supply conditions for the pulse sector. By defining and controlling the terms of sale as we do through our risk management program, we're able to reduce our exposure to problem markets as much as possible and wait for the turnaround when it is advantageous to reenter and get active again. We cannot enter and exit markets based on short-term market effects. We are building a business for the long term.

Maintaining a strong balance sheet and access to global credit are important considerations as well. The fact that we may pay our producers very quickly, in most cases retain ownership of cargo until it reaches ports when we are paid, means our cash cycles are long. As our business grows, so does the working capital needs, as demonstrated by the global credit facility we extended and announced on March 22nd. A syndicate of global lenders of Scotia Bank, HSBC and Rabel Bank has reaffirmed their belief in our business and in our strategy on very competitive terms. We will continue to use this strength of AGT to examine new credit facilities in 2012 to refinance our business in Turkey, Russia, Ukraine, South Africa and China. We expect this to have the effect, as Lori mentioned, of lowering our global cost of borrowing and creating a sustainable competitive advantage for our business over the tight liquidity of many of our undercapitalized competitors.

Looking forward, it's also important to understand the dynamics that will in future periods allow AGT to resume more normalized business. The first dynamic is crop supply. There have been rumors going around on this topic. Let me be clear in stating we do not foresee supply problems from the origins where our facilities and assets are located. Production in Canada has been down last year. It's estimated again that acreage will contract in 2012 but the carryover brings that number to record levels still. Additionally, strong crop production in Australia and increase in seeding expectations in the U.S. are expected to assist in offsetting the Canadian decreases.

I want you to remember, AGT is not a grain handler. We need adequate supply, not ample supply in all of our origins. Origination strength and locations of our global assets are a key part of our strategy. We continue to prove ourselves as a key partner to farmers in every geography in which we operate. In 2012, management estimates that Turkey and India may produce smaller quantities of pulses overall. As we have said in the past, lower production in these regions creates opportunities for AGT to ship raw material from our facilities in Canada, the U.S. and Australia for import, reprocess and re-export activities. Turkey is a key regional asset base for AGT and we'll continue to look at India as an important entry point in the coming periods.

AGT will continue its efforts to increase our global capacity utilization. Utilization in non-peak periods achieved by product diversification in chickpeas, beans, flaxseeds, peas and canary seed may contribute to smooth earnings.

Regarding acquisitions and expansions, we continue to keep our eyes on tuck-in acquisitions that benefit our strategy or fit with the overall program we have initiated.

Our balance sheet on the long-term debt side is very strong. We have the debt capacity to finance these transactions without issuing equity. Our pasta plant in Regina, planned for construction to start later this year, and the pulses food ingredient plant in Minot, North Dakota are key projects that will add scale and size to our food ingredients and packaged foods strategy that we're running out of our Arbel Group today.

North America and Western Europe are markets that hold tremendous potential for our products as the consumer demands natural products made from grains and pulses. Specifically, on the pulses side of our business, gluten-free, non-GMO proteins, fibres and starches are key growth areas for our company as we commercialize these new facilities.

In the past few years, particularly through the period of transformation and rapid growth we have experienced since the Arbel acquisition of 2009, we have not seen normalized conditions in the markets or for our business. We have not had a chance to demonstrate the value and benefit that our global growth strategy will provide. We're optimistic that these normalized conditions are possible in the near term and, should they be realized, we can again begin to capitalize on the opportunities and show what I believe will be the immense benefit from the global footprint that we have created.

In conclusion, AGT is a long-term focused business. Our management group is very committed to the long-term vision on this company and, as major shareholders ourselves, we stand shoulder to shoulder with all of our shareholders. We have a deep understanding of our business. We're deeply involved in the day-to-day operations and long-term planning and direction of this company. We have management depth and we are working every day to strengthen our business and further our goals as a strong global food company. I'm confident we have better days ahead for AGT and that we are indeed on a path of creating long-term value for our shareholders. I think with that we'll go to questions, Omer.

OMER AL-KATIB:

Operator, I think we'll open the lines up to questions now.

OPERATOR:

Certainly, sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. If you are using a speakerphone, please lift the handset before pressing any keys.

In order to accommodate as many callers as possible, one question from each person will be taken. To ask a supplemental question, please press star 1 again to rejoin the question queue. If time does not allow for response to all of the questions, the Alliance Grain Traders Investor Relations Group will follow up after the call.

Anyone who has a question may press star and 1 at this time.

The first question today comes from Robert Winslow of National Bank Financial. Please go ahead.

ROBERT WINSLOW:
Good morning.

MURAD AL-KATIB:
Good morning, Robert.

ROBERT WINSLOW:
Murad, could you remind us, please, are there any covenants—debt covenants that are tied to either trailing EBITDA or trailing income or anything related to the income statement?

MURAD AL-KATIB:
Yeah, the answer to that question, Robert, is that there's a couple of things. On all of the Arbella Group facilities, we have short term credit facilities that are unsecured and so there are no covenant-related conditions of those credits. So we can knock that off right away. The same with our United Kingdom and South Africa credits.

The syndicated facility with Scotiabank—which is actually at the level of Alliance Pulse Processors, which is our operating company based in Canada which holds the assets of

Canada, the US and Australia—in that particular facility and the farm credit facility, the great majority of our covenants are all balance sheet covenants. So we would have the current ratio covenant, we would have a minimum tangible equity covenant and we have a total debt to tangible equity covenant.

The only earnings or EBITDA-related covenant is in the Farm Credit Canada facility. We have an EBITDA over—basically a debt service coverage ratio, which I can tell you that, even at the current level of earnings when we just look at our interest and our principal repayments on our debt, that we have a very significant comfort that that covenant is very manageable. So no covenant issues.

And I think it's important to note that we had a lot of comments from institutions that there was fear that, with the lag in our earnings, that there was going to be some sort of a big issue on bank financing and covenants. In fact, even people suggesting that perhaps the credit facility that we had expiring at the end of April wouldn't be renewed. And so we announced that renewal with the extension to 2013 April.

And then I think it's important to note that that facility has a plus one year term-out provision at our option so that we end up in a position where we are committed out to April of 2014, giving us a bit more comfort. So the covenant package is manageable and we don't anticipate to see any issues with that.

ROBERT WINSLOW:

So how big is that Farm Credit Canada facility, Murad?

MURAD AL-KATIB:

It's a $70 million facility and it's been in place—we had a $50 million facility, we augmented it up to $70 million. And, Robert, we are looking at, as we mentioned in a number of our disclosures, as you guys read through it we mentioned, even in my comments I mentioned, that we will be looking at the augmentation of our long term debt facilities in our overall global packages to take the strength of the Canadian balance sheet to lower our cost of borrowing in the emerging markets and to ensure we have the long term debt financing to complete the pasta project and the other projects that are in our current queue.

ROBERT WINSLOW:

Well, okay, that's helpful. I just want to follow up on this Farm Credit Canada. You say there's plenty of buffer on that today. Can you disclose for us what the covenant is and where you stand on that metric today? Or is that—?

MURAD AL-KATIB:

Yeah, the—

ROBERT WINSLOW:

Or you can get back to me if you don't have it now.

MURAD AL-KATIB:

There's lots of room, Robert. I'll get the actual calculation and—

LORI IRELAND:

Yeah, it's based on our EBITDA number.

MURAD AL-KATIB:

So go ahead, Lori. What's the covenant? It's 1.25?

LORI IRELAND:

Yeah, our covenant is 1.25.

MURAD AL-KATIB:

Our covenant is 1.25 and we're testing today at 5.52, Robert. We're five times above the covenant today, Robert.

ROBERT WINSLOW:

Perfect.

LORI IRELAND:

We have lots of room.

MURAD AL-KATIB:

Yeah, I think that's pretty manageable.

OPERATOR:

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

MARC ROBINSON:

Hey, good morning. So just working through the numbers here, it looks like the pasta sales were down about 11% in the quarter and, but the fifth line—the production line, there's some language that says it has come on line. And there's also some discussion around higher inventories as a result of pasta. So can you provide some colour on what exactly is happening in that market?

MURAD AL-KATIB:

Yes, Marc, there's a couple of issues. One is the fifth line is on stream. We're running about—I think we're running around a third or so utilization on that line as a result of a semolina capacity issue. And so when we look at the overall utilization of that line in 2012, we didn't have enough semolina to put the line into full capacity. And when you have five lines running, you can pick and choose which lines you're using.

And so we started the semolina construction back in September with an anticipated February completion that will be completed. In fact, I think they're in commissioning and testing now. So we'll get that up to a full utilization target by the end of 2012.

In terms of a reduction in sales, part of that is due to a reduction in durum wheat prices as a result of the devaluation of the Turkish lira, so our sales figure is down. Tonnages were actually up in the quarter, not down. And when we look at inventory levels, we actually have quite a nice quarter one seasonal demand usually. And so we had some inventory built up to be able to ship in January, February on some large international orders.

MARC ROBINSON:

Okay. This is a very quick B part, if you don't mind. The one-time expense you talk about in your EBITDA calculation, can you just give some colour on what that is?

MURAD AL-KATIB:

Yeah, some of it is, of course, acquisition-related costs. You're talking about the non-recurring costs?

MARC ROBINSON:

Yeah.

MURAD AL-KATIB:

Yeah, there's acquisition-related costs and then there's—so those are not capitalized any longer under IFRS. They flow right through to income. And so, as a result, we back out the non-recurring acquisition costs. And then we had some one-time regulatory tax related payments that were for tax compliance in some of our foreign operations that were added back.

LORI IRELAND:

There was also some one-time finance costs—

MURAD AL-KATIB:

Yeah, related to the credit facility. Yeah, so the credit facility set up fees were also in that figure.

MARC ROBINSON:

Okay, thank you.

OPERATOR:

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

CHRISTINE HEALY:

Hi, guys. Murad, I just wanted a little bit more clarity just on the grain shipment defaults that you were talking about in your comments. Can you just quantify for investors what EBITDA impact this had and let us know: does this continue to be an issue in January and as you went through Q1?

MURAD AL-KATIB:

Yeah, I'll start off to give you a bit of colour. I mean, listen, as I said in my comments, I think that the important thing to note is that this is not an incident related to one country or one region. We had a global economic condition.

I characterize the European banking liquidity crisis and the debt crisis as having far more significant reaching implications than the US problem of 2008 because the European banks have that much more tie to the emerging markets' banks. I mean, if we look at the French banks in North Africa, the Portuguese banks in East Africa, you look at the European banks' activity in Singapore which really flows through to the Indian subcontinent.

So you have the large international players like SocGen and BNP and others who, through their own credit liquidity issues, we saw a significant contraction in emerging markets' credit availability. So as a result of that, we had bad-intentioned importers and good-intentioned importers that just had liquidity issues that we had to deal with.

So when I look at quantification of the effects at global audit time, of course, we go through our receivables and all of that and make sure that we provision anything into our financial results that will affect us in the next quarter. So when I look at the quantification, I would say it would be management's best estimates that it would be somewhere in the range of about $3 million to $5 million of effects.

CHRISTINE HEALY:

Okay and did—

MURAD AL-KATIB:

When I look at whether or not it will reoccur, I think that we have seen some improvement in quarter one. Maybe I'll just ask Gaetan to give a quick comment on that as well.

GAETAN BOURASSA:

Yeah, I mean, we've worked through some of these issues in the markets of how things are balanced in our distribution systems. Yeah, so, looking forward, I don't see any more issues on this.

MURAD AL-KATIB:

I think, Christine, there's no doubt that when we look at quarter one forward, we're being very clear to say that we think we have temporary issues that are going to resolve themselves if we go forward. But liquidity pressure has an effect of constraining margins because we do have basically hand-to-mouth buying and we have to push product into markets to ensure that we end up in a position that we're able to drive our assets.

And the other side of it is product mix changes very dramatically. We end up, if we look at our quarter four sales, we have went into, again, the places that we don't want to be long term in terms of the commodity business. Increased shipments of peas, flax seed; these things are important fillers for capacity utilization.

We don't want them to be the main driver of our assets because we are a value-added processing company that focuses on higher-end markets of 100 countries around the world. And, if you look at our segmented reporting in our disclosure, the sales tell the story from the year. If I look at the overall picture of sales for the year, we look at Canada or the Americas in general are up about 15%.

The Asia-Pacific rim, which includes the Indian subcontinent, down about 35% or 38% year over year. We look at Europe, Middle East and North Africa, up significantly. So you can see that the breadth of our distribution has allowed us to manage through some of these issues. And when we're pushing product into the Middle East-North Africa region, just to keep our assets busy and to deliver some earnings, we constrain our margins a bit.

So India and the Med. region in general need to be balanced out a bit more, and I think we're going to see that in the second half of 2012.

CHRISTINE HEALY:
So just, Gaetan, just to be clear here, I think what some investors want to know is some of these containers that were refused at port, I'm thinking you guys are a large enough company that you wouldn't have needed to liquidate the product in the market and that you would have just held onto the containers until you could sell them again. Can you just clarify that because I think that's something—

GAETAN BOURASSA:
Yeah, there will be a combination of moving some product to warehouse. We would work with our credit insurer, EDC, on outright defaults. In some markets we would resell the product and the loss is mitigated with the insurance, of course. So, yeah, you're right. We do have holding power.

CHRISTINE HEALY:
Okay.

MURAD AL-KATIB:
Yeah, this is a very key thing. I mean, the financing working capital strength of the company and our market debts and, remember, what we call solidification in our destination markets, we're not held hostage by defaulters of the world. We deal with our problems, we can take cargo into our warehouses and we can wait for the markets to go from panic and distress to improvement.

And if you look at that, the November-December period was panic and distress as a result of significant currency devaluations. The Indian rupee went from 49 to 55. The Turkish lira went from 1.70 to 1.95, and then that's just an indicator of all the emerging markets' currencies. We saw recovery back in mid-January and, as a result, markets improved back in Jan-Feb. So the staying power was the right strategy.

CHRISTINE HEALY:

Okay, thanks, guys. I appreciate it.

OPERATOR:

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

ANOOP PRIHAR:

Good morning. Now, in 2011, you guys consumed just over $95 million in working capital and, as you made clear in your comments earlier on, you are a much bigger company now. So I guess what I'm trying to understand is: what's a realistic assumption with respect to how much of that $95 million you're going to be able to release going forward?

MURAD AL-KATIB:

Yeah, I mean a very, very good question. Anoop, all I could give you is an estimate and a target and when we look at the overall working capital requirements, it's affected by, as I said, the lengthening of that cash cycle where, when we look at it, emerging market liquidity means that our customers, instead of paying 15 days prior to vessel arrival, they're paying at vessel arrival or five days prior.

So we're seeing an estimate of about a 10 day lengthening of our cash cycle. So when we look at that in an initiative that we've put in place across global subsidiaries to move to even more of a just-in-time inventory position, then I'm expecting that we should be able to realistically recovery about half of that increase in 2012, which is our target internally.

So I think that we're going to see an improvement of the cash cycle as we go forward, a bit more optimization on our working capital. And it's just even little things like their improvement and their liquidity means that we can go back to dictating terms instead of being a term-taker.

And part of this, Anoop, is you have to be there for your long-term distribution when they're having short-term issues because, remember, we've said very clearly in the past, this strategy is what we call a value chain margin capture strategy, and every link of that value chain has to be healthy and has to be able to make its money to be able to have a healthy distribution. Our slogan is “From Producer to the World”.

So in that particular link of from us to distribution, we needed to stand behind our distribution that was attempting to be healthy and we did that. At the same time, when things start turning around, we start to push back and make sure that they're not affecting our bottom line as well.

ANOOP PRIHAR:
In your earlier comments, I think you said that you've got 50 different product categories now. So I mean do you really need 50 different product categories because if you do, I have a hard time understanding how you're going to release half your working capital.

MURAD AL-KATIB:
You know, I think that we can. I think that still ultimately we have 50 different product categories but we still have large product categories which are our core business items like red lentils, faba beans, desi chickpeas, green lentils, you know, and white beans is another good example. So you know we will look at the possibility of doing that.

The key in releasing our working capital isn’t as much inventory; it’s much more the receivables side, and so we will be focusing a lot more on tighter credit terms, optimization of discounting facilities on letters of credit and turning our cash quicker.

ANOOP PRIHAR:
Thank you.

OPERATOR:

The next question comes from Max Vichniakov of Octagon Capital. Please go ahead.

MAX VICHNIAKOV:

Good morning guys. Can you give us a little bit more detail, perhaps, on the performance or impact here today from your previous acquisitions like Canz Commodities in North Dakota?

MURAD AL-KATIB:

Well, at this point I would say, the Canz Commodities acquisition in South Australia, we acquired it in August, and really the crop came in November/December, and so as a result you saw very limited impact of that asset on our 2011 results. But I can tell you that management estimates that the impact of this acquisition—I mean the Australian business in general, Max, is becoming a very important balancing force in terms of both origination and earnings, and we expect that, in the next 24 months or so, to be a very significant contributor and a balance to the Canadian and Turkish businesses.

So I really like the diversification that the New South Wales acquisition has given us to make us a major international shipper of all types of chickpeas. We were already a very significant player in Kabuli type, or the chickpeas for hummus and canning and direct consumption, but the desi or black chickpea, which is a big consumption item in the Indian subcontinent, we weren't even a player in that. Today we'd be top three potentially on the export side in Australia. So I like that diversification into fava beans, chickpeas, lupins and other products that are grown—mung beans that are grown in the New South Wales region.

On the Minot, North Dakota acquisition, we are under construction so there has been no contribution. That asset is targeted to be fully completed by around October/November of this year. In fact we hope to be doing some limited business at the start of new crop. That's going to be an interesting facility for us because it will produce the full range of pulses, flours, proteins, fibers and starches for the food industry, for the high value pet food industry focused on North America, Western Europe and Asian markets.

MAX VICHNIAKOV:
So everything is on schedule in North Dakota right? No delays?

MURAD AL-KATIB:
No, I mean, North Dakota, we said we would try and be ready for August. You know we have made some revisions in terms of expanding the size of the facility because of the protein, fibre and starch initiative. So we may be 30 to… our estimate is 30 to 45 days later than maybe what we anticipated at first. But of course, Max, everything is related to the weather and this spring and summer. If we have an early spring, that's a good, new sign for our construction.

MAX VICHNIAKOV:
Okay got it. Great, thank you.

OPERATOR:
The next question comes from Arash Yazdani of Raymond James. Please go ahead.

ARASH YAZDANI:
Hi. I just want to get a little bit of understanding on the processing and origination versus destination. Are you finding, given the current conditions, you guys are competing more with the processes that are at your destinations, and how is that playing out?

MURAD AL-KATIB:
I would make a couple of comments on that, I think. First thing is we are undeterred from our strategy of processing at the origin of the raw material. We continue to believe that the quality-conscious, high-value markets of the world are demanding product directly from Canada, from Australia, from the U.S., and the success of our processing operations there show that.

At the same time, we are not ignoring the opportunities that exist. I mean if you look, our strategy in Canada, U.S., Australia and Turkey is a model in which we foreshadow in our disclosures here that we are looking at India very seriously on the same type of model, where you can have a balance of local processing and distribution which is augmented by the origin based processing. So we don't see an increase in that type of activity putting to threat anything on the AGT strategy. In fact, if we look at the bulk conventional sales of lentils, this year over last, they're down, they're not up, and if we look at the bulk conventional shipments of lentils year over year, we accounted for about 20% of the bulk shipments in vessel this year whereas last year we accounted for none.

So we don't see a fundamental shift in the value-added, high-value commodities like the chickpeas, the lentils, the split peas, the split faba beans, the broad beans. The things that we concentrate on, that will continue to be a containerized game, and that continues to play into our strength and advantage.

The other thing is with origin-based versus destination-based processing, you have freight that plays really a big key role and we are seeing bulk freights, depending on the destination, are getting tighter on the handy size and the smaller size vessels, which again bodes well for containerized shipments.

Arash, when you look at the liquidity and working capital issues we see in the emerging markets, that is also a significant deterrent for bulk versus containerized because people in destination are looking to minimize their price risk, they are buying hand-to-mouth and they have liquidity issues. They would rather buy 20 or 40 containers than buy 5,000 tons at a time.

ARASH YAZDANI:

No, no, that's great. Okay, and then the other just on a more strategic side, I just quickly wanted to see are you guys looking at bulking up in any of your current regions? Any specific segments of your business you are looking at augmenting? Can you give us some colour on that? Thanks.

MURAD AL-KATIB:

Arash, we have already announced the construction of a North American or an expansion of a North American past asset. The food ingredients platform with the Minot, North Dakota plant, we will put that into commission and we will be looking at expansion of that platform as we grow out the North American and Western European customer base for those products and we see those areas as being an opportunity for us to augment.

So when I look at our plate today, we have the Chinese bean plant that is under construction, we have the North Dakota plant under construction, a Canadian plant planned and we have Indian entry as a priority looking forward. So we've got a full plate to continue to solidify that global footprint.

ARASH YAZDANI:
Okay, great. Thanks, guys.

OPERATOR:
Next we have a follow up question from Anoop Prihar of GMP Securities. Please go ahead.

ANOOP PRIHAR:
In your earlier comments, Murad, when you were talking about increasing utilization, I think you made some comments in the context of mustard and canary and I was wondering, could you expand on that a little bit because, I mean, those aren't really a big part of your business?

MURAD AL-KATIB:
Actually, yeah, and it was flax and canary—I think were the two that we mentioned. For the flax program, it's an interesting one because we have a number of different opportunities in flaxseed, where we look at the higher value flax markets into the bakery ingredient markets in Western Europe, we have the industrial uses of flax in the Chinese market as an opportunity that goes along well with our Chinese development strategy, and then we have our normal Middle Eastern and North African buyers that consume flax regularly.

So we like that program as compared to, let's say, just putting our focus on the filler business on our utilization in the hands of just bulk yellow peas. Because bulk yellow peas are a much tougher commodity for us to extract an acceptable margin than, let's say, the flax business, the canary seed business and those. So on the canary side a lot more focus being put on Mexico and South America, and if I look at a target of market development for us in the 2012-2013, I would definitely say that strengthening of our Americas business is going to continue to consume a lot of the effort of Gaetan's group to continue that solidification. So that fits into the canary platform as well—quite well.

ANOOP PRIHAR:

Okay and, just while I have you on the line, the volatility quarter-in quarter-out for the last little while has been fairly dramatic. So looking forward as the business improves, what kind of sustainability over what period of time increasing in EBITDA would you need to see before you would contemplate increasing the dividend?

MURAD AL-KATIB:

You know what, in our perspective, we have been very clear that when this business returns to normalized earnings, we say quite openly, the advantage of this business is it's a high fixed cost component business. That is also the disadvantage of this business—is that we are a high fixed cost component business. So when we encounter economic headwind like we have, earnings can suffer as a result. When we get back to generating our cash flow in the second half of 2012-2013, Anoop, we have been clear on our desire to deploy free cash flow into a combination of expansion and tweaking of our global activities, but also will be looking at the possibility of increasing our yield.

We believe that a balance in yield and growth is what our investors are looking for, and when I look at that particular growth side, we have a significant amount of growth just from deploying initiatives to diversify our utilization activities. So when we have comments about you—I hear comments about Alliance is a serial acquirer, and I think that people that have that view aren't really looking into seeing how each acquisition or growth piece—you look at the strategy and it will have two or three links into the strategy.

Giving you an example, the South African acquisition came out with foreshadow a few quarters before we bought it. Well South Africa is Southern Africa in terms of a market for our products.

Southern Africa is a major market for pasta. Southern Africa is an origination region for the Indian subcontinent strategy, Mozambique, Tanzania, Malawi, Kenya, Zambia, Zimbabwe. South Africa is also one of the largest markets in the world for light speckled kidney beans, which fits into our Chinese expansion strategy.

So you look at every one of these things: we are not acquiring EBITDA, we are building a global footprint that is linked together. When we deliver those we will be looking at the possibility of increasing dividends as well, Anoop.

ANOOP PRIHAR:

I'm not sure you really still answered my question. What I'm really trying to understand is that the volatility quarter-in quarter-out—I mean, that is going to be an ongoing inherent part of the business whether the volatility is on the up side or the down side, as we expect the business to return to stronger footings in the second half of the year.

How many quarters of sustained growth do you think, or give us a sense as to how many quarters of sustained growth do you need before you would contemplate something like increasing the dividend?

MURAD AL-KATIB:

Yeah, Anoop, I can't. The dividend policy is a board issue; it's not just my view entirely. So you I can tell you that what I have answered is to say that the board and management advocate a balance of growth in terms of deploying free cash flow and also looking at increase in yield, so I can't really give you a commitment on what kind of number of quarters.

OPERATOR:

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

KEITH CARPENTER:

Hi, good morning. I just have a couple of income statement questions. You guys say here in your outlook on the go-forward for the marketing and sales distribution expenses that you are looking to get this down to $7 million going forward. Is that a Q1 comment or is that an as-we-go-through 2012 comment?

MURAD AL-KATIB:

Yeah, Keith, listen, the bottom line on that was we had one-time—what we deemed to be non-recurring advertising expenses. Every three to four years we do a national brand awareness campaign in Turkey related to our Arbella pasta, and the last campaign was end of 2007-2008 prior to the acquisition of Arbella. So the family had undertaken that campaign back in—I think it was early 2008, and so that campaign was largely executed in the end of 2011 and so won't be refocused again until 2014 or 2013-end to 2014 start. So when we subtract about half of those advertising costs, we didn't even subtract it all, we foreshadowed to say that a normalized level will be around $7 million.

KEITH CARPENTER:

Okay perfect. So I get the sense that's something very near term. On the G&A, similar question, you guys definitely talked about earlier about getting that or optimizing those costs, is that something that's a work in progress through 2012?

LORI IRELAND:

Yeah that would be a work in progress. We have a number of initiatives going on and I don't think we will see them all recognized in Q1.

MURAD AL-KATIB:

No I mean listen we are looking at … we have acquired so many companies and so many activities over the last 36 months that part of our focus as management is, as I said, capacity utilization is one big initiative, diversification of our markets is another, but the third has to be optimization of our corporate administration and optimization of our global fixed cost component of our business.

And so we are looking at you know initiatives for standardization, elimination of decentralized function, centralization. If it's more advantageous for us to do that, those are the kind of things that you will see throughout 2012. But these are certainly things that are already in progress and they are being worked on.

KEITH CARPENTER:

Perfect thanks.

OPERATOR:

Next we have a follow up question from Christine Healy of Scotiabank. Please go ahead.

CHRISTINE HEALY:

Thanks. Hi guys. Maybe this question is for Lori. Lori, can you give us an idea as to your CapEx budget for the year and then just confirm what your intentions are and how you will fund that?

LORI IRELAND:

Well, I guess we have a couple of possible things upcoming. As we both alluded to earlier, we have been speaking about global credit facilities which will fund some of the CapEx we have coming up.

MURAD AL-KATIB:

I think, Christine, we have been quite clear that we have the pasta project upcoming and you know we announced a budget of about $50 million for that. That would be a two year construction cycle so 2012-2013. So if we look at that along with our Minot expansions, we are probably looking at a CapEx budget estimate of around $35 million to $40 million in 2012. So we will be funding that with some long-term data and some free cash flow.

CHRISTINE HEALY:

Okay great. Thank you.

OMER AL-KATIB:

And that brings us to the end of our questions in this session. I would like to thank you all for joining us on the call today. I would also like to remind everyone that is still on the call that if you have any follow up questions you can feel free to contact us at our Regina head office and we would be more than happy to follow up with you. Again, thanks for attending our conference call and I wish you all a good day.

OPERATOR:

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