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# **AGT Food and Ingredients Inc. Fourth Quarter and Year End 2017 Financial Results Conference Call Transcript**

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**Speakers:** **Murad Al-Katib**  
President and Chief Executive Officer

**Lori Ireland**  
Chief Financial Officer

**Omer Al-Katib**  
Director, Corporate Affairs and Investor Relations





**OPERATOR:**

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

**OMER AL-KATIB:**

Thank you very much. Good morning and thank you for joining us on our Fourth Quarter and Year End 2017 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 would like to remind everyone that today's call may include forward-looking statements. Such forward-looking statements are given as of the date of this call and involve certain risks and uncertainties. A number of factors and assumptions were applied in the formulation of such statements and actual results could differ materially. This call may also include references to certain non-IFRS financial measures. For additional information with respect to forward-looking statements, factors and assumptions, as well as 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'd like to ask Murad to make some comments and then we'll go to questions. Murad?

**MURAD AL-KATIB:**

Thank you, Omer. Welcome everyone on the call this morning and thank you for your interest in AGT Foods.

2017 has been a challenging year for our business, with earnings constrained, markets in a state of uncertainty with conditions of oversupply, tariffs and duties and import volumes to key consumption markets reduced in terms of short-term flows.

We believe still the demand fundamentals in our business are unchanged, the long-term growth potential with the impact of normalization of AGT's export and merchandising programs in future periods is seen by Management as likely.

There are opportunities and specific components to our strategy, as well as evolving market conditions in our business that support our view of what we believe to be the



fundamental earnings power of our business as we look to markets normalizing in volumes, prices and product flows.

I'm going to discuss in more detail some of these points, but first I'm going to ask Lori Ireland, our CFO, to provide an overview of the quarter and the full 2017 year.

Lori?

**LORI IRELAND:**

Thanks, Murad. The fourth quarter was impacted by global events such as India import tariff which were introduced with no phase-in period and affected margins in the Pulse and Grain Processing segment as well as the bulk handling and distribution segment.

The increased tension between Syria and Turkey has led to a rebalancing of trade flows of products from destinations other than Turkey for international aid agency flows. Governmental actions by the Syrian regime resulted in margin contraction on pulse and rice sales and also in the incurrence of ancillary costs including demurrage and detention costs, repositioning costs and repackaging costs affecting margins in the Pulse and Grain Processing segment. In both cases the impact largely affected our cost of sales.

In the Pulse and Grain Processing segment, adjusted gross profit and Adjusted EBITDA\* per tonne increased when comparing the three months ended December 31, 2017 to the three months ended September 30, 2017. This is due largely to the harvest period in North America, allowing AGT to return to a broader product mix, including sales of its red lentils and yellow peas. Adjusted gross profit and Adjusted EBITDA\* per metric ton decreased when comparing the three and 12 months ended December 31, 2017 to the same periods in the prior year due to fewer metric tons invoiced in addition to lower margins on those sales.

In the Food Ingredients and Packaged Foods segment, adjusted gross profit per metric ton increased while Adjusted EBITDA\* per metric ton was consistent when comparing the three months ended December 31, 2017 to the three months ended September 30, 2017. Adjusted gross profit per metric ton and Adjusted EBITDA\* per metric ton decreased when comparing the three and 12 months ended December 31, 2017 to the same periods in the prior year.



While volumes increased, margins decreased year-over-year due to product mix in the Packaged Foods side of the business, as well as a higher volume of pulse ingredients sold to pet food customers as human food ingredient sales continue to advance.

The Bulk Handling and Distribution segment reported an adjusted gross loss per metric ton and a negative Adjusted EBITDA\* per metric ton for the three months ended December 31, 2017. This segment was hit hard in Q4 2017 as it contains the business segment results for AGT India. AGT India, as an importer of pulses from Australia and Africa, incurred elevated costs of sales resulting from the imposition of duties on imports. Imports destined for eventual export were instead sold in the local market and incurred additional ancillary repackaging and processing costs.

General and administration and marketing, sales and distribution expenses for the three and 12 months ended December 31, 2017 decreased over the same periods in the prior year. This is due to a reduction in certain advertising costs as well as a decrease in share based compensation.

Finance expenses for the three and 12 months ended December 31, 2017 decreased when compared to the same periods in the prior year. This is due largely to interest on bank indebtedness and long-term debt decreasing as a result of lower outstanding balances following the issuance of the preferred securities. In addition, LIBOR-based borrowing was utilized to lower our interest rates incurred on our syndicated debt.

Maturities for Alliance Pulse Processors Inc.'s credit facilities and AGT's \$200 million high-yield debt offering issue were completed in late 2016. Both have been extended to 2020 and 2021, respectively. In August of 2017, AGT also completed a transaction with Fairfax for a 99-year, no-call preferred securities in the amount of \$190 million. This transaction provided capital that was utilized for the reduction of bank indebtedness.

Net debt was reduced to \$473.3 million at December 31, 2017 compared to \$538.7 million at December 31, 2016. These transactions have helped to strengthen AGT's balance sheet and liquidity.

In addition to the extension of the credit facilities, the covenants were modernized to suit the cycle of the business, with covenants moving to simple interest coverage and tangible net worth based ratios, reflecting the strong collateralization of the debt and the



effects of the Fairfax capital injection. In addition, the overall facility was reduced to \$400 million and an uncommitted accordion was added so that AGT is prepared for increased needs as the current cycle reverses.

At December 31, 2017, AGT was in compliance with all financial covenants. Thank you.

**MURAD AL-KATIB:**

Perfect. Thank you, Lori. We continue to believe in the long-term strength of our business and see these earnings constraints reported as cyclical and temporary. Some of the market conditions such as global oversupply conditions will continue to effectively resolve as markets find their new balance and work through local production and seeding intentions in North America for pulses, which will impact volumes, and as these become clearer the volume and demand effects will become more clear.

Issues surrounding duty and tariff and non-tariff barriers we expect will continue to become clear to markets, providing certainty on what they are and how they may influence market and importer activities. Markets can be very resilient as participants in the sector are able to adjust their expectations and strategies on price, volume and timing to fit current conditions as government intervention begins to subside. We believe this is what markets are doing presently and that the materially reduced margins may have bottomed and that signs of gradual recovery are beginning to emerge in the market, as crop supplies of all pulses are now available after the completion of the North American harvest and local harvests in India and Turkey are completed from last year and new harvests are upon us.

With local prices relatively low in consumption markets expected, we may have the impact of stimulating local consumption, aiding in decreasing oversupply and putting supply demand dynamics back into balance, assisting the cycle in moving margins higher over time to more normalized levels, resulting in gradually increased import and consumption markets in 2018 and into future periods.

The matter of duties and non-tariff barriers are being widely reported in the media and do not appear to be clearly understood. The Government of India has stated its intentions to be self-sufficient in pulses, which are a staple consumption items for their population and a key part of their local agricultural economy. The goal of self-sufficiency is a lofty goal when considering water and land constraints, and the growing income and



populations of India. Basically, markets were well stocked, prices are low and government intervention was layered into this. We believe local demand for pulses and staple foods remains unchanged and that markets in India will continue to require lentils and peas from Canada and chickpeas from Australia to meet local demand requirements on a go-forward basis. The Indian government appears to view these conditions as an issue related to food security and to local agricultural policy, reducing their dependence on imports and ensuring higher prices to farmers using these tariff and non-tariff barriers as means at their disposal.

While the potential for introduction of duties was expected by the markets, they were introduced with no advanced notice and left global agricultural exporters and pulse shippers, AGT included, exposed to cargo in transit that was subject to duty at arrival, causing ancillary costs, duty charges and impaired margins causing earnings effects for all importers and supply chain participants. These measures have now been introduced. They've been digested by the trade, and new sales and activities are expected to proceed with these in mind as part of the nearby commercial reality of the pulses trade to India. The effects were largely recorded in Q4 2017 on lentils and pea shipments from Canada and chickpeas from Australia, further constraining the profitability of the industry and providing earnings effects for AGT.

We believe the long-term solution to a non-tariff and clarity on duties is achieved through consultation with governments of exporting countries and India to achieve a resolution and the clarity, and AGT will continue to provide whatever input and participation is required.

Even under these conditions, our segments have seen gains, with margins increased from conditions earlier in the year. The Bulk Handling and Distribution export business is being impacted the most by current conditions; however, our Pulse and Grains segment and our Food Ingredient and Packaged Foods showed signs of both margin recovery in Pulses, and stability in Food Ingredient and Packaged Foods, demonstrating the long-term benefit of our diversification initiatives.

Our Food Ingredient and Packaged Foods segment is advancing as per our expectations and continues to grow, capitalizing on opportunities in both human food and pet food expected, and products and offerings being developed and introduced to the market. We are seeing some of the benefits of this segment as opportunities are



realized in the potentially higher margin business compared to our core commodity business, giving us the ability to drive revenue, margin and earnings growth.

The tempered international demand for peas from Canada and the U.S. is providing competitively priced raw materials, which may benefit our segment margins and sales in the coming quarters. We see a positive outlook for this business unit.

Even in times of constraint in our global business, we are advancing projects aimed at pulse ingredient utilization in extrusion and blends that may further boost utilization and increase the value of our starches, flours and fibres.

At Minot, we have completed the installation of our fibre milling line that was previously announced, allowing us to enter the non-GMO vegetable fibre markets, with human grade fibres for food and sterilized fibres for pets and humans. The continued opportunity to add value and increase margins in our fibres and our starches are a main pursuit in 2018 as we attempt to boost the utilization of our deflavouring and sterilization lines. We are happy with the overall progression of this business.

Even within the segments most affected by market conditions, we are focused on initiatives to grow our bulk platform in Canada, which we believe will aid us long term in maximizing the benefit of our logistics and rail infrastructure. This led to the launch of our agreement with Fibreco, expected to begin with shipping in the 2019 season through the newly constructed grain terminal in Vancouver. Permits were granted by district authorities in Vancouver in March 2018, with construction expected to begin shortly.

Initiatives like our support of the Protein Industries Canada supercluster bid, which successfully received over \$150 million from the Government of Canada and with it an additional \$250 million committed from the Canadian industry, will be a boost for AGT's R&D efforts aimed at the areas of extruded pastas and snacks production technologies, protein purification and isolation, industrial applications of starch and flours in biocomposites, and sale of traceable and safe, value-added, pulse-based packaged foods, utilizing supply chain innovations such as blockchain.

We have recently announced and completed other initiatives to remove impediments for strategic investors in our business, including our partnership with Fairfax. We believe



our share price is significantly undervalued and these amendments and changes allow our partners the flexibility to consider additional investments in AGT as opportunities may present themselves. We've also launched our NCIB.

AGT cannot control the timing of a market recovery and commodity cycles, and tariffs are a reality in many businesses, including the ag business, but we will focus on being streamlined and efficient; we will responsibly manage our production, our inventory and our purchases; and we will focus on maximizing cash flow, safeguarding our capital and prepare for the expected normalization of pulses and grain markets. We feel our company is becoming much more resilient and stronger in the time of adversity.

Ultimately, it's our goal is to remain competitive: position the Company to ensure it has the ability to be among the first to respond when the market calls for more staple foods, grains and pulses, and Management is very confident this will happen.

We remain confident in our strategy. We remain confident in our assets and our ability to link with international markets and build a Canadian champion in value-added pulses and related processed foods will be to the benefit of our shareholders and it will grow our company.

I want to conclude by saying we believe the trough is behind us. We believe 2018 will be a year of recovery for our business. The steps we took to renew our syndicated credit to 2020, amend our covenants and the completion of the Fairfax partnership gives a solid foundation from which to complete this year and for years to come as we build a strong, diversified, value-added pulses, grains and staple foods company.

I thank you for your interest in AGT Foods. I'm going to turn things back over to you, Omer, and we'll take some questions.

**OMER AL-KATIB:**

Thanks a lot, Murad. Operator, we'll take the first question, please.

**OPERATOR:**

Our first question comes from Joel Jackson of BMO Capital Markets. Please go ahead.



**JOEL JACKSON:**

Good morning, Murad.

**MURAD AL-KATIB:**

Good morning, Joel.

**JOEL JACKSON:**

Murad, can you give a bit of colour in the food business? Did the four lines at Minot, did they run at 95%? Or let me know what they ran at because if they ran at pretty full capacity then, it looks like your non-Minot volumes were down a fair bit in Q4, so maybe get a bit of colour on that.

**MURAD AL-KATIB:**

Yes.

**JOEL JACKSON:**

And going into the first half of the—

**MURAD AL-KATIB:**

I mean, Joel... Sorry, go ahead.

**JOEL JACKSON:**

I'm just finishing. Sorry to interrupt. Going into the first half of the year, will we expect EBITDA to come back up in that business? I would have thought lower pulse prices would help you on margin. Thanks.

**MURAD AL-KATIB:**

Okay, perfect. Thanks. When I look at that business, the one thing that we have to do is over time with the four lines we have to look at quarter-over-quarter, not just Q3 to Q4. You've got to look at Q4 over Q4. Seasonally, volumes were actually up over last year, albeit there was a modest volume and margin gain in terms of looking at things.

But, Joel, on the Minot plant, utilization still remained very high. Again, we've got to consider we're snapshotting, so the shipping period in the last part of December in particular, we see a very material slowdown in the manufacturing side in the U.S., so when I look at the pull of product over the course of the end of November to December



period, we do see a major slowdown in that. What we do do is we do produce still, and then we have those products available for sale in the first quarter.

I do expect that utilization is going to continue to run at a high rate, and we do expect that we're going to see those margin pick-ups and gains. With a lower raw material cost as a result of a calmer export side—a couple of things I think are going to happen in this first half. We usually get very tight on product as we get into that April, May, June, July period. We're not going to have that issue with an adequate carry-out stock going forward. We do expect that the longer term contracts that we do have with the CPG companies, we are going to benefit from the raw materials cycle.

I do expect margins to improve in that segment over 2018, and I do expect utilization to continue at relatively high levels. Then, we're going to continue that focus, as I mentioned in my comments, on the value-adding on the starch side, on the fibre side. This is the key to boosting margins. I think that we've got a lot of people focused only on "when's Line 5 coming?" Line 5 will come in due course. We're really focused right now on continuing to monetize the starch and the fibre fractions and looking more at additional flour opportunities, because we do have capacity available in those particular areas.

So, I have to remind everybody that the four lines are fractionation lines, and there's a whole wide range of products that we can sell in the Food Ingredient business. In fact, if you think through it, flour sales aren't required to sell the starch, actually; they're actually in the flour. The granulated flours, the granulated fibres and monetization of the starch into extruded applications, these are strong focuses for 2018. You're going to see us trying to take a look at co-product monetization as a way in which to materially boost our margins; that's a strong focus, and that's going to tie very well into the protein supercluster where our projects are going to be focused not only on protein purification, but will also be looking at starch, flour and fibre utilization in extruded snacks, bakery items, blends, pastas, noodles, and even looking now at starch utilization for biocomposites and industrial applications.

We're pretty excited about the value-added side of the Food Ingredient business, moving into more value-added food products, co-packing, production of things like pasta and noodles, those are things that we've got to watch out for in 2018, 2019 and 2020.



**OPERATOR:**

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

**JACOB BOUT:**

Good morning.

**MURAD AL-KATIB:**

Good morning.

**JACOB BOUT:**

Had a question on the India market. So, Murad, I guess what in your mind structurally has changed? I mean it's pretty clear that that Government of Canada trip didn't go very well with them increasing the tariffs post the visit.

**MURAD AL-KATIB:**

You know, Jacob, I'll tell you what. I don't believe myself that the duty increase on chickpeas was actually related in any way to the Canadian government visit. I think that ultimately when we look at it, desi chickpeas are a driving pulse in India, so you've got desi chana, which is desi chickpeas, and you have toor dal pigeon peas, and then you have black matpe. Those are three main pulses that kind of drive a lot of the pulse local pricing. I think the duty increase on chickpeas from 40% to 60%, or really with the surcharge up to 66%, is really aimed at continuing to curb the flow of chickpeas coming from Australia to allow the chickpea markets to also catch up and correct. I think that we've seen kind of a stability in lentils. The pea side has stabilized with the duty that's in place.

I think that overall what I look at now is, the Government of Canada visit was positive in one respect in that in the joint declaration with Prime Minister Modi, the non-tariff trade barrier was addressed, and we're optimistic that that issue will be—we'll make some progress on that issue with either a further derogation to allow the study of the systems-based approach, or we will have some sort of a permanent adoption of the systems-based approach.

We've made it very clear to the Indian industry to communicate to their government, they no longer need the non-tariff trade barrier lever. They actually have the ultimate hammer: the tariffs are in place now.



I think, Jacob, what we see in that market now is we at least have certainty. We know what the duty structures are today. We think that those duties are set at an extremely high level, and so there's optimism within the industry that as the supply/demand fundamentals start to come a bit more in balance, we will start to see the reduction of those duties. Policies even like allowing export; yesterday, the Indian government reduced the export duty on sugar from 20% to zero, so they're now going to allow duty-free export of sugar. They have a glut of commodities in general in the country and they want to clear that out and raise domestic prices and get back to a supply/demand balance.

We expect now as an industry that as we see a normal average harvest in India, which is what I think we're seeing now, we see a fairly material potential reduction in North America in pulses and we see an average, at best, crop in Turkey coming. That will probably set the foundation for not only stability in the structure but you may see some easing of some of these import restrictions as prices start to escalate and they start to get worried a bit more about food inflation. Prices coming up to the minimum support levels is what the goal is now. Prices above the minimum support levels, they'll start to worry about food inflation, and I think they'll ease the policies.

So markets are adjusting. It's been a tumultuous period in India and they're the world's largest market. With a period now of government intervention with their hand deep inside the industry, stability I think is ahead, and I think that's going to be a positive dynamic.

**OPERATOR:**

Our next question comes from Greg Coleman of National Bank Financial. Please go ahead.

**GREG COLEMAN:**

Thanks, Murad, I'm just trying to reconcile a couple of things here. One, your comments on the call about the materially reduced margins may have bottomed and then recovery in pulses and stability in food is on the horizon, with sort of the published outlook that says a recovery in volume and margins could happen by late 2018. My specific question is: are we thinking of Q4 sort of as a local max here or the road to recovery? If it is the



road to recovery, is it on the—do you see it on the pulses side or the ingredients side with your new lines coming on, or both?

**MURAD AL-KATIB:**

I think what we're going to see, Greg, on a go-forward basis is, first of all, the Trading and Distribution segment, which isn't so material but it is a drag on our earnings right now, that's going to return to back to just a normal, modest profitability. We're being very selective in the activities that we're doing there. We're shifting our focus on India away from import because, again, even though I think it's going to be stable on the duty side, there's no reason to expose ourselves to those types of government interventions. We'll be focusing on getting that segment to stabilize back to a positive cash flow scenario.

We think pulses will remain stable, with a small potential of improvements in margin. We're getting into the Q1/Q2 period, which I think are not normally, from a volume perspective, the most dynamic periods. But again, once the crop outlook in India is a little bit more known, we have seen that if that crop is only average or slightly below average, we could start to see some of those stocks that didn't move start to move in that period of May, June, July, August, so you know, we'll be ready for that.

The Food Ingredients side, it's not about volume now. I mean Line 4 is running at relatively high utilization. It's about that coproduct stream. It's about the long-term contracts that we have and monetizing these to improve our margin profile and to increase our free cash flow in that business. We're quite optimistic that 2018 will be a pivotal year for that particular business as we actually start to shift it from just a Food Ingredient business into a food manufacturing and blend development business.

We're looking much more at the granulation. We're going to be looking at small strategic investments in things like blending capacity, in things like the potential of starting to produce products that will go into other manufacturing processes. We've added a new pelleting line again, which allows us to again offer granulated solutions. You want powders? We have it. You want coarse powders, fine powders? Do you want it coagulated? Do you want it loose? We can do every kind of application and food ingredient granulation within that particular factory. So as we're moving through the applications, we're learning what the other customers manufacturing capabilities are and how we can actually optimize their extrusion processes. That's giving us a



competitive advantage long term, and we think that the stability in the raw material price, in particular the pea price being quite constrained in North America, is going to have a positive impact in margins as we go forward in 2018.

Overall, I think that the gradual recovery will be led by markets re-correcting over the first half, and then by the second half we start to see some normalization, maybe a bit more volume. This isn't just a margin story. Our volumes were down roughly 200,000 tonnes year-over-year in this quarter; that's pretty major. We know that ultimately once these pipelines regulate, they're going to have to refill at some point.

**OPERATOR:**

Our next question comes from Keith Carpenter with AltaCorp Capital. Please go ahead.

**KEITH CARPENTER:**

Thanks. Good morning. Lori, I just had a question on a comment you made in your opening remarks. Can you provide detailed numerical colour on what you deem to be one-time in nature in your cost of sales during the quarter? I.e. what you added back to Adjusted EBITDA\*, the dollar amounts related to the Indian duties and tariffs.

**LORI IRELAND:**

Yes. The cost of sales were impacted in the range of \$4 million to \$6 million due to the additional tariffs, and that was on loads that were in transit that had to be resold into the local market and additional duties paid on them.

**KEITH CARPENTER:**

Okay, perfect. Then just my last question, what's your estimated CapEx for the year?

**LORI IRELAND:**

For 2018?

**KEITH CARPENTER:**

Yes.

**LORI IRELAND:**

Our CapEx is quite limited for the upcoming year, so we're estimating in the range of \$20 million growth CapEx at the most.



**MURAD AL-KATIB:**

We're already kind of in motion and we're going to be finishing up. We've got an inland container terminal project with CN Rail that we're working on that's going to complete in 2018, and then we've got a couple of, as I said, these strategic investments in the value-added side for the Food Ingredient that we're going to be completing over the course of this year.

**OPERATOR:**

Our next question comes from Cihan Tuncay with GMP Securities. Please go ahead.

**CIHAN TUNCAY:**

Good morning, Murad.

**MURAD AL-KATIB:**

Good morning.

**CIHAN TUNCAY:**

I'm just wondering about the working capital consumption situation. Given the year-over-year decline in revenue, we were expecting a release of working capital, but it looks like there was a big chunk that got chewed up. Can you talk about what was the primary driver of the consumption of the working capital?

**MURAD AL-KATIB:**

Yes, absolutely.

**CIHAN TUNCAY:**

Then also just how you see that relationship and the working capital position going into Q1 and for full year 2018?

**MURAD AL-KATIB:**

Yes. Good question. What we're seeing is as a result of the constraint in the North American agricultural industry, the slow movement of commodities, and there's a much-published commentary on the freight side of things: the rail fall-downs, currently emergency hearings being convened by the Standing Committee on Agriculture in Ottawa—commodities in general haven't been moving well as a result of both rail infrastructure issues and then demand constraints in general.



What we've seen on that side is that farm receipts are down dramatically. The normal flow of commodities haven't been moving through the course of the fall season, so what we see is on a normal working capital cycle, you'll start to see inventory and receivables building in the fourth quarter, and you also see payables building.

In a lot of cases—you know, every year I make this commentary on the annual results—the only legal income smoothing in Canada is for farmers. They are allowed to defer their cheques from one crop year to another and CRA allows that. This year we didn't see any of that. In fact, we actually saw reduction in our payables of up to \$90 million. That was, again, Australia, Canada, farmers were demanding and we were attempting to procure into very tight margin scenarios and so the payables actually reversed course on a normal season cycle.

That was the big driver of the consumption. If you look at, you know, receivables came down, inventory went up—which is a normal part of harvest in North America and Australia, even with reduced volumes—but payables reduction isn't a normal course for Q4. What that's going to bode well for is Q1 and Q2. We're going to see that reduction in inventory and receivables, and we don't have the payables that are going to also have to be reduced accordingly to consume cash. We think there will be a fairly material generation of cash over the first half of the year, which will then be going straight into cash flow from operations and then debt reduction.

I'm expecting a fairly significant reversal of that in the first half, and I'm quite confident in our ability to deliver that.

**OPERATOR:**

Our next question comes from John Chu with Laurentian Bank Securities. Please go ahead.

**JOHN CHU:**

Hi, Murad. Maybe just talk on the pasta issues between Canada and Turkey. Does this potentially prompt the need for, or the idea of revisiting the pasta facility you had looked at in Western Canada, especially now that you've got the rail infrastructure in place to really facilitate a more vertically integrated strategy there, and give us a sense of if you're looking at that and maybe on the timing?

**MURAD AL-KATIB:**

John, the pasta duty issue, we gave some good colour in our disclosure. Canada Border Services has convened a determination of whether or not there's subsidization or any dumping going on of Turkish pasta into the Canadian market. The preliminary determination, when you read out the findings, we were quite pleased actually that the conclusion was that there was no injury determination in the preliminary, but there was a "threat of injury" that warranted a full tribunal hearing.

We're actually quite positive. We want the full tribunal hearing because the evidence is going to be quite clear: Turkey is a market oriented exporter of pasta, and from our perspective, John, Canada is one of 60 or 70 markets around the world that we ship to on a regular basis. It's a material market for us, but we have a strong ability to redirect that volume to other markets if there was some sort of a negative determination by Canada and some imposition of duty.

We expect it to be a positive resolution in this matter, so we don't expect there's going to be any big issue, but if there was—again, we're talking in hypotheticals—we would look at whether or not there was an opportunity to produce pasta in North America.

But at this point, we're focused very much on the utilization of the Turkish plant. We have countries all over the world that are going to be continuing to demand, and it's not only about pasta production; it could be actually moved to noodle production for North Africa and for Asia. We are in the production of wheat-based pasta and noodles. We think there are a lot of markets around the world. We think this is going to resolve itself.

No plans to rekindle traditional wheat pasta production in North America in the very near term. Long term, we do think there's a fundamental opportunity to produce wheat pasta and pulse-based blends, so we're going to be looking at the production of specialty pastas. We think that's the big opportunity, and we think that we have proprietary technology including patents that have been filed on the production of gluten-free pasta.

We have a couple of patents pending currently, and we are very excited about our intellectual property around the deflavouring, the heat treatment, the sterilization and the utilization of that in extrusion processes. We believe our scientific capability is going to provide us with an advantage that's likely to lead to manufacturing.



**OMER AL-KATIB:**

Thank you very much, Murad. That brings us to the end of the questions in the session. I'd like to thank everyone for joining us on the call. I'd like to remind anyone that's still on the call, if you have any follow-up questions, you can feel free to contact us at our Regina Head Office, and we'd be more than happy to follow up with you and speak later on.

Again, thanks for attending the AGT conference call and we'll close the call off today. Thanks. Have a good day.

**OPERATOR:**

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