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Alliance Grain Traders
Third Quarter 2014 Financial Results
Conference Call Transcript

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Speakers:

Murad Al-Katib
President and CEO

Lori Ireland
Chief Financial Officer

Gaetan Bourassa
Chief Operating Officer

Omer Al-Katib
Director, Corporate Affairs and Investor Relations

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

OMER AL-KATIB:
Thank you very much. Good afternoon and thank you for joining us on our Third Quarter 2014 Conference Call. On the line with us today we have Murad Al-Katib, President and CEO of AGT Food and Ingredients; Lori Ireland, our Chief Financial Officer; and Gaetan Bourassa, our Chief Operating Officer.

Before we get started, I'd like to remind everyone that today's call may include forward-looking statements. Such forward-looking statements are given as of the date of this call and involve certain risks and uncertainties. A number of factors and assumptions were applied in the formulation of such statements and actual results could differ materially. This call may also include references to certain non-IFRS financial measures. For additional information with respect to forward-looking statements, factors and assumptions, as well as 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:
Yes, thanks, Omer. We're certainly pleased with our results this quarter, building on the positive direction AGT Food and Ingredients has been demonstrating over the recent periods, including AGT's continued ability to execute our earnings growth strategy and deliver positive performance in our business. We've seen gains in all of our segments, but particularly we're excited about the new food and ingredients packaged foods segment, with gains and developments that provided our continued optimism with regard to how this business may expand and grow in future periods.

Our legacy business in pulses and grains processing, and in trading and distribution, continues to gain strength, providing a solid foundation for the growth we expect from AGT, as the new and diversified business units gain traction in the marketplace to grow their lines of business.

Overall, we feel our business is strong, and the results over the past few quarters as evidenced by the many positive highlights we have presented show we're on the right track.

Before I get into some of the exciting developments and opportunities ahead for AGT, and take some questions, I want to ask our CFO, Lori Ireland, to provide a brief overview of the most recent quarter. Lori?

LORI IRELAND:
Thanks, Murad. Hi there. AGT's earnings per metric tonne improved in the pulses and grains processing and the food ingredients and packaged foods segments when comparing the quarter ended September 30th, 2014 to the quarter ended June 30th, 2014.

Adjusted gross profit per metric tonne in the pulses and grains processing segment increased from $72.67 to $89.39 per metric tonne, and EBITDA per metric tonne increased from $55.22 to $66.65. The increase demonstrated continuing growth in the recovery in the legacy business.

Adjusted gross profit per metric tonne in the food ingredients and packaged foods segment increased from $160.35 to $165.99, and EBITDA per metric tonne increased from $101.99 to $103.02. Pasta volume and margin declines during the quarter were offset by increased volumes from the Minot, North Dakota facility.

Adjusted gross profit and EBITDA per metric tonne in the trading and distribution segment fell slightly, from $36.68 to $35.86 and from $11.07 to $9.57 respectively. Management continues to view this segment as providing incremental margin with minimal commodity risk and augmenting other sales to our AGT customers.

Total inventory and accounts receivable days outstanding improved to 128 days for the nine months ended September 30th, 2014, compared to 131 days for the nine months ended September 30th, 2013.

Non-cash foreign exchange includes a snapshot of outstanding foreign denominated accounts receivable and accounts payable, as well as outstanding foreign exchange contracts, and includes the contract relating to the high yield bonds. Note that this is a non-cash item and will fluctuate depending on the strength or weakness of foreign currencies when compared to the Canadian dollar. The strengthening of the US dollar in relation to other currencies is the primary reason for the change in the unrealized foreign exchange amount for the quarter ended September 30th, 2014. AGT has treasury processes in place to ensure that the need to purchase foreign currencies to settle debt will be minimized if it will result in cash losses on foreign exchange.
Finance expense includes a line item to capture the fair value of embedded derivatives relating to the optional redemption rights in the bond. The value of the call option when the bond was

issued was nominal and, up until recently, it's been immaterial. Due to economic factors, as well as the improved performance of AGT, this number increased during the quarter. As a result, it has been listed separately for financial statement presentation.

General and administration and marketing, sales and distribution expenses have increased over the prior year. However, current results include expenses related to growing operations in India, China and Switzerland, as well as costs related to the new AGT CLIC acquisition. There is a decrease from the prior quarter due partially to ramp-up costs early in 2014 relating to growth in the food ingredients and packaged food segment.

Net debt increased slightly from \$335.7 million at June 30th, 2014 to \$339.9 million at September 30th, 2014. This is due primarily to the ramp-up of inventory and partially offset by a decrease in accounts receivable and increased accounts payable. Metrics continue to be calculated for each facility and performance targets are being tied to inventory and accounts receivable turns at each plant and country operation level.

AGT tracks adjusted earnings per share as it is reported exclusive of the non-cash foreign exchange effects of our global business, whether that means a gain or a loss, because Management feels that inclusion of both gains and losses that result from snapshot non-cash IFRS effects do not accurately reflect the cash flow generating ability of our business.

Adjusted earnings per share improved to \$0.46 and \$0.45 fully diluted for the three months ended September 30th, 2014, compared to \$0.24 and \$0.24 fully diluted for the three months ended September 30th, 2013, and \$0.44 and \$0.43 fully diluted for the three months ended June 30th, 2014.

EBITDA for the three months ended September 30th, 2014 was \$21.1 million, compared to \$14.4 million for the same period in 2013, an increase of 46.5%. EBITDA as a percentage of revenue improved to 7.33% for the three months ended September 30th, 2014, compared to 5.98% for the same period last year.

EBITDA improved to \$80.8 million for the trailing 12 months ended September 30th, 2014, compared to \$54.3 million for the trailing 12 months ended September 30th, 2013, and compared to \$74.1 million for the trailing 12 months ended June 30th, 2014, demonstrating continued improvements in AGT's global diversification strategy and the positive effects on AGT's earnings.

Finally, a bought deal was finalized on November 12th, 2014. Approximately 2.9 million shares were issued with net proceeds of approximately $76.7 million. The funds will be used to further expand on the food ingredients and packaged foods segment, as well as debt repayment, other growth opportunities, and working capital.

Thank you.

MURAD AL-KATIB:
Thanks, Lori. As I mentioned on my most recent conference call, the food ingredients and packaged foods segment is the area we're most excited about. We're increasingly receiving positive feedback from our food ingredient customers for our pulse flours, proteins, starches and fibres. Our distribution agreement with Ingredion is advancing as we expected, with sales programs developing and AGT ingredients moving into Ingredion's distribution network. These developments in pulse ingredients follow our Cargill agreement on pulse proteins for branded feed and pet food applications in North America we signed in 2013. Both agreements are intended to benefit AGT with increased market reach, to target increasingly larger customers who may be interested in the non-GMO, gluten-free, high protein and fibre, and sustainable characteristics of pulse ingredients.

The development of these sales programs has had the intended effect of positively impacting capacity utilization at our Minot facility, as increased volumes of pulse ingredients are moving to market and are in demand by food company customers as they introduce pulse ingredients into their formulations or replace other ingredients with pulse ingredients. This has resulted in the approval by our Management team for the installation and commissioning of a third line of production at Minot, to increase the capacity of that facility to about 105,000 metric tonnes per annum. This expansion in capacity is needed to keep pace with our forecasted marketing and sales opportunities for AGT's ingredient products through our partner sales and the marketing strength and continued growth in this segment.

As well, based on feedback from customers on what they require from pulse ingredients with respect to characteristics and application functionality, we're also investigating other value-added processes at Minot for pre-cooking lines, sterilization lines, and blending facilities to produce pre-mixes and formulated systems. Customer reaction to AGT's high-quality pulse ingredients has been increasingly positive, and we hope to capitalize on these opportunities in the near term.

Based on the early success we've experienced and we're seeing in the segment, including our retail packaged foods business, we're continuing our analysis on the feasibility and costs of conversion of existing available capacity in Canada, United States and/or Turkey, to assist AGT in ramping up its platform in 2015 and 2016. In addition, we are examining expansions of AGT's pasta production capacity in Turkey.

The integration of our AGT CLIC business unit is ongoing as well and we expect opportunities in the retail landscape in Canada and the United States to begin to develop, in addition to our work towards supplying canned and small pack, ready-for-store-shelf products to our traditional markets as well.

Viewed in totality, the areas of packaged food and food ingredients, these business units all provide what we expect to be growth opportunities for AGT with respect to margin, sales and earnings.

Our focus on food ingredients and packaged foods is certainly, though, not at the expense of our legacy business that provides the foundation for growth of AGT. In fact, in many areas, the legacy business segment supports, and the segments coexist and have synergies where we utilize existing facility infrastructure to provide raw materials for canning, small packaging and distribution to our food company and retail customers, as well as providing origination strength needed for the procurement of raw materials for our ingredient business. Synergistic trade between global operations is augmented by the integration of these platforms.

With regards to our legacy segment, harvest in North America is complete. The results have been a marketable crop that we expect can fill the demands of global customers and markets. We have seen a higher degree of variability in terms of the quality from the 2013 harvest. However; there is ample product to meet market demand in whole lentil markets through 2014 and 2015, with a potential for incremental gains as stocks begin to be drawn down. As well, the higher degree of variability may create additional margin opportunities for AGT, splitting, value-added processing, including the ability to upgrade lower quality products using colour sorting, peeling, splitting and calibration technologies.

We expect continued strong import volumes in consumption markets like India and Turkey and the regional markets they service, providing volume gains which have positively impacted our facility capacity utilization and provided opportunities for our margin gain in a high fixed cost business. The pulses and grains processing segment represents a significant, albeit transitioning, part of our revenues and earnings, and the potential exists that increasing flows of export products and stable-to-higher prices will be a key driver for our sales, for our margin and our growth, as we get into traditional shipping periods ahead.

AGT continues to realize the opportunities that our global system and strong presence in local pulses and staple food markets have provided. The relative strength in our legacy segment seen in these past quarters provides the strong foundation for growth that AGT needs as our food ingredients and packaged foods business grows. The recent bought deal equity financing of $80 million, our expansion plans, and our other initiatives, are important components to realizing the benefits of the continued growth opportunities we expect from all of our operating segments, including a balanced growth for AGT, enhancement of shareholder value in the long term, and good results for all of our stakeholders.

I thank you for your continued interest in AGT Food and Ingredients.

Omer, I believe we'll take some questions now?

OMER AL-KATIB:
Yes, Operator, we'll go to the first question.

OPERATOR:
Thank you. The first question today comes from Jacob Bout of CIBC. Please go ahead.

JACOB BOUT:
Good afternoon. I have a question on the food ingredient expansion at Minot. What is the CAPEX expectation there for Line Three, and the EBITDA contribution?

MURAD AL-KATIB:
Well, the Line Three CAPEX is somewhere in the range of $5 million to $6 million, and that's an all-in figure, Jacob. A portion of that has already been spent in preparation infrastructure that was done during the installation of the second line. So, I'd expect it to be $4 million to $5 million of additional CAPEX.

In terms of margin guidance, what we can point you to is our assertion that it will add an incremental 30,000 tonnes of capacity. We've also stated quite clearly that we'll be at our intended full utilization of our capacity on Line Two by the end of the fourth quarter. So, if we look at a ramp-up of Line Three in the end of the first quarter, second, third and fourth quarters of next year, and annualize the EBITDA contribution, at the current segment EBITDA is of $103, it would give you somewhere in the range of $3 million to $4 million of additional contribution, and that's our projection.

JACOB BOUT:
How much was the—because pasta is in there, as well, how much of that was a drag on that in the third quarter?

MURAD AL-KATIB:
Yes, there is, Jacob. We don't break that down to that point, but we've certainly been quite open in the past to say that pasta and the Advance Seed business, the packaged foods business, is kind of our lowest margin in that segment, and then of course the food ingredients are materially higher. So, when you look at that average of $103, you certainly would have a drag from the pasta. Even this quarter, we made a specific reference to the fact that quality degradation in the North American market did have a move on the durum wheat prices globally, which had a temporary effect on some of our margins in the third quarter, until our new imported volumes from Mexico and other places had arrived to our Turkish business.

I think that, certainly, with the high fixed cost component nature of the food ingredients business, the third line will have even more of an EBITDA per tonne impact. Really, our adjusted gross profits will largely go to earnings in the third line. So, you're going to have a pretty material contribution of that third production system.

JACOB BOUT:
Maybe you could talk a bit about marketing of the protein, starch and fibre, and if we just talk a little bit about—or if you can talk a bit about the relationship that you have with Ingredion. So, is the expectation here that Ingredion will continue to market starch for the third line and that you'll be doing your own marketing of protein and fibre?

MURAD AL-KATIB:
No, Ingredion is our partner going forward on the food industry for protein, starch and fibre.

JACOB BOUT:
Okay.

MURAD AL-KATIB:
So, you know, the Cargill agreement was very limited to the protein fraction in the pet food sector. We've been marketing the fibre and the starch on our own. But, in the food industry side, for Canada, U.S., Western Europe, North Africa, Middle East, and China, Ingredion is our exclusive partner on the sales and distribution. We have a joint development agreement, and we will be commercializing jointly with Ingredion that full package.

Ingredion is a world-renowned specialty ingredients and starch company, and certainly their capability in modification of starches, flours and ingredients was the main attraction for AGT of having them as our exclusive partner, and our supply chain and our position in global pulses, I think, was the attraction for Ingredion to have us as their partner.

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

CHRISTINE HEALY:
Hi there. I guess, just as a first question, can you give us some more detail as to what your immediate plans are for the $80 million of cash that you just raised? I guess, most importantly, how much should we assume you pay down your credit facilities in Q4, and beyond that, do you plan on sitting on some of the cash for future M&A and growth projects, or is there any potential for you to retire some of your higher-interest long-term debt?

MURAD AL-KATIB:
At this point, Christine, immediately in Q4, we have now announced the third processing line at Minot, which will go ahead immediately. As we stated, there's probably $4 million to $5 million of CAPEX to do on that. So, when we look at the immediate in-process CAPEX, you've got somewhere in the range of $5 million to $10 million. Outside of that, the balance of the proceeds will go to retiring the revolving credit facilities that are currently in place. We're able to park the money there, have a reduction in bank indebtedness immediately, and then as we have a requirement for managed growth CAPEX in 2015, and working capital, we can re-draw and re-advance off of those revolving facilities.

At this point, the plan is to continue to strengthen our earnings in 2015, and when we get past February of 2016, we start to have early redemption rights on the bond issue that we did in 2013, so we'll start to look at a global refinance that will start to reduce some of those long-term debts, in particular the bond that was at a higher coupon rate. So, the immediate plans for these proceeds are to reduce our current bank indebtedness, to leave the Company flexible, nimble, and able to react to—I continue to use the word "managed focused growth initiatives" in our packaged food and food ingredient businesses.

CHRISTINE HEALY:
Okay, and just a final question from me. The pulses and grains processing segment, the margin per tonne increased significantly, over 20% from last quarter, even though your volumes declined more than 30%. So, can you just talk about what the drivers were for the margin improvement in that segment, just given that capacity utilization was lower? Did the higher

commodity prices have anything to do with that? If you had an open inventory position, writing your inventory levels up to market, did that have a material impact on that segment?

MURAD AL-KATIB:

We had absolutely no material inventory write-ups in the quarter. This is a result—I mean, this continued margin improvement is a direct result, in the pulses and grains segment, of diversification initiatives. When we were in very tough times, in 2011 and '12, the reliance that this Company had on our global lentil platform was likely in the range of about 70% of our total volume, and when we look at the initiatives, the investments we made in our plant assets, it was to increase the flexibility of the asset, to be able to do lentils, value-added peas, faba beans, chickpeas, beans. We launched a very successful rice business in Turkey, both by building a mill and also by importing, reprocessing and distributing other origin rices in our Turkish business. The South African business has built a very successful popcorn platform for export, and a local distribution business. The Australian business has focused a lot on broad beans, faba beans, desi chickpeas, to balance off our lentil platform.

So, what you're seeing is the benefit of what I would call business as usual, and business as usual in our business means that with the strength of AGT's distribution to over 100 countries, this is what we do; we pick the markets that we service with our brands and our quality and our products. We leave the commodities to others. Now, when we don't have markets buying on a regular business as usual, like we saw in '11 and '12, we can also play in the commodity segment if we have to, but we prefer this business because it's really a long-term sustainable value for our shareholders.

These margins, in our mind, will—these are levels where we'll start to stay in this range now, that's our view in the coming quarters.

OPERATOR

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

STEVE HANSEN:

Yes, good morning, guys. Murad, you've identified some pretty interesting—I guess I'll call them ancillary opportunities around premixes and formulations here. It seems to suggest you're looking for a bit broader capture of the value chain over and above just the core ingredient manufacturing. Can you maybe just describe to us a little bit more around what's driving this potential opportunity and how the economics might layer on to the existing facilities, and just maybe at a broader level describe how that would relate to further expansion or conversion opportunities as well, or is this isolated just to Minot?

MURAD AL-KATIB:

Yes—just to be very clear, the enhanced value-added opportunities are also part of the strategic development that we have with Ingredion. The concept of ingredient production is really value creation. When we use this term "formulated systems," really, what it implies is the combination of various ingredients to provide a food solution to a company who's manufacturing a food product.

To give you an example, a combination of pea protein and pea starch and oat fibre and potato starch might give you a combination that is very applicable to a—I'm just making this up, Steve, but to a snack food application of this type of opportunity. So, we have two options: produce the two ingredients, increase the number of ingredients in that system, and also have the ability to blend the ingredients and provide the formulated system.

So, those are the opportunities we're examining. So, it's not a deviation from the strategy. In fact, these value-added investments will enhance our ability not only to market, but to extract even higher margins out of the current stream of ingredients that we're producing. So, this is a necessary step of scaling this business up. In our target, I mean, in a 10-year cycle, we've built a million-tonne pulse business and we want to build a million-tonne ingredient business. So, in that, you've got to be beyond just raw ingredients. So, we will, in a managed fashion, start immediately.

Now, the CAPEX on these modifications are not like the building of plants. They're more like addition of production lines. So, you have a relatively modest CAPEX, with what I would consider to be the potential of material gains on margin. Again, don't expect me to announce five modification lines next quarter, but what I wanted to give a flavour to our analysts and our investors is that this is the strength of the Ingredion partnership, this is what they do.

This is also the strength of the investments we made. Over the last two years, AGT has been investing in R&D. We have our research centre in Saskatoon. That's the work we've been completing, was not just to commercialize the existing ingredients, but what else can we do with them to drive even more value. So, that's what I think is going to be a very exciting development later in '15 and '16, is to see how we can scale with conversions, but also how we can up the value of the existing production as we go along.

STEVE HANSEN:

Okay, that's very helpful. Just one follow-up, if I may, on the base load core business. You addressed the crop quality issue in Canada briefly in your opening remarks, and even referred to some potential margin-enhancing opportunities, I think was the term you used, and I was just wanted to know if you could, hopefully, provide us a bit of context here around how you expect to manage the quality of the crop this year and how some of those enhancement opportunities might come to fruition.

GAETAN BOURASSA:

It's Gaetan here. Well, with all our calibrating and colour-sorting equipment, we'll be doing a lot of gravity-grading on the green lentils, colour sorting, utilizing all that technology, and on the red lentils, we'll be doing a lot of milling. For example, our plants won't touch the higher grade products that are trading at a premium. We'll upgrade the lower grade products. So, I guess that would be the key.

MURAD AL-KATIB:

Yes, and then, I think, if I can just add, one of the other things that happens in a year like this is other companies that require input raw materials, like other red lentil millers in the world, they will actually come to a supplier like AGT in a year where the quality is constrained, because we know how to process the material before it gets to their splitting. Frankly, they may be our competitor, but they know we're the biggest miller in the world. So, we're selling a good program of Extra 3 quality red lentils, for instance, that will go to other millers. We clean it, we gravity-grade it, we make sure we use the right slotted screens, and the way to clean it up. So, what we're doing is leaving some of the defects in the feed market here and giving them more millable lentils for their programs.

So, you know, a year like this year, it's actually very different than the 2010 quality year, because that was a true disaster, Steve, where we couldn't even hope to gain back the efficiency losses in our processing because the quality was so bad. This year, the fact that it's variable, that's where a company like us has an opportunity to make money, and we know how to do that.

OPERATOR:

As a reminder, if you would like to ask a question, please press star, then one on your touchtone phone.

Our next question today comes from John Chu of Altacorp Capital. Please go ahead.

JOHN CHU:

Hi, good afternoon. Maybe just talk about the distribution with Ingredion—I think you started that just a few weeks ago, maybe—and just give us a sense on how distributing the product through their system has been going so far.

MURAD AL-KATIB:

Yes, that's a good question, John. We're on target. When Ingredion announced, and we announced, the agreement the end of June, there was a target of 120 days to launch, and I'm pleased to report that product shipped on the 23rd of October, with the first—I think the 22nd or 23rd of October were first commercial shipments into the Ingredion distribution system in North America, both into their own warehouses and also their distributors' warehouses.

I think that what we've managed to do in a busy summer period, which is usually, of course, a more challenging period, but we did customer downloads, meaning that we've downloaded what we've been doing with this client base of, hundreds of clients around the world, they've briefed us on where they're at, so we've combined that data. We've registered all our products, the quality specs, we've agreed on the packing, we've produced materials, and we've shipped into their distribution. Now, we're going to market. Feedback has been positive. That was a big driver for the decision to announce Line Three. I mean, we're forecasting on the current case of just the normal growth of what we're doing, Line Two utilization will be fully enhanced by the end of this quarter, and with a lag to the next line's full functionality, we need to get rolling, because, John, once the freight train is rolling along—it's hard to get the power to start it rolling, but once it's rolling, I don't want to stop it.

JOHN CHU:

Right, and so that maybe leads into the next question. You mentioned in your MD&A about Cargill, how you expect them to continue to add to this growth profile, but it sounds like production Line No. 2 and 3 are going to be a little bit more food-related, so I'm just wondering how you're going to find the capacity to accommodate more Cargill growth on the feed side when the focus seems to be a little bit more on the food side.

MURAD AL-KATIB:

Well, let's just be clear. On the Cargill side, we're focusing on the pet food more than the feed. I guess my comments—or our comments in the MD&A are really foreshadowing towards what we hope and anticipate is going to be the requirement for facility conversions to be able to take on all of those opportunities. So, it may not have been a specific comment, John, on the third line, because I do believe that what you'll see is—the first two lines have a fairly heavy weighting towards Cargill, but on the protein fraction. Of course, we have to sell everything else. So, really, the first two lines, the big push has actually been AGT's marketing as much as the Cargill protein marketing, but on the subsequent third line, yes, Ingredion will be a driver in the food industry. I think that we will continue to see growth in the pet food utilization, because, really, at this point our pet food volumes had been limited almost entirely to Canada and US, and that's the scope of the Cargill agreement. So, we're starting to look at pet food opportunities in other geographies. I expect that to be another significant leg of the growth stool.

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

ANOOP PRIHAR:
Good afternoon. Just with respect to the sixth pasta line, when will you be in a position to actually make a decision on that, and in the event you do decide to proceed, what's the ramp-up time there like?

MURAD AL-KATIB:
Well, Anoop, there's really two decisions that have to be made. It's a really a decision between two things at this point. I don't anticipate us going ahead with *both* the sixth pasta line *and* the specialty pasta line immediately. So, the decision we're attempting to make right now is: do we add an additional 35,000 to 40,000 tonnes of capacity to continue to augment our table pasta focus or do we add 15,000 to 20,000 tonnes of specialty-cut production, which would largely be absorbed entirely by our existing client base.

I can tell you that feasibility work is going on in both directions. We have the semolina to produce either, so that's not a constraint for us. One of the big advantages of what we did in our pasta is we actually have left enough semolina capacity in the build-out we did in 2012 and '13 to be able to feed out the next line expansions without any significant CAPEX.

My sense is that we're leaning towards specialty. So, the production of vermicelli nest pasta, American lasagna, these are all being driven largely by our existing client base, and if I can be in a position where our pasta management can demonstrate to us full utilization of a specialty pasta investment, it'll be a no-brainer to go ahead and do it. So, I'd expect that decision, Anoop, in the first quarter, along with the facility conversion decisions.

ANOOP PRIHAR:
What's the ramp on the specialty line, or even regular line, how long--

MURAD AL-KATIB:
Well, because we don't have to build the semolina, we're likely looking at—from order placement to line arrival, it's probably two to three months, and commissioning would be one to two months maximum.

ANOOP PRIHAR:
Okay, and the last question--

MURAD AL-KATIB:
So, very, very quick, because we've already built all the hard assets, right?

ANOOP PRIHAR:
Sure. Just with respect to the ramp-up on the Ingredion side, I mean, it sounds like in the early part of the fourth quarter you were probably just stocking the channels, and I'm just wondering, stocking the channels, in and of itself, is that enough to see a significant increase in volumes when we see the Q4 numbers?

MURAD AL-KATIB:
I think the combination of the Ingredion agreement coming in and the additional sales volumes that we had booked for the fourth quarter and the first quarter—I mean, the third quarter is a challenging time for any production, because—let's say, for instance, the food manufacturing plants, the pet food plants, I mean, all of these plants undergo their regular maintenance programs, too, largely during the summer months. So, the third quarter volumes reflected that a bit. They were up, though, so utilization was probably around that 75%, and I do expect, Anoop, that the launch of the food platform, plus the augmented sales that we have, are going to be enough to get us there, which is why it was necessary to announce the third line.

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

MARC ROBINSON:

Thanks. Murad, you've built a million-tonne business and a legacy business and you're talking a million tonnes over time in food ingredients. Notwithstanding your geographic diversification, I'm wondering if you ever see supply becoming a constraint, feedstock supply.

MURAD AL-KATIB:
You know, Marc, a very interesting question, but one of the big advantages of the food ingredient platform is: our competition on the existing production is truly the lowest cost denominator value of protein—like, the peas being sold by a Panamax vessel to India, that's the lowest-priced protein available in that market overall. The food ingredient market on a ramp-up will eat that product and the emerging markets are going to have to find an alternative if the production doesn't keep pace.

Now, what I do predict is—I do predict that we're going to continue to see growth in the acreage in Alberta. I forecast that we're going to continue to see a material growth in the Montana acreage. Montana alone has about 4 million acres of summer fallow remaining. So, when you're looking at Peace River country in the north of Alberta, you're looking at Montana, and you start to look at production gains that we will forecast in the coming five years and 10 years in Russia, Malawi, Mozambique, Tanzania, Kenya, around these areas, and Australia, I really don't see foresee us having a supply issue.

MARC ROBINSON:
Okay. That's it for me. Thanks.

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

KEITH CARPENTER:
Hi, good afternoon, a couple of questions here. One from a Turkish operation viewpoint, and then I have a question for Lori after that. Murad, on the pasta in Q3, the volume decline, is that solely related to maintenance, or is there something else that happened there and is that a one-time issue?

MURAD AL-KATIB:
You know what, Keith, actually, if you go back and historically look at our pasta—and I actually didn't do this, but I'm going from my, you know, getting-older memory, but quarter three is almost always a seasonally lower quarter in pasta, especially the last few years, because in Ramadan, the consumption is largely more weighted into bulgur and rice, and the pasta consumption is largely more in quarter four, quarter one and quarter two. So, we always see a little bit of an inventory build in quarter three, but sales are there for the inventory in quarter four and one, so they would have been sold.

When I said there was a reduction—I mean, if you look at the food ingredients and packaged foods, it was only down, I think, about 5,000 or 6,000 tonnes period, so we're not talking about anything material, nothing else but that, and we're expecting the margin contraction that we saw also to be temporary, because we've imported now vessel quantities—and we're not talking about small vessels, we're talking Panamax quantities—of Mexican durum and other high-quality durum from other sources that have been very attractive in price, to ensure that we have supplies until the market on durum settles globally with the Canadian crop problems.

KEITH CARPENTER:
On your rice business, can you comment on margins and where you see those today versus previous quarters and going forward, directionally?

MURAD AL-KATIB:
Yes, rice, to us, would be—when it's milled in our own factory, it's very similar to our pulse margins. When it's just a repackaging and distribution scenario into the United Nations programs, it would be at the lower end of our pulses, so it would be more like the commodity pulse, because we're only receiving processed quantities, maybe touching them up at the screen and putting them in a five- or ten-kilo package. So, we've seen margins trending stably in that segment, but the volume has been growing quite dramatically for us, driven by the Syrian/Iraqi refugee and the United Nations, International Red Cross, Red Crescent, and NGO programs in that region. We expect, Keith, unfortunately, for the poor citizens there, that business to continue and likely to be larger in 2015 and 2016 for AGT.

KEITH CARPENTER:
Okay, and just a quick question for Lori. Lori, do you see from a—I know it's volatile on a quarterly basis, but on an annual basis, if you could comment on where you think might see G&A and marketing and sales costs going forward, and even to that point, given what's happened with the bought deal, where you think you might see interest costs going forward on an annual basis?

LORI IRELAND:
I think for the combination of general and admin and marketing, sales and distribution, we've been kind of in that $15 million to $16 million a quarter range, combined, and I think it will continue—we're ramped up at our food ingredient platform, we're ramped up with our new AGT CLIC division pretty much, so I don't see that going too much higher.

In terms of interest expense, we will see a drop, obviously, because we're going to be putting a fair amount down on our operating, so probably a decrease of about $2 million.

KEITH CARPENTER:
Okay, perfect.

MURAD AL-KATIB:
The one thing to consider here is when we're talking about these—and I'm going to continue to use the words "managed growth initiatives"—because we've raised capital, it doesn't mean that we're going to out on a large-scale acquisition spree here and a build-out. I mean, we have a

very focused plan right now, and on successful businesses that are ramping, like our food ingredients and our packaged foods, and our Arbella pasta, and our ability to deliver private label pasta into the retailers who are buying our packaged food products, that's where we are seeing the potential for significant margin gains, because we've already spent the G&A, right? Very, very immaterial gains in G&A—or increases in G&A will be required to support these growth investments that we're talking about.

KEITH CARPENTER:
Perfect. That's all I had.

OPERATOR:
There are no further questions at this time. I'll now hand the call back over to Omer for closing comments

OMER AL-KATIB:
Thank you very much. That brings us to the end of our questions session. I'd like to thank you all for joining us on the call today. I'd like to also remind anyone who's still on the call that if you do have any follow-up questions, that you can feel free to contact us at our Regina head office and we'd be more than happy to follow up with you. So, again, thank your for attending our conference call and I do wish you all a good day.

OPERATOR:
This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.