AG GROWTH
INCOME FUND

Growing Strong

ANNUAL REPORT 2007

Growing Strong

Ag Growth Income Fund
1301 Kenaston Blvd.
Winnipeg, MB R3P 2P2
Telephone: 204.489.1855
Fax: 204.488.6929

Investor Relations: Steve Sommerfeld
Telephone: 204.489.1855
Email: steve@aggrowth.com

Auditors: Ernst & Young LLP (Winnipeg)
Transfer Agent: Computershare Investor Services Inc.

Shares Listed: Toronto Stock Exchange
Stock Symbol: AFN.UN

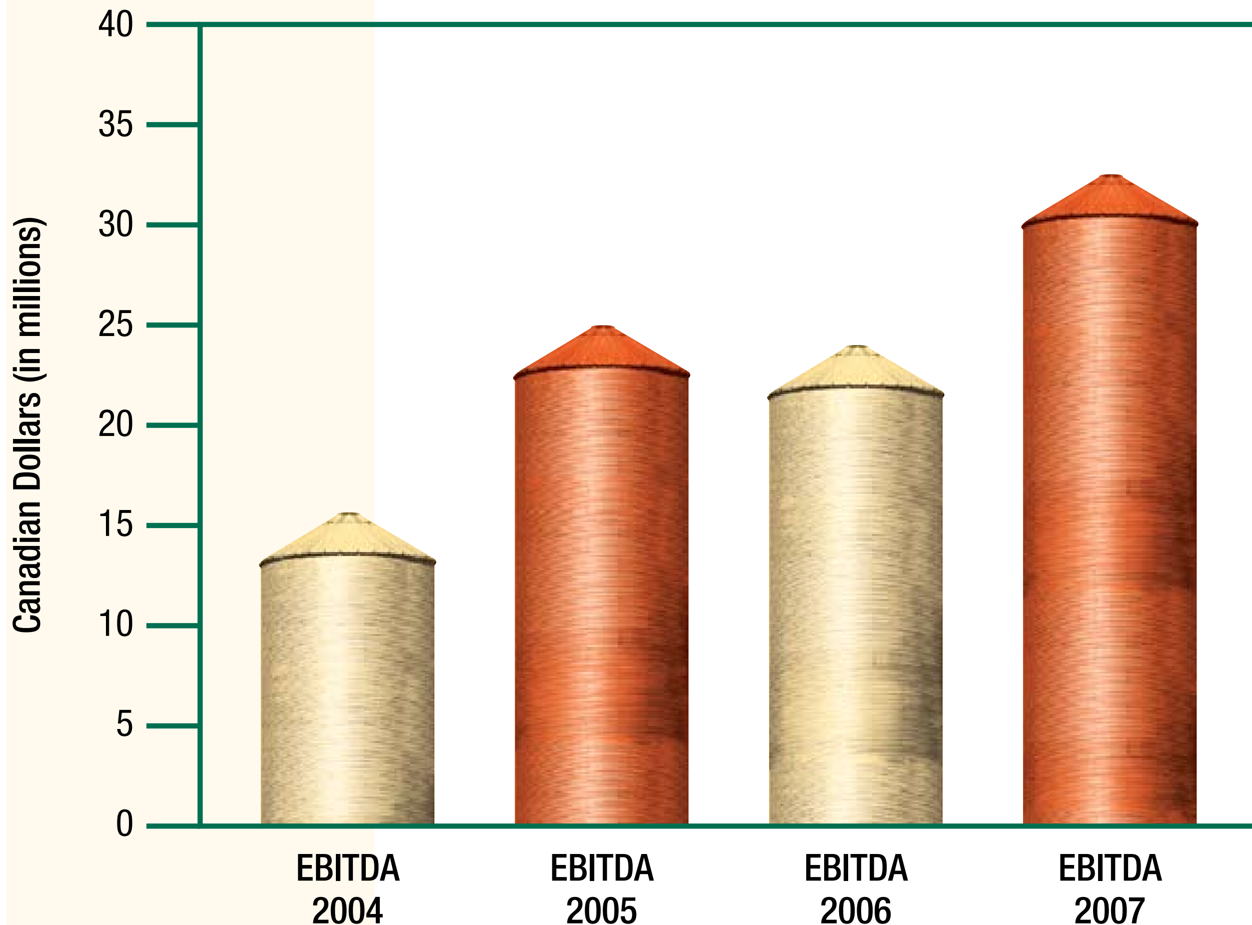
Ag Growth IPO: May 18, 2004 (Founded 1996)
Batco Manufacturing, Acquired: 1997 (Founded 1992)
Wheatheart Manufacturing, Acquired: 1998 (Founded 1973)
Westfield Industries, Acquired: 2000 (Founded 1950)
Edwards Group, Acquired: 2005 (Founded 1964)
Hansen Manufacturing, Acquired: 2006 (Founded 1982)
Twister Pipe Ltd., Acquired: 2007 (Founded 1976)
Union Iron, Inc., Acquired: 2007 (Founded 1852)
Applegate Steel Inc., Acquired: 2008 (Founded 1955)

To Our Unitholders

On behalf of the management, employees and board of trustees at Ag Growth Income Fund, we enthusiastically present our 2007 annual report to prospective and current unitholders. 2007 was a very successful year for the Fund, despite some economic and operational challenges. We have grown revenue successfully from $81.5 million in fiscal 2006 to $130.7 million in 2007 and EBITDA from $24.2 million to $32.4 million, representing growth of 60% and 32% respectively. The result has been strong growth in revenues from both acquisitions and organic growth.

For several years we have been predicting a resurgence of agricultural commodity prices as we watched world inventories on a downward trajectory. However, we didn't anticipate the sheer magnitude of the move. At the writing of this report, wheat prices are approaching $11 a bushel on the Chicago Board of Trade and corn is north of $5 a bushel. These prices are all-time records for these important commodities. "Beans in the teens" is a situation only experienced a couple of times in the past.

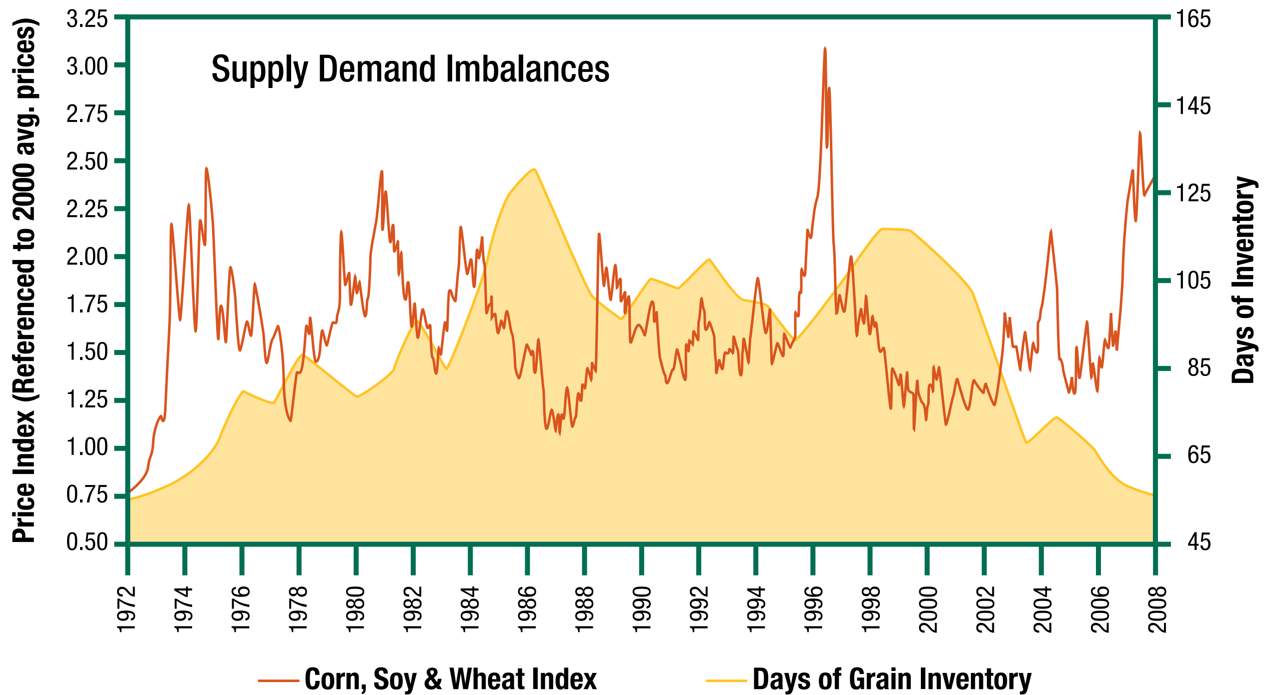
EBITDA Since IPO



With low inventory levels in all three of these key commodities at the same time, we expect a fight for acreage to occur over the next few years. We feel that this points to an environment of firm commodity prices over a longer cycle than has been traditional in the grains and oilseeds. Russia and China have both recently announced that they will soon be imposing export tariffs on grain which indicates that large consumers of grain are attempting to hoard their production for domestic consumption. Most measures point to this cycle being demand as opposed to supply driven, which has been more typical throughout history.

The world is beginning to realize that the boost to mandated ethanol production in the U.S. is only one dimension of the demand. Although a significant factor to U.S. fundamentals, ethanol demand still accounts for only 3–4% of worldwide grain demand. It is becoming more and more apparent that the world is in a tight supply situation for the foreseeable future. We are doing our business and investment planning with this assumption in mind.

Grain Price Index vs. Days of World Grain Inventory



We are very excited about the potential for 2008. As a result of exceptional demand, we are beginning the year with an extremely lean inventory pipeline. Order backlogs at most of our divisions are at all-time highs. Several capacity initiatives are beginning to see fruition. Delays in capacity improvement at our Westfield operation negatively impacted 2007 results, but we expect to begin reaping strong capacity improvements as we continue into 2008. In addition, we have leased a new 30,000 sq ft facility in Winnipeg to further enhance capacity. We are incurring costs to get it up and running but expect to begin seeing the benefits of this initiative in the second quarter of 2008.

The second quarter should also see the completion of an expansion at our Batco division in Swift Current. The expansion should help improve the layout of the facility and help alleviate bottlenecks resulting from the painting procedure.

We are currently shipping in a recently acquired powder coat paint line for installation in our new 160,000 sq ft facility in Randolph County, Indiana. Once we have paint capabilities in the plant, we can begin integrating our Applegate Steel operation into it, as well as transitioning select products from Canadian operations to free up further capacity. We don't foresee significant benefit from this new capacity until the second half of 2008.

It was a strong year for repositioning the company for growth in the agriculture sector. We had a very strong first year for our Hi Roller Conveyor division, acquired at the end of 2006. Our first year reinforced the due diligence that told us that Hi Roller has exceptional brand equity in the commercial grain handling sector.

Governor of Indiana, Mitch Daniels, along with Paul Franzmann, Vice President Corporate Development, and Gary Anderson, President, Chief Operating Officer and Trustee

Our June acquisition of the Twister bin line caused significant distraction and costs as we moved it into our Nobleford facility. However, we are more excited than ever for the medium term prospects for the product line. Although grain bins are a lower margin product than most of our other lines, they open opportunities to bundle our higher margin handling and aeration accessories. Strategically, we feel this small acquisition will drive significant EBITDA growth for Ag Growth relative to the costs of acquiring and moving the division.

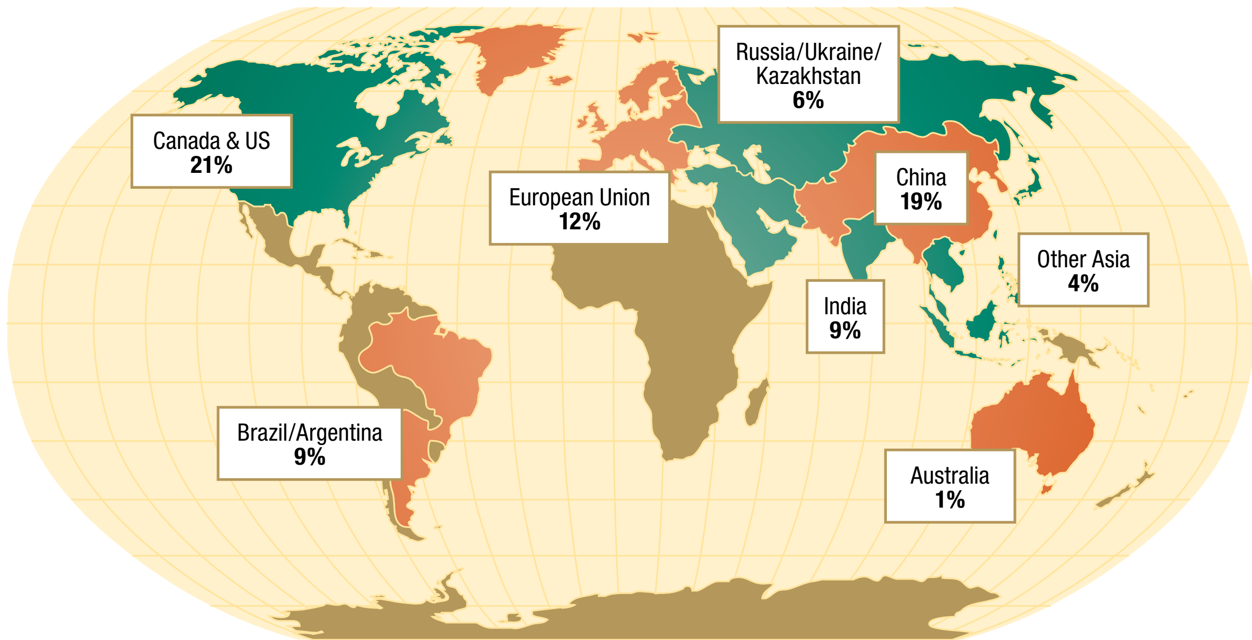
We also would like to welcome the Union Iron Works team, under the leadership of Bob Curry, to the Ag Growth family. We completed the acquisition of this Decatur, Illinois based company in November. The company has experienced exceptional growth in the marketing of its range of commercial grain handling equipment in the past number of years. We hope to build on their past successes as we lever marketing synergies with our other divisions. Union Iron has choppier seasonality than many of our divisions with the second and third quarter traditionally delivering most of the EBITDA.

We would also like to welcome Applegate Steel, under the management of Dwayne Brim and Aaron Applegate, to the Ag Growth team. We completed this small tuck under acquisition early in 2008. The company had fallen on tough times as a result of excessive leverage applied to the company by the previous ownership group. The cattle related product line should provide synergies with our Wheatheart and Edwards cattle related products. We will be moving the product line into our new Randolph County plant during 2008 and this provides us with a solid management team and ready workforce to begin integrating Canadian production. By combining these initiatives, we are confident that we will develop a thriving, profitable enterprise in Indiana.

The addition of Shane Knutson as our Director of International Sales was another shift in strategic direction for the company in 2007. The rapid strengthening of agricultural commodities during the year is accelerating the demand for equipment to modernize farm level infrastructure around the world. Shane's extensive contacts in many of these emerging new markets are helping accelerate our plans and ability to penetrate these markets as they develop. Although off-shore sales have traditionally been a very small percentage of our overall revenue, we anticipate that we can build a team to make off-shore markets a much more significant percentage of our revenues over the next few years. In particular, we are already seeing great opportunity in expanding our overseas business now that we have a more complete line of commercial products with our Hi Roller, Union Iron, Edwards and Twister products. We are continuing to search for acquisitions that further expand this commercial catalogue.

World Market Opportunity & Growth

Total % Grain, Corn & Oilseed Production Worldwide (2007)

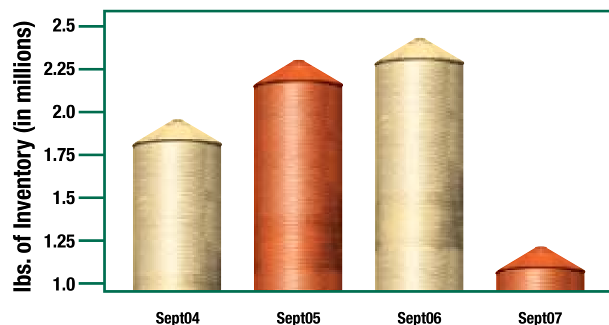


*Regions/Countries not shown represent remaining **19%**

Despite all of the positive events of the year we have experienced some growing pains. EBITDA margins slipped from 30% to 25%. We are pleased with these results given continued headwinds from the appreciating Canadian dollar which negatively impacted margins as well as a realignment of our gross margin profile resulting from our product mix. In particular, two acquisitions completed during the year contributed aggregate negative EBITDA of approximately $1 million. The Twister product line acquisition, which closed in June, has resulted in negative results as we incurred expenses of moving the equipment and inventory into our Nobleford plant, having a heavy impact in our fourth quarter. Also, our Union Iron acquisition, completed in November, contributed negatively as a result of its seasonality. The company generally contributes flat to negative EBITDA in the first and fourth quarters of the year with revenue and cash flow heavily weighted in the second and third quarters.

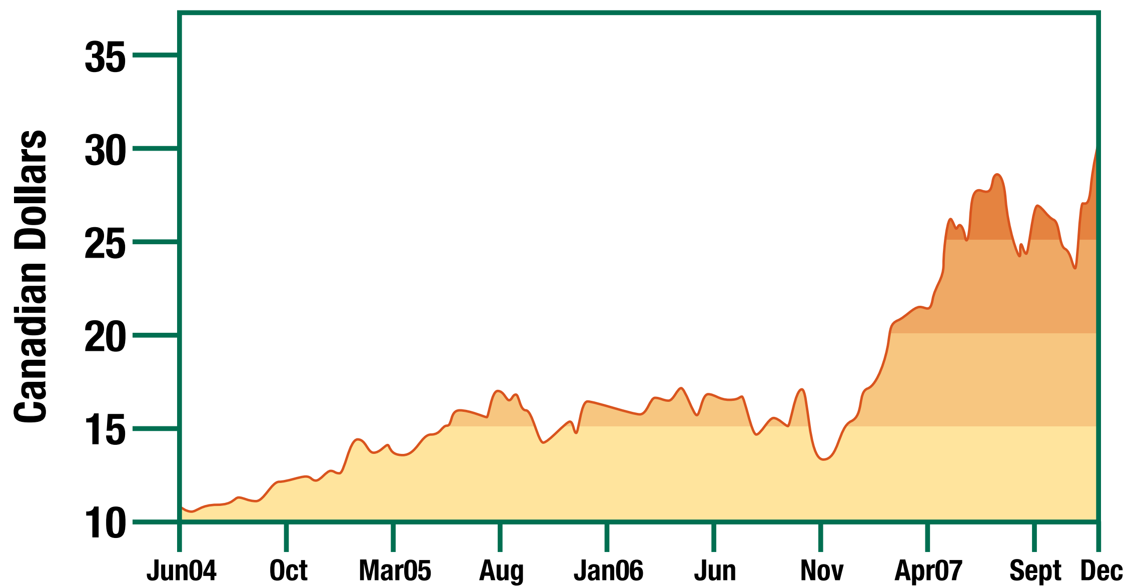
Results also did not meet full potential as record demand in the second half of the year surpassed our optimistic projections and we did not have sufficient product in our inventory pipeline. In particular, at Westfield, our largest division, we had production deficiencies during the year as a result of a major capacity expansion project. Consequently, inventory levels were depleted in the third quarter and we did not have sufficient inventory to meet very strong demand through the full harvest cycle. This negatively impacted our sales mix in the quarter. As we begin realizing the capacity improvements we will more than compensate for the opportunity cost in 2007.

Westfield Stockpoint and Warehouse Inventory Entering Qtr. 4



Ag Growth Income Fund

Stock chart since initial public offering May 2004



We are working hard to get these growing pains behind us so we can solidify our next leg of organic growth. We have added substantially to the senior management team with a focus on manufacturing strength and acquisition integration and are confident of solid growth in 2008. We thank all stakeholders for their support in this active year and assure you that we are working hard to provide sustainable long-term value to our customers and our unitholders.

We look forward to a prosperous 2008.

Rob Stenson
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 17, 2008

This Management's Discussion and Analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of Ag Growth Income Fund for the year ended December 31, 2007. Results are reported in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles. Throughout this Management's Discussion and Analysis references are made to "EBITDA", "standardized and adjusted distributable cash", and "payout ratio". A description of these measures and their limitations are discussed under "Non-GAAP Measures". See also "Risks and Uncertainties" and "Forward-Looking Statements".

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis contains forward-looking statements that reflect our expectations regarding the future growth, results of operations, performance, business prospects, and opportunities of the Fund. Forward-looking statements may contain such words as "anticipate", "believe", "continue", "could", "expects", "intend", "plans", "will" or similar expressions suggesting future conditions or events. Such forward-looking statements reflect our current beliefs and are based on information currently available to us. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from results discussed in the forward-looking statements, including changes in national and local business conditions, crop yields, crop conditions, seasonality, industry cyclicality, volatility of production costs, commodity prices, foreign exchange rates, and competition. These risks and uncertainties are described under "Risks and Uncertainties" in our 2007 Annual Report and our Annual Information Form. Although the forward-looking statements contained in this MD&A are based on what we believe to be reasonable assumptions, we cannot assure readers that actual results will be consistent with these forward-looking statements and we undertake no obligation to update such statements except as expressly required by law.

OVERVIEW OF THE FUND

Ag Growth Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust made as at March 24, 2004. The Fund holds indirectly all of the securities of Ag Growth Industries Inc. ("Ag Growth"), which conducts business in the grain handling, storage, and conditioning market.

The previous owners of Ag Growth were issued Class B exchangeable limited partnership units ("Class B units") and Class C exchangeable subordinated limited partnership units ("Class C units") of AGX Holdings Limited Partnership ("AGHLP"), a wholly-owned subsidiary of the Fund. All Class C units were converted to Class B units on a one-for-one basis upon the occurrence of the subordination end date in 2006. The Class B units are exchangeable for Trust units of the Fund at the option of the holder on a one-for-one basis at any time. The Trust units of the Fund and the Class B and Class C units of AGHLP participate pro rata in distributions.

On October 2, 2007, the Fund completed an equity financing whereby it issued 1,730,000 Trust units at a price of $26.00 per Trust unit for gross proceeds of $45.0 million. Net proceeds after expenses of the offering were $42.4 million. Subsequent to the closing of the equity offering, the Fund repaid $30.7 million and U.S. $12.0 million of its outstanding long-term debt. The remaining $2.3 million was applied against expenses of the offering, including underwriters' commission.

As at December 31, 2006, December 31, 2007 and March 17, 2008, the following units were issued and outstanding and participated pro rata in distributions:

	Trust units	Class B units (1)	Total
December 31, 2006	11,088,915	136,085	11,225,000
October 2, 2007 equity financing	1,730,000	0	1,730,000
December 31, 2007 and March 17, 2008	12,818,915	136,085	12,955,000

(1) The Fund has issued one Special Voting Unit for each Class B unit outstanding. The Special Voting Units are not entitled to any interest or share in the Fund, or in any distribution from the Fund, but are entitled to vote on matters related to the Fund.

The Fund's trust units trade on the Toronto Stock Exchange under the symbol AFN.UN.

ENACTMENT OF LEGISLATION IMPOSING TAXATION ON INCOME TRUSTS

In June 2007, the Government of Canada enacted new legislation imposing additional income taxes upon publicly traded income trusts, including the Fund, effective January 1, 2011. Prior to June 2007, the Fund estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil effective tax rate. Upon enactment of the June 2007 legislation, the Fund estimated the effective tax rate to be 31.5% and as a result future income tax liabilities for the period increased by $11.1 million. On December 14, 2007, further legislation was enacted by the federal government to reduce the effective rate of tax on the Fund's temporary differences from the previous rate of 31.5% to 29.5% in 2011 and 28.0% thereafter. As a result the Fund reduced its expected future income tax liability related to the legislation from $11.1 million to $9.5 million. Temporary differences reversing before 2011 will still give rise to nil future income taxes. The amount and timing of reversals of temporary differences will depend on the Fund's future operating results, acquisitions and dispositions of assets and liabilities, and distribution policy. A significant change in any of the preceding assumptions could materially affect the Fund's estimate of the future tax liability.

Based on its assets and liabilities as at December 31, 2007, the Fund has estimated the amount of its temporary differences which were previously not subject to tax and has estimated the periods in which these differences will reverse. The fund estimates that approximately $33.8 million net taxable temporary differences will reverse after January 1, 2011, resulting in an additional $9.5 million future income tax liability. The taxable temporary differences relate principally to the Fund's intangible assets. Until 2011, the new legislation does not directly affect the Fund's cash flow from operations. However, as enacted in its present form, the legislation will, all other things being equal, result in a reduction of cash available for distribution commencing in 2011.

OPERATING RESULTS

	Year Ended December 31, 2007	Year Ended December 31, 2006
Sales	**$ 130,701,961**	$ 81,525,437
Cost of goods sold	**79,985,690**	46,207,537
Gross margin	**50,716,271**	35,317,900
Selling, general and administration	**18,742,608**	12,587,274
Professional fees	**740,505**	461,026
Long-term incentive plan	**799,596**	854,000
Unit award incentive plan	**1,402,093**	0
Research and development	**884,399**	1,160,200
Capital taxes	**250,000**	297,189
Gain on foreign exchange	**(4,117,783)**	(3,973,443)
Other income	**(353,483)**	(243,099)
	18,347,935	11,143,147
EBITDA *	**32,368,336**	24,174,753
Amortization	**5,764,536**	3,834,891
Interest expense	**2,548,277**	1,017,516
Earnings before provision for income taxes	**24,055,523**	19,322,346
Current income taxes	**1,933,245**	48,705
Future income taxes	**9,756,700**	229,800
Net earnings for the year	**$ 12,365,578**	$ 19,043,841
Net earnings per unit	**$ 1.06**	$ 1.70
Net earnings per unit before future tax adjustment (1)	**$ 1.88**	$ 1.70

(1) As described above under "Enactment of Legislation Imposing Taxation on Income Trusts", in 2007 the Fund recorded a non-cash future income tax expense of $9.5 million due to the enactment of legislation that impacted the taxation of income trusts.

* See discussion of non-GAAP measures.

ASSETS AND LIABILITIES

	Year Ended December 31, 2007	Year Ended December 31, 2006
Total assets	**$ 210,683,040**	$ 170,232,551
Total liabilities	**$ 64,028,506**	$ 59,267,926

DISTRIBUTIONS DECLARED

The table below summarizes the distributions declared for Trust units of the Fund and for Class B units and Class C units of AGHLP. The Fund's distribution policy is described in the "Distributions" section of this document.

	Year Ended December 31, 2007	Year Ended December 31, 2006
Trust units	**$ 19,355,977**	$ 17,257,452
Class B units	**228,623**	252,348
Class C units (1)	**0**	1,348,200
Total distributions	**$ 19,584,600**	$ 18,858,000

(1) All Class C units were exchanged for Class B units upon the subordination end date in June 2006. There were no Class C distributions declared subsequent to their exchange. Class B units are exchangeable for Trust units of the Fund at the option of the holder on a one-for-one basis at any time.

ACQUISITIONS

The inclusion of the assets and operating results of the following acquisitions significantly impacts comparisons to 2006:

Effective December 31, 2006, the Fund acquired substantially all of the assets of Hansen Manufacturing Corp. ("Hansen" or "Hi Roller"), a manufacturer of enclosed belt conveyors.

Effective May 31, 2007, the Fund acquired substantially all of the operating assets of Twister Pipe Ltd. ("Twister"), a manufacturer of grain storage bins, aeration equipment, and bin unload systems.

Effective November 19, 2007, the Fund acquired 100% of the outstanding shares of Union Iron Inc. ("Union Iron") and the shares and assets of certain related companies of Union Iron, a manufacturer of material handling and storage equipment.

OVERALL PERFORMANCE

The agricultural sector surged in 2007 as a worldwide increase in crop demand, low crop inventories, and the expansion of the ethanol industry drove commodity prices to record highs and encouraged farmers to increase planted acres and to maximize yields. Demand for the Fund's portable and stationary grain handling equipment increased in response to these drivers and the Fund enjoyed a significant increase in sales at all divisions.

The Fund's EBITDA increased 34%, from $24.2 million in 2006 to $32.4 million in 2007. Although EBITDA growth was substantial, the Fund's gross margin and EBITDA as a percentage of sales was constrained in 2007:

- Gross margin was negatively impacted by the acquisitions of Twister and Union Iron, and the impact of foreign exchange. Excluding these items, gross margin for the three months ended December 31, 2007 was 37.0% (2006 – 40.0%) and for the year ended December 31, 2007 was 41.6% (2006 – 43.3%).
- Sales, gross margin and EBITDA were negatively impacted by costs related to the implementation of the Westfield capacity improvement initiative. In addition to the direct and ancillary costs incurred in the first three quarters of 2007, the project had a significant impact on the fourth quarter:
    - The project was substantially complete at the end of the third quarter. However, the related implementation of lean manufacturing resulted in certain production inefficiencies and Westfield was not able to fully realize upon the capacity improvements in the fourth quarter.

- Throughput at Westfield increased in the fourth quarter compared to 2006, but the increases in production were not sufficient in magnitude to meet continued strong demand. In the third quarter, production constraints coupled with exceptional demand resulted in an unprecedented drawdown of field inventory. Over the course of the third quarter in 2007, field inventory decreased approximately 58%. This compares to a more typical drawdown of approximately 12% in 2006. Entering the fourth quarter of 2007, Westfield field inventory was down 50% compared to the prior year.

- Westfield entered the fourth quarter with severely depleted field inventory and was not able to fully realize upon capacity improvements, and accordingly was unable to meet strong demand. The loss of higher margin Westfield sales in the fourth quarter of 2007 resulted in reduced EBITDA as well as lower consolidated gross margin and EBITDA percentages.

Westfield production capacity gains are expected to be realized by the second quarter of 2008. The physical move of Twister equipment to Nobleford was completed in the fourth quarter of 2007, however Twister production is not expected to reach full capacity until later in the second quarter of 2008. Gross margin and EBITDA percentages in 2008 are expected to benefit from a 3% price increase on most U.S. product offerings that was implemented January 1, 2008. Market conditions appear favourable for additional price increases in 2008.

SALES

Sales for the year ended December 31, 2007 were $130.7 million, including $29.8 million recorded at Hi Roller, $4.4 million at Twister, and $0.6 million at Union Iron. Excluding the impact of acquisitions, sales in 2007 were $96.0 million, compared to $81.5 million in 2006. The increase of $14.5 million or 18% over 2006 is largely due to the following:

- Sales in the U.S. increased $10.7 million or 20% over the prior year due to increased sales of portable augers, belt conveyors, bin-unload equipment, and aeration equipment. U.S. demand was stimulated by positive market conditions including an increase in on-farm storage, higher commodity prices, and a record corn harvest. Sales per unit benefited from price increases implemented on January 1, 2007 and June 1, 2007.

- Sales in Canada increased $2.7 million or 11% over 2006. Sales of Wheatheart grain augers increased significantly as more aggressive distribution resulted in market share growth. Sales at Edwards also increased significantly due to increased demand in the U.S. and improved market conditions in Western Canada.

- International sales increased $1.1 million due to an expanding market in Europe and improved agricultural conditions in Australia.

- U.S. sales were negatively impacted by the appreciation of the Canadian dollar. Had the average exchange rates experienced in 2006 been in effect in 2007, all other factors remaining constant, sales excluding acquisitions for the year ended December 31, 2007 would have increased an additional $3.1 million.

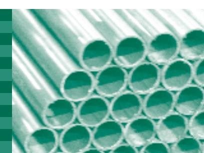
- Sales in 2007 were negatively impacted by the Westfield capacity improvement initiative. Production inefficiencies related to both project implementation and the introduction of lean manufacturing significantly limited productivity gains in 2007. Throughput at Westfield increased compared to 2006, however the increases in production were not sufficient in magnitude to meet exceptional demand.

FOREIGN EXCHANGE

Sales and expenses denominated in a foreign currency are recorded each month at the rate of exchange in effect on the closing business day of the previous month. For the year ended December 31, 2007, sales denominated in U.S. dollars accounted for 75% of total sales (2006 – 67%). U.S. dollar denominated expenses equated to 28% of sales for the year ended December 31, 2007, compared to historical levels of 15% to 20%. The proportion of U.S. dollar sales and expenses increased largely due to the acquisition of U.S. based Hi Roller and robust demand in the U.S. market.

As sales denominated in U.S. dollars significantly exceed purchases denominated in that currency, the Fund is negatively impacted by a strengthening Canadian dollar. The Fund's average rate of exchange for the year ended December 31, 2007 was $1.08, an increase of 4.4% compared to the 2006 average exchange rate of $1.13.

Ag Growth has entered into a series of hedging arrangements to partially mitigate the potential effect of fluctuating exchange rates. Realized gains or losses on foreign currency hedging instruments have been included, along with the gain or loss on the translation of U.S. dollar monetary items, in operating expenses as a gain or loss on foreign exchange.



GROSS MARGIN

Gross margin as a percentage of sales for the year ended December 31, 2007 was 38.8%, compared to 43.3% in 2006. A change in the product mix of sales and costs related to Westfield's capacity improvement initiative significantly impacted the Fund's gross margin percentage:

- The Fund's sales mix has changed substantially with the acquisitions of Hi Roller, Twister, and Union Iron. The Fund's highest margin division, Westfield Industries, accounted for 60% of total sales in 2006 compared to 42% in the current year.

- Twister was acquired on May 31, 2007 and for the seven months ended December 31, 2007 reported gross margin of negative $0.5 million. Gross margin was negatively impacted by costs related to the transition of operations from Calgary to Nobleford and by the higher costs of operating in the Calgary facility prior to the move.

- Union Iron was acquired on November 19, 2007 and due largely to seasonality factors reported a negative 0.7% gross margin percentage for the period November 19, 2007 to December 31, 2007. Historically, Union Iron's sales and EBITDA have been heavily weighted towards the second and third quarters.

- Gross margin was also negatively impacted by the stronger Canadian dollar. Excluding the impact of Twister and Union Iron, and had the average exchange rates experienced in 2006 been in effect in 2007, all other factors remaining constant, gross margin as a percentage of sales for 2007 was 41.6%

- Direct and ancillary costs related to the implementation of the Westfield capacity improvement initiative negatively impacted the gross margin percentage. In addition, although the Westfield capacity improvement project was substantially complete at the end of the third quarter, the related implementation of lean manufacturing resulted in certain production inefficiencies and Westfield was not able to meet fourth quarter demand. The difficulty in meeting fourth quarter demand was exacerbated by strong sales in the third quarter that prematurely depleted inventory levels. The production inefficiencies and the loss of Westfield's higher margin sales resulted in a lower consolidated gross margin percentage.

- Bin-unload equipment is sold directly to a U.S. based storage bin manufacturer that incurs all further selling and distribution costs. Accordingly, the achievable gross margin percentage is necessarily lower to compensate the U.S. bin manufacturer for covering the costs of sales and distribution.

EXPENSES

For the year ended December 31, 2007, selling, general and administrative expenses were $18.7 million (2006 – $12.6 million). Selling, general and administrative expenses as a percentage of sales decreased to 14.3% in 2007 from 15.4% in 2006. Excluding acquisitions, general and administrative expenses were $15.6 million, an increase of $3.0 million over the prior year. The variance compared to 2006 is primarily due to the following:

- Salaries and wages increased $1.6 million, largely due to $0.3 million in retention bonuses, $0.2 million in retirement allowances, personnel additions at the corporate level to facilitate organic growth and the integration of acquisitions, salary increases, a higher accrual for performance based bonuses, and a number of smaller items.

- Sales and marketing expenses increased $0.6 million due to an increase in salary that resulted primarily from additional personnel and inflationary wage increases, increased advertising, an increase in overseas marketing activity, and a number of smaller items.

- A number of miscellaneous items accounted for the remaining change.

Significant variances compared to 2006 were also recorded in the following:

- Research and development costs in 2007 were $0.9 million, a $0.3 million decrease from 2006. The decrease was largely the result of the allocation of engineering resources to the Twister integration.

- Professional fees were $0.7 million, an increase of $0.3 million over 2006. The increase was due to a number of incidental legal fees and a higher accrual for audit fees.

- The adoption of a unit award incentive plan in May 2007 resulted in an expense related to the plan of $1.4 million for the twelve months ended December 31, 2007. The total cost of the plan is based on the Fund's unit price and is expensed over the plan's vesting period (see "Unit Award Incentive Plan").

EBITDA AND NET EARNINGS (see discussion of non-GAAP measures)

EBITDA for the year ended December 31, 2007 was $32.4 million, compared to $24.2 million in 2006. The EBITDA increase of $8.2 million or 34% over 2006 was largely the result of the following:

- EBITDA at divisions acquired before December 31, 2006 (Batco, Wheatheart, Westfield and Edwards) increased 14% over 2006. The benefit of increased sales, the result of robust demand in the U.S., was partially offset by gross margin pressures that resulted from foreign exchange, the capacity improvement initiative at Westfield, and product mix of sales.

- Hi Roller results in 2007 benefited from a strong domestic agricultural market and growth in sales related to new ethanol facilities.

- For its seven-month period ended December 31, 2007, Twister reported negative EBITDA of $0.9 million. The Fund incurred significant costs, largely in the fourth quarter of 2007, in relation to the transition of operations from Calgary to Nobleford.

- Union Iron recorded negative EBITDA of $0.2 million due largely to seasonality factors as the Fund reported Union Iron results only for the period November 19, 2007 to December 31, 2007. Historically, Union Iron's sales and EBITDA have been heavily weighted towards the second and third quarters. Accordingly, EBITDA for the period ended December 31, 2007 was in line with management expectations.

- Selling, general and administrative expenses at the corporate level increased $2.4 million compared to 2006, largely due to adding management resources to facilitate organic growth and the integration of acquisitions, salary adjustments, and increased sales and marketing expenses. Fiscal 2007 also included $0.3 million in non-recurring retention bonuses and a $0.2 million retirement allowance.

- The Fund adopted a unit award incentive plan in 2007 and for the year ended December 31, 2007 recorded an expense of $1.4 million.

The Fund's credit facility includes operating lines of CAD $10.0 million and U.S. $2.0 million, and provides for long-term debt of up to U.S. $66.5 million. As at December 31, 2007 no amounts were outstanding under the operating lines and the Fund's outstanding long-term debt was U.S. $26.5 million. Interest rates on both facilities are based on performance calculations. For the year ended December 31, 2007, the Fund's effective interest rate on its Canadian dollar term debt was 6.1% (2006 – 5.8%), and after consideration of the effect of the Fund's interest rate swap was 5.2% (2006 – 4.7%). For the year ended December 31, 2007, the Fund's effective interest rate on its U.S. dollar term debt was 8.6% and after consideration of the effect of the Fund's interest rate swaps was 6.5% (see "Financial Instruments").

Amortization for the year ended December 31, 2007 was $5.8 million (2006 – $3.8 million) and included the amortization of capital assets of $3.4 million and the amortization of intangible assets of $2.4 million. Compared to 2006, amortization was most significantly impacted by the acquisitions of Hi Roller and Twister, and the amortization of the new paint line at the Westfield facility.

The Fund is a mutual fund trust for income tax purposes at this time, and therefore is not subject to tax on income distributed to unitholders. The manufacturing business operations of the Fund's divisions that are based in Canada are carried out within a limited partnership. Income from the limited partnership is not subject to tax but flows through to the holders of the partnership units, which includes the Fund. The Fund's distributions are taxable in the hands of the unitholders. As a result of the Fund's structure, a current tax provision is recorded only for the Fund's subsidiary corporations, including its U.S. based divisions, and for the year ended December 31, 2007 was $1.9 million. The current tax provision is net of a reversal of a $0.5 million tax accrual that management has determined is no longer required.

The Fund recorded future tax expense of $9.8 million for the year ended December 31, 2007. In addition to the expense derived primarily from the utilization of future tax assets, as described in the Fund's December 31, 2007 audited financial statements, future tax expense includes an additional $9.5 million related to the enactment of taxation laws related to income trusts for taxation years commencing January 1, 2011. See "New Developments".

For the year ended December 31, 2007, the Fund recorded net earnings of $12.4 million (2006 – $19.0 million) and earnings per basic and diluted unit of $1.06 (2006 – $1.70). Net earnings were significantly impacted by a non-cash future tax charge related to the enactment of taxation laws related to income trusts. Excluding the impact of the non-cash future tax charge related to the enactment of taxation laws related to income trusts, earnings per basic and diluted unit in 2007 were $1.88.

QUARTERLY FINANCIAL INFORMATION

	2007			
	Sales	Gain (Loss) on FX	Net Earnings (Loss)	Net Earnings per Unit
Q1	$ 28,171,350	$ 58,895	$ 5,617,907	$ 0.50
Q2	35,067,508	1,077,557	(4,902,784)	(0.44)
Q3	40,798,315	1,117,489	8,976,385	0.80
Q4	26,664,788	1,863,842	2,674,070	0.20
Fiscal 2007	$ 130,701,961	$ 4,117,783	$ 12,365,578	$ 1.06

	2006			
	Sales	Gain (Loss) on FX	Net Earnings	Net Earnings per Unit
Q1	$ 19,705,011	$ 201,001	$ 4,115,585	$ 0.37
Q2	22,571,529	120,997	5,157,065	0.46
Q3	22,049,541	1,102,119	5,771,138	0.51
Q4	17,199,356	2,549,326	4,000,053	0.36
Fiscal 2006	$ 81,525,437	$ 3,973,443	$ 19,043,841	$ 1.70

Interim period revenues and earnings historically reflect some seasonality. The third quarter is typically the strongest primarily due to high in-season demand at the farm level. Adjusted distributable cash generated per unit will also typically be highest in the third quarter. Due to the seasonality of the Fund's working capital movements, standardized distributable cash generated per unit will typically be highest in the fourth quarter. The following factors impact comparability between quarters in the table above:

- Sales, gain (loss) on foreign exchange, net earnings, and net earnings per unit are significantly impacted by the rate of exchange between the Canadian and U.S. dollars.
- The second quarter of 2007 includes a non-cash future tax accrual of $11.1 million related to the enactment of taxation laws related to income trusts for taxation years commencing January 1, 2011. The fourth quarter of 2007 includes a $1.5 million credit to future taxes to reflect a lower expected effective tax rate.
- Subsequent to November 19, 2007, results reflect the acquisition of Union Iron.
- Subsequent to May 31, 2007, results reflect the acquisition of Twister.
- Subsequent to December 31, 2006, results reflect the acquisition of Hi Roller.

FOURTH QUARTER

Sales for the three months ended December 31, 2007 were $26.7 million, compared to $17.2 million for the same period in 2006. Excluding the impact of acquisitions, sales in the fourth quarter of 2007 were $19.3 million. The increase of $2.1 million or 12% over 2006 was largely the result of the following:

- Sales in the U.S. market decreased $0.7 million compared to the prior year, due primarily to the impact of foreign exchange. Had the average exchange rates experienced in the fourth quarter of 2006 been in effect in the fourth quarter of 2007, all other factors remaining constant, sales excluding acquisitions for the quarter ended December 31, 2007 would have increased $1.9 million and as a result fourth quarter 2007 sales, compared to the same period in 2006, would have increased $1.2 million.
- Sales in Canada increased $2.0 million compared to the fourth quarter of 2006, primarily due to a significant increase in Wheatheart grain auger sales that resulted from more aggressive distribution and market share growth. Sales at Edwards also increased significantly due to increased U.S. demand and improved market conditions in Western Canada.

- International sales increased $0.8 million compared to the fourth quarter of 2006, due primarily to a growing market in Europe and improved conditions in Australia compared to the fourth quarter of 2006.

- Sales in the fourth quarter of 2007 were negatively impacted by the Westfield capacity improvement initiative. Production inefficiencies related to both project implementation and the introduction of lean manufacturing significantly limited productivity gains in 2007. Throughput at Westfield increased compared to 2006, however the increases in production were not sufficient in magnitude to meet exceptional demand and as a result field inventories were severely depleted by the end of the third quarter. Throughput at Westfield increased in the fourth quarter compared to 2006, but the increases in production were not sufficient in magnitude to make up for depleted field inventory levels and accordingly Westfield was unable to meet fourth quarter demand.

Gross margin as a percentage of sales for the three months ended December 31, 2007 was 31.6%, compared to 40.0% in 2006.

- Gross margin was impacted by negative gross margin at Twister, the result of costs related to moving production to Nobleford, and a negative gross margin at Union Iron, the result of seasonality.

- Gross margin was also negatively impacted by the stronger Canadian dollar. Excluding the impact of Twister and Union Iron, and had the average exchange rates experienced in 2006 been in effect in 2007, all other factors remaining constant, gross margin as a percentage of sales for the fourth quarter of 2007 was 37.0%.

- Sales, gross margin and EBITDA were negatively impacted by costs related to the implementation of the Westfield capacity improvement initiative. In addition to the direct and ancillary costs incurred in the first three quarters of 2007, the project had a significant impact on the fourth quarter:

    - The project was substantially complete at the end of the third quarter. However, the related implementation of lean manufacturing resulted in certain production inefficiencies and Westfield was not able to fully realize upon the capacity improvements in the fourth quarter.

    - Throughput at Westfield increased in the fourth quarter compared to 2006, but the increases in production were not sufficient in magnitude to meet continued strong demand. In the third quarter, production constraints coupled with exceptional demand resulted in an unprecedented drawdown of field inventory. Over the course of the third quarter in 2007, field inventory decreased approximately 58%. This compares to a more typical drawdown of approximately 12% in 2006. Entering the fourth quarter of 2007, Westfield field inventory was down 50% compared to the prior year.

    - Westfield entered the fourth quarter with severely depleted field inventory and was not able to fully realize upon capacity improvements, and accordingly was unable to meet strong demand. The loss of higher margin Westfield sales in the fourth quarter of 2007 resulted in reduced EBITDA as well as lower consolidated gross margin and EBITDA percentages.

For the three months ended December 31, 2007, selling, general and administrative expenses were $5.1 million (2006 – $3.3 million). In the fourth quarter of 2007, selling, general and administrative expenses as a percentage of sales were 19.2% (2006 – 19.1%). Excluding acquisitions, selling, general and administrative expenses were $4.2 million, an increase of $0.9 million over the prior year. The variance compared to 2006 is primarily due to the following:

- Salaries and wages increased $0.6 million, largely due to $0.1 million in retention bonuses, $0.2 million in retirement allowances, personnel additions at the corporate level, salary increases, a higher accrual for performance based bonuses, and a number of smaller items.

- A number of miscellaneous items accounted for the remaining change.

Significant variances compared to the fourth quarter of 2006 were also recorded in the following:

- Research and development costs in 2007 were $0.2 million compared to $0.4 million in the same period in 2006. The decrease was largely the result of the redeployment of engineering resources to the Twister integration.

- The adoption of a unit award incentive plan in May 2007 resulted in an expense related to the plan of $0.7 million for the three months ended December 31, 2007. The total cost of the plan is based on the Fund's unit price and is expensed over the plan's vesting period (see "Unit Award Incentive Plan").

- The Fund recorded a gain on foreign exchange of $1.9 million, compared to $2.5 million in 2006. The smaller gain in 2007 was largely the result of lower realized gains on foreign currency contracts, as the contracts in effect in the fourth quarter of 2006 were at higher rates than those in effect in the fourth quarter of 2007.

- Other income increased $0.3 million compared to the fourth quarter of 2006 due to the receipt of $0.1 million of state assistance related to acquisition of the manufacturing facility in Union City, Indiana, and a number of smaller items.

EBITDA for the three-month period ended December 31, 2007 was $3.9 million, compared to $5.3 million in 2006:

- EBITDA at the Fund's existing divisions decreased $0.4 million, largely due to factors related to the Westfield capacity initiative and the impact of foreign exchange. Had the average exchange rates experienced in 2006 been in effect in 2007, all other factors remaining constant, EBITDA at the existing divisions would have increased $1.4 million and accordingly after adjusting for foreign exchange, EBITDA at the existing divisions would have increased $0.7 million or 18% compared to 2006.

- For the quarter ended December 31, 2007, Twister reported negative EBITDA of $0.6 million. Significant costs related to the transition of operations from Calgary to Nobleford adversely impacted Twister's results.

- Union Iron recorded negative EBITDA of $0.2 million due largely to seasonality factors as the Fund reported Union Iron results only for the period November 19, 2007 to December 31, 2007. Historically, Union Iron's sales and EBITDA have been heavily weighted towards the second and third quarters. Accordingly, EBITDA for the period ended December 31, 2007 was in line with management expectations.

- Gain on foreign exchange decreased $0.7 million compared to 2006 as gains related to measuring U.S. dollar denominated debt to current exchange rates were more than offset by smaller gains on foreign exchange contracts.

- Compared to 2006, EBITDA was negatively impacted by increased expenses at the corporate level that included $0.7 million related to the Fund's unit award incentive plan, increased personnel to facilitate organic growth and the integration of acquisitions, $0.1 million in non-recurring retention bonus and a $0.2 million retirement allowance.

- Direct and ancillary costs related to the implementation of the Westfield capacity improvement initiative negatively impacted the gross margin and EBITDA percentages. In addition, although the Westfield capacity improvement project was substantially complete at the end of the third quarter, the related implementation of lean manufacturing resulted in certain production inefficiencies and Westfield was not able to meet fourth quarter demand. The difficulty in meeting fourth quarter demand was exacerbated by strong sales in the third quarter that prematurely depleted inventory levels. The production inefficiencies and the loss of Westfield's higher margin sales resulted in a lower consolidated gross margin and EBITDA percentages.

For the three months ended December 31, 2007, the Fund recorded net earnings of $2.7 million and earnings per basic and diluted unit of $0.20, compared to net earnings of $4.0 million and earnings per basic and diluted unit of $0.36 in 2006.

NON-GAAP MEASURES

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization. Management believes that, in addition to net income or loss, EBITDA is a useful supplemental measure in evaluating the Fund's performance. EBITDA is not a financial measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA should not replace net income or loss as an indicator of performance, or cash flows from operating, investing, and financing activities as a measure of the Fund's liquidity and cash flows. The Fund's method of calculating EBITDA may differ from the methods used by other issuers.

Standardized and adjusted distributable cash are non-GAAP measures generally used by Canadian income funds as an indicator of financial performance. The Fund defines standardized distributable cash as cash flow from operating activities less capital expenditures. The Fund defines adjusted distributable cash as cash flow from operating activities before the net change in non-cash

working capital balances and before items not affecting cash other than items that impact amortization, interest expense, future taxes, or tax reserves, less maintenance capital expenditures (see "Capital Expenditures"). Standardized and adjusted distributable cash are not financial measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. The method of calculating the Fund's standardized and adjusted distributable cash may differ from similar computations as reported by similar entities and, accordingly, may not be comparable to distributable cash as reported by such entities.

Payout ratio is a non-GAAP measure used by Canadian income funds as an indicator of the amount of generated distributable cash that is distributed to the unitholders. The Fund defines payout ratio as total distributions expressed as a percentage of standardized and adjusted distributable cash. Payout ratio is not a financial measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. The method of calculating the Fund's payout ratio may differ from similar computations as reported by similar entities and, accordingly, may not be comparable to payout ratio as reported by such entities.

CASH FLOW AND LIQUIDITY

The table below reconciles net earnings to cash provided by operations for the years ended December 31, 2007 and 2006.

	2007	2006
Net earnings for the period	**$ 12,365,578**	$ 19,043,841
Add charges (deduct credits) to operations not requiring a current cash payment:		
Amortization	**5,764,536**	3,834,891
Future income taxes	**9,756,700**	229,800
Deferred foreign exchange gain	**0**	33,476
Translation gain on foreign exchange	**(2,866,877)**	0
Non-cash component of interest expense	**189,802**	0
Long-term incentive plan	**799,596**	0
Unit award incentive plan	**1,402,093**	0
Gain on sale of property, plant & equipment	**(43,526)**	(37,546)
	27,367,902	23,104,462
Net change in non-cash working capital balances related to operations:		
Accounts receivable	**4,729,157**	(408,816)
Inventory	**521,922**	(505,850)
Prepaid expenses and other assets	**(30,234)**	329,687
Accounts payable and accrued liabilities	**87,347**	267,431
Long-term incentive plan	**(854,000)**	(79,001)
Customer deposits	**5,405,636**	2,558,018
Income taxes payable	**(154,371)**	(29,219)
	9,705,457	2,132,240
Cash provided by operations	**$ 37,073,359**	$ 25,236,702

For the year ended December 31, 2007, cash provided by operations was $37.1 million, compared to $25.2 million in 2006. The increase from 2006 is the result of increased net earnings after non-cash items and an increase in the net change in non-cash working capital balances that resulted from increased demand and the acquisition of Hi Roller. A number of smaller changes account for the remaining variance.

WORKING CAPITAL

Interim period working capital requirements typically reflect some seasonality. The Fund's collections of accounts receivable are weighted towards the third and fourth quarters. This collection pattern, combined with seasonally high sales in the third quarter, result in accounts receivable levels increasing throughout the year and peaking in the third quarter. In order to ensure the Fund has adequate supply throughout its distribution network in advance of in-season demand, inventory levels must be gradually increased throughout the year. Accordingly, inventory levels typically increase in the first and second quarters and then begin to decline in the third or fourth quarter as sales levels exceed production. As a result of these working capital movements, historically, Ag Growth begins to draw on its bank revolver in the first or second quarter. The revolver balance typically peaks in the second or third quarter and normally begins to decline later in the third quarter as collections of accounts receivable increase. Ag Growth has typically fully repaid its revolver balance by early in the fourth quarter. Operating results in 2007 generally reflected these expectations.

CAPITAL EXPENDITURES

The Fund had maintenance capital expenditures of $1.8 million for the year ended December 31, 2007 (2006 – $1.1 million). Maintenance capital expenditures in 2007 relate primarily to purchases of a semi tractor unit and trailer and manufacturing equipment. The increase from 2006 is largely the result of the acquisitions of Hi Roller and Union Iron. All 2007 maintenance capital expenditures were funded through cash from operations.

The Fund defines maintenance capital expenditures as cash outlays required to maintain plant and equipment at current operating capacity and efficiency levels. Non-maintenance capital expenditures are defined as cash outlays required to increase operating capacity or improve operating efficiency. The following capital expenditures were classified as non-maintenance in 2007:

i. Westfield capacity improvement initiative. In addition to anticipated capacity enhancements, the initiative is expected to improve the quality and finish of the Westfield product through the implementation of a new paint system. The total expenditure in 2007 was $1.7 million to bring the project total to $3.6 million. The project is substantially complete and projects costs were consistent with management expectations.

ii. Purchase of manufacturing facility in Union City, Indiana for U.S. $0.9 million. The 160,000 square foot facility provides the Fund with manufacturing capabilities in its core U.S. market, in a region with ready access to labour, and will help alleviate labour constraints in western Canada. Additional expenditures on the building of approximately $0.1 million are anticipated in 2008.

iii. Building and equipment related to the Twister acquisition. Subsequent to the acquisition of Twister, the Fund invested $1.6 million in building renovations and certain equipment not included in the purchase agreement.

iv. Expansion of Batco manufacturing facility. To enhance capacity and improve productivity Batco is adding approximately 6,000 square feet to its facility at a total projected cost of $0.7 million. In 2007 a total of $0.3 million was expended on the Batco expansion.

CASH BALANCE

For the year ended December 31, 2007 the Fund's cash balance increased $11.7 million (2006 – $0.6 million). The increase over 2006 was the result of increased net earnings after non-cash items and an increase in the net change in non-cash working capital balances that resulted from increased demand and the acquisition of Hi Roller.

CONTRACTUAL OBLIGATIONS

	Total	2008	2009	2010	2011	2012 +
Long-term debt	$ 26,217,584	$ 11,978	$ 6,555,727	$ 19,648,052	$ 1,827	$ 0
Operating leases	2,563,682	812,318	636,848	537,288	381,367	195,861
Total obligations	$ 28,781,266	$ 824,296	$ 7,192,575	$ 20,185,340	$ 383,194	$ 195,861

Long-term debt at December 31, 2007 includes non-amortizing term loans of $26.2 million (U.S. $26.5 million), which for financial reporting purposes are shown net of the related deferred financing costs of $0.6 million. The remaining long-term debt relates to GMAC financed vehicle loans. The operating leases relate primarily to vehicle, equipment, warehousing, and facility leases and were entered into in the normal course of business.

DISTRIBUTIONS

The Fund declared distributions to public unitholders of $19.4 million for the year ended December 31, 2007 (2006 – $17.3 million). Furthermore, consistent with the Fund's prospectus dated May 5, 2004, in 2007 the Fund declared distributions to Ag Growth's previous owners of $0.2 million (2006 – $1.6 million). The distributions declared to Ag Growth's previous owners have decreased as a number of exchangeable units were exchanged for publicly traded units of the Fund (see "Overview of the Fund"). Distributions declared per unit in 2007 are unchanged from 2006.

The Fund's policy is to make monthly distributions to holders of both Trust units of the Fund and Class B units of AGHLP. Furthermore, in accordance with the terms of the Fund's prospectus, holders of Class C units received distributions quarterly prior to their conversion to Class B units on the subordination end date in 2006. The Fund's Declaration of Trust requires that it distribute all taxable income earned in its fiscal period ending December 31. It may be necessary for the Fund to estimate one or more special distributions to achieve this requirement.

The Fund's Board of Trustees reviews financial performance and other factors when assessing the Fund's distribution levels. An adjustment to distribution levels will be made at such time as the Board determines the adjustment is sustainable and in the long-term best interest of the Fund and its unitholders.

STANDARDIZED DISTRIBUTABLE CASH

The Canadian Institute of Chartered Accountants (CICA) has issued an interpretive release providing guidance on standardized preparation and disclosure of distributable cash for income trusts. The CICA calculation of standardized distributable cash is based on cash flows from operating activities, including the effects of changes in non-cash working capital, less total capital expenditures. The table below uses this method to set out standardized distributable cash.

Standardized Distributable Cash	2007	2006
Cash provided by operations	**$ 37,073,359**	$ 25,236,702
Capital expenditures	**(6,305,511)**	(2,767,084)
Standardized distributable cash generated	**$ 30,767,848**	$ 22,469,618
Standardized distributable cash generated per unit	**$ 2.64**	$ 2.00
Distributions declared	**$ 1.68**	$ 1.68
Standardized payout ratio	**63.6%**	84.0%

Management feels that the standardized distributable cash calculation distorts the Fund's distributable cash and payout ratios, as the Fund's non-cash working capital fluctuates dramatically due to seasonality of the Fund's business and cash flow cycle. In addition the standardized distributable cash calculation does not contemplate the timing or source of funding for strategic capital expenditures and as a result may not provide complete information with respect to distributable cash ultimately available for distribution.

ADJUSTED DISTRIBUTABLE CASH

Adjusted distributable cash, as defined under "non-GAAP measures," is the equivalent of EBITDA less maintenance capital expenditures, cash interest expense, and current cash tax expense. The objective of presenting these measures is to calculate the amount that is available for distribution to unitholders and exchangeable unitholders. The adjusted distributable cash definition excludes changes in working capital as they are necessary to drive organic growth and are expected to be financed by the Fund's operating facility (see "Capital Resources").

Adjusted distributable cash should not be construed as an alternative to cash flows from operating, investing, and financing activities as a measure of the Fund's liquidity and cash flows. Adjusted distributable cash can be reconciled to cash provided by operating activities as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash provided by operating activities	**$ 37,073,359**	$ 25,236,702
Change in non-cash working capital	**(9,705,457)**	(2,132,240)
Reversal of reserve (1)	**(500,000)**	0
Deferred foreign exchange loss	**0**	(33,476)
Long-term incentive plan	**(799,596)**	0
Translation gain (loss) on FX	**2,866,877**	0
Gain on sale of equipment	**43,526**	37,546
Net maintenance capital expenditures	**(1,816,161)**	(1,129,938)
Adjusted distributable cash from operations (2)	**27,162,548**	21,978,594
Non-maintenance capital expenditures (3)	**(4,489,350)**	(1,637,146)
Acquisition costs funded from cash flow	**0**	(894,182)
Adjusted distributable cash available to unitholders	**$ 22,673,198**	$ 19,447,266
Weighted average units outstanding	**11,651,575**	11,225,000
Distributions declared per weighted average unit	**$ 1.68**	$ 1.68
Adjusted distributable cash from operations		
Distributable cash generated per unit (2)	**$ 2.33**	$ 1.96
Payout ratio	**71.8%**	85.8%
Adjusted distributable cash available to unitholders		
Distributable cash generated per unit (2)	**$ 1.95**	$ 1.73
Payout ratio	**86.2%**	97.1%

(1) See "EBITDA and net earnings".
(2) See discussion of non-GAAP measures.
(3) Non-maintenance capital expenditures funded from cash flow are reflected as a deduction in cash available to unitholders.

The following table reconciles standardized distributable cash to adjusted distributable cash from operations:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Standardized distributable cash	**$ 30,767,848**	$ 22,469,618
Change in non-cash working capital	**(9,705,457)**	(2,132,240)
Reversal of tax reserve	**(500,000)**	0
Deferred foreign exchange loss	**0**	(33,476)
Long-term incentive plan	**(799,596)**	0
Translation gain (loss) on FX	**2,866,877**	0
Gain on sale of equipment	**43,526**	37,546
Non-maintenance capital expenditures	**4,489,350**	1,637,146
Adjusted distributable cash	**$ 27,162,548**	$ 21,978,594

Adjusted Distributable Cash			
	Distributable Cash Generated	**Distributions Declared (1)**	**Payout Ratio**
Period Ended December 31, 2004	$ 9,686,147	$ 9,109,017	94.0%
Year Ended December 31, 2005	22,628,723	18,917,872	83.6%
Year Ended December 31, 2006	21,978,594	18,858,000	85.8%
Year Ended December 31, 2007	27,162,548	19,584,600	72.1%
Cumulative since inception	$ 81,456,012	$ 66,469,489	81.6%

(1) Distributions declared include special distributions of $1,328,940 in 2004 and $3,367,500 in 2005.

Distributions declared for the year ended December 31, 2007 of $1.68 per unit are consistent with distributions declared in 2006, and represent a 29.2% increase over the per unit distribution disclosed in the Fund's 2004 prospectus. Distributions are funded entirely through cash from operations.

The Fund's Declaration of Trust requires that it distribute all taxable income earned in its fiscal periods ending December 31. Due to a number of tax deductions available to the Fund and its subsidiary entities and to the acquisitions of its U.S. divisions, since inception the Fund has retained $15.2 million for internal purposes. The amounts retained have been used primarily to strengthen the Fund's financial position, to fund certain strategic CAPEX projects, to fund certain acquisition costs, and to allow for future strategic or expansionary capital expenditures.

CAPITAL RESOURCES

The Fund's credit facility includes operating lines of CAD $10.0 million and U.S. $2.0 million, and provides for long-term debt of up to U.S. $66.5 million. As at December 31, 2007 no amounts were outstanding under the operating lines and the Fund's outstanding long-term debt was U.S. $26.5 million. Interest rates on both facilities are based on performance calculations. For the year ended December 31, 2007, the Fund's effective interest rate on its Canadian dollar term debt was 6.1% (2006 – 5.8%), and after consideration of the effect of the Fund's interest rate swap was 5.2% (2006 – 4.7%). For the year ended December 31, 2007, the Fund's effective interest rate on its U.S. dollar term debt was 8.6% and after consideration of the effect of the Fund's interest rate swaps was 6.5% (see "Financial Instruments").

Under the terms of the credit facility agreement, the operating and term loan facilities will bear interest at prime plus 0.00%, 0.50%, or 1.00% per annum based on performance calculations. The loans mature August 31, 2008 and are extendible annually for an additional one-year term at the lender's option. Under the terms of the credit facility agreement, if the bank elects to not extend the operating and term loan facilities beyond the current August 31, 2008 maturity date, all amounts outstanding under the facilities become repayable in four equal quarterly instalments of principal, commencing November 30, 2009.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. The Fund believes the accounting policies that are critical to its business relate to the use of estimates regarding the recoverability of accounts receivable and the valuation of inventory, intangibles, goodwill, and future income taxes. Due to the nature of Ag Growth's business and the credit terms it provides to its customers, estimates and judgments are inherent in the on-going assessment of the recoverability of accounts receivable. In addition, assessments and judgments are inherent in the determination of the net realizable value of inventories and the fair value of goodwill and intangible assets. Goodwill and indefinite life intangible assets are tested for impairment at least annually. Future income taxes are calculated based on assumptions related to the future

interpretation of tax legislation, future income tax rates, future operating results, acquisitions and dispositions of assets and liabilities, and distribution policy. In the normal course of its operations, the Fund may become involved in various legal actions. The Fund maintains, and regularly updates on a case-by-case basis, provisions when the expected loss is both likely and can be reasonably estimated. While management has applied judgment based on assumptions believed to be reasonable in the circumstances, actual results can vary from these assumptions. It is possible that materially different results would be reported using different assumptions.

FINANCIAL INSTRUMENTS

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. Dollar. The Fund has entered into foreign exchange contracts with a Canadian chartered bank to partially hedge its foreign currency exposure on anticipated U.S. dollar sales transactions and the collection of the related accounts receivable. As at December 31, 2007 the Fund had outstanding the following foreign exchange option contracts:

Currency Options				
Settlement Dates	**Face Amount U.S.**	**Call Rate CDN**	**Put Rate CDN**	**Unrealized Gain (Loss) CDN**
January – December 2008	$ 7,800,000	$ 1.0700	$ 1.2115	$ 654,856

Subsequent to December 31, 2007 the Fund entered into a series of forward foreign exchange contracts as follows:

Forward Foreign Exchange Contracts			
Settlement Dates	**Face Amount U.S.**	**Average Rate CDN**	**CDN Amount**
July – December 2008	$ 28,000,000	1.0251	$ 28,703,300

The Fund is subject to risks associated with fluctuating interest rates on its long-term debt. To manage this risk, as at December 31, 2007, the Fund had outstanding the following interest rate swap transactions with a Canadian chartered bank:

i. Notional amount of U.S. $17.5 million, expires August 31, 2008, effective interest rate of 4.83%, resulting in interest charges to the Fund of 4.83% plus a variable rate based on performance calculations.

ii. Notional amount of U.S. $2.5 million, expires August 31, 2008, effective interest rate of 4.83%, resulting in interest charges to the Fund of 4.83% plus a variable rate based on performance calculations.

iii. Notional amount of U.S. $6.5 million, expires August 31, 2008, effective interest rate of 5.10%, resulting in interest charges to the Fund of 5.10% plus a variable rate based on performance calculations.

At December 31, 2007, the fair value of the interest rate swap contracts was a loss of $107,564, and this amount has been recorded in prepaid expenses and other assets.

NEW DEVELOPMENTS

Acquisition of Applegate Steel Inc.

Effective January 15, 2008, the Fund acquired substantially all of the assets of Applegate Steel Inc. ("Applegate"), for cash consideration of $3.0 million plus costs related to the acquisition. The acquisition was funded from cash flow. Applegate manufactures livestock gates, panels, feeders and stock tanks at locations in Indiana and Iowa.

Equity Offering and Repayment of Long-Term Debt

On October 2, 2007, the Fund completed an equity financing whereby it issued 1,730,000 Trust units at a price of $26.00 per Trust unit for gross proceeds of $45.0 million. Subsequent to the closing of the equity offering, the Fund repaid $30.7 million and U.S. $12.0 million of its outstanding long-term debt. The remaining $2.3 million was applied against expenses of the offering, including underwriters' commission.

Enactment of Legislation Imposing Taxation on Income Trusts

As described in the Fund's audited financial statements for the year ended December 31, 2007, in June 2007 the Government of Canada enacted legislation that will impose additional income taxes on publicly traded income trusts including the Fund for taxation years commencing January 1, 2011. The Fund continues to evaluate the new legislation and the Fund's organizational alternatives in light of the new legislation.

Future income tax liabilities for the period increased $11.1 million upon the June 2007 enactment of new tax legislation. Until June 2007 the Fund had been tax effecting the reversal of taxable temporary differences at a nil tax rate on the assumption that the Fund would make sufficient tax deductible cash distributions to unitholders such that the Fund's taxable income would be nil for the foreseeable future. The new legislation limits the tax deductibility of cash distributions such that income taxes may become payable in the future. On December 14, 2007, further legislation was enacted by the federal government to reduce the effective rate of tax on the Fund's temporary differences from the previous rate of 31.5% to 29.5% in 2011 and 28.0% thereafter. As a result, the Fund reduced its expected future income tax liability related to the legislation from $11.1 million to $9.5 million.

The Fund has estimated its future income taxes based on its best estimates of results of operations and tax pool claims and cash distributions in the future assuming no material change to the Fund's current organizational structure. As currently interpreted, Canadian GAAP does not permit the Fund's estimate of future income taxes to incorporate any assumptions related to a change in organizational structure until such structures are given legal effect.

The Fund's estimate of its future income taxes will vary as do the Fund's assumptions pertaining to the factors described above, and such variations may be material.

Until 2011, the new legislation does not directly affect the Fund's cash flow from operations, and accordingly, the Fund's financial condition.

Unit Award Incentive Plan

On May 10, 2007, the unitholders of Ag Growth approved the adoption by the Fund of a Unit Award Incentive Plan (the "UAIP") which authorizes the Trustees to grant awards ("Unit Awards") to persons, firms or corporations who are employees or officers of the Fund or any affiliates of the Fund or who are consultants or other service providers to the Fund and its affiliates ("Service Providers"). Unit Awards may not be granted to non-management Trustees.

Under the terms of the UAIP, any Service Provider may be granted Unit Awards. Each Unit Award will entitle the holder to be issued the number of trust units designated in the Unit Award, upon payment of an exercise price of $0.10 per Fund Unit and such Fund Units will vest and may be issued as to one third on each of January 1, 2010, January 1, 2011 and January 1, 2012 or such earlier or later dates as may be determined by the Trustees. In lieu of receiving trust units, the holder, with the consent of the Fund, may elect to be paid cash for market value of the units in excess of exercise price of the units. The UAIP provides for immediate vesting of the Unit Awards in the event of retirement, death, termination without cause, or in the event the Service Provider becomes disabled.

The UAIP provides that the maximum number of trust units reserved for issuance pursuant to Unit Awards shall not exceed the 220,000 trust units currently granted, subject to adjustment in lieu of distributions, if applicable.

The UAIP will be recognized as a direct award of units, resulting in an expense to be charged against income and a related liability recorded over the period of time to which the award vests. As at December 31, 2007, 220,000 Unit Awards have been granted and remain outstanding. For the year ended December 31, 2007, the Fund recorded an expense of $1,402,093 for the Unit Awards.

Long-Term Incentive Plan

The Fund adopted an amended and restated long-term incentive plan with an effective date of January 1, 2007. Pursuant to the LTIP, the Fund establishes the amount to be allocated to eligible participants based upon the amount by which the Fund's distributable cash as defined in the LTIP exceeds a predetermined threshold. Accordingly, for fiscal 2007 the Fund will make available $2.2 million for the LTIP and will use these funds to purchase units within 121 days of year end. The units awarded vest over a three-year period commencing one year after the fiscal year of the award. The expense related to the LTIP will be recorded in relation to the vesting period and accordingly the total award related to the current fiscal year will be expensed as to 36% in the current fiscal year, and 36%, 20% and 8% in the three fiscal years subsequent to the current year.

For the year ended December 31, 2007, the Fund has recorded an expense with respect to the LTIP of $799,596, which represents 36% of the total 2007 LTIP of $2.2 million.

Accounting Policy Changes

Effective January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3865, "Hedges"; and Section 1530, "Comprehensive Income". The adoption of these new standards resulted in changes in the accounting policies for financial instruments and hedges.

The principal changes in accounting policies, financial statement reporting and disclosure recommendations for comprehensive income and its components and the presentation of equity are described below:

[a] Section 3855, "Financial Instruments – Recognition and Measurement"

This Section sets out the standards for the recognition and measurement of financial assets and financial liabilities. The standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or amortized costs are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net earnings or other comprehensive income.

The Fund has made the following classifications:

- Cash and cash equivalents are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net earnings.
- Accounts receivable are classified as "loans and receivables" and are recorded at fair value upon initial measurement. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities, distributions payable, long-term incentive plan and acquisition, transaction and financing costs payable are classified as "other financial liabilities" and are initially measured at their fair value upon initial measurement. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Long-term debt is classified as an "other financial liability" and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The deferred financing costs, previously reported on a separate line item on the consolidated balance sheets, are now netted against the carrying value of the related debt and amortized into interest expense using the effective interest rate method. Prior to the adoption of the new standards, the amortization of deferred financing costs was reported as a separate line item in the consolidated statements of earnings.
- Derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. All changes in fair value are recorded in earnings unless cash flow hedge accounting is used, in which case the effective portion of the changes in fair value is recorded in other comprehensive income.

Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors with similar characteristics and risk profiles.

[b] Section 3865, "Hedges"

This Section sets out the standards specifying when and how an entity can use hedge accounting. This standard offers entities the possibility of applying different reporting options than those set out in Section 3855, "Financial Instruments – Recognition and Measurement", to qualifying transactions that they elect to designate as hedges for accounting purposes.

The Fund elected to apply hedge accounting for certain of its foreign exchange forward contracts and interest rate swaps. The foreign exchange forward contracts and swaps are designated as cash flow hedges. They are measured at fair value at the end of each period and the effective portion of the gain or loss resulting from remeasurement is recognized in other comprehensive income. Any ineffectiveness is recognized in net earnings. When hedge accounting is discontinued, the amounts previously recognized in accumulated other comprehensive income are reclassified to net earnings during the periods when the variability in the cash flows of the hedged item

affects net earnings. Gains and losses on derivatives are reclassified immediately to net earnings when the hedged item is sold or early terminated, or the hedged anticipated transaction is probable of not occurring. Accumulated gains or losses in other comprehensive income related to the foreign exchange forward contracts and swaps are subsequently recognized in earnings when the hedged item affects earnings.

[c] Section 1530, "Comprehensive Income"

This Section describes the reporting and disclosure standards with respect to comprehensive income and its components. Comprehensive income is comprised of net earnings and other comprehensive income or loss. Other comprehensive income includes changes in the fair value of derivative instruments designated as cash flow hedges, all net of applicable income taxes. The components of comprehensive income are disclosed in the consolidated statement of comprehensive income.

Impact of change on the consolidated financial statements

The Sections were adopted retroactively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, the impact on the consolidated balance sheet of measuring the long-term debt using the effective interest rate method was a decrease in deferred financing costs of $318,012 and a decrease in long-term debt of $318,012. The impact on the consolidated balance sheet of measuring derivatives at fair value as at January 1, 2007 was a decrease in prepaid expenses and other assets by $276,679. Comprehensive income was decreased by the same amount as a transition adjustment.

Accounting changes

Effective January 1, 2007, the Fund adopted the new CICA Handbook Section 1506, "Accounting Changes". The section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. It includes the disclosure on an interim and an annual basis, of a description and the impact of the Fund's financial results of any new primary source of Canada GAAP that has been issued but is not yet effective. The adoption of this new section did not have an effect on the Fund's financial position or on the results of its operations.

New Accounting Standards Effective January 1, 2008

Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: section 1535, *Capital Disclosures,* section 3862, *Financial Instruments – Disclosures,* and section 3863, *Financial Instruments – Presentation.* These new standards will be effective for fiscal years beginning on or after October 1, 2007 and the Fund will adopt them on January 1, 2008. The Fund is in the process of evaluating the disclosure and presentation requirements of the new standards.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, *Financial Instruments – Disclosure and Presentation,* revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

The CICA issued section 3031, *Inventories,* which will replace section 3030, *Inventories.* This new standard is effective for fiscal years beginning on or after July 1, 2007, and the Fund will adopt this section on January 1, 2008. Section 3031 provides more extensive guidance on measurement and expands disclosure requirements to increase transparency. The Fund's accounting policy for inventories is consistent with measurement requirements in the new standard and therefore it is not anticipated that the results of the Fund will be impacted, however, additional disclosures will be required in relation to inventories carried at net realizable value, the amount of inventories recognized as an expense, and the amount of any write-downs of inventories.

International Financial Reporting Standards ["IFRS"]

In 2005, the AcSB announced that accounting standards in Canada are to converge with IFRS. On February 13, 2008, the AcSB had confirmed that the use of IFRS will be required by January 1, 2011, with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy that must be addressed. While the Fund has begun assessing the adoption of IFRS for 2011, the financial impact of the transition to IFRS cannot be reasonably estimated at this time.

RISKS AND UNCERTAINTIES

The risks and uncertainties described below are not the only risks and uncertainties we face. We believe that the risks mentioned are the principal risks relating to our operations. The Fund's Annual Information Form contains a description of these and other risks that relate to the structure of the Fund. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may impair operations. If any of the following risks actually occur, our business, results of operations and financial condition, and the amount of cash available for distribution could suffer.

Industry Cyclicality

The performance of the agricultural industry is cyclical, and to the extent that the agricultural sector declines or experiences a downturn, this is likely to have a negative impact on the farm equipment and commercial grain handling industry, and the business of Ag Growth. The agricultural sector has recently been positively impacted by the expansion of the ethanol industry, and to the extent the ethanol industry declines or experiences a downturn, this is likely to have a negative impact on the farm equipment and commercial grain handling industry, and the business of Ag Growth.

Seasonality of Business

The seasonality of the demand for Ag Growth's products results in lower cash flow in the first three quarters of each calendar year and may impact the ability of the Fund to make cash distributions to Unitholders, or the quantum of such distributions, if any. No assurance can be given that the Fund's credit facility will be sufficient to offset the seasonal variations in Ag Growth's cash flow.

Risk of Decreased Crop Yields

Decreased crop yields due to poor weather conditions and other factors are a significant risk affecting Ag Growth. Both reduced crop volumes and the accompanying decline in farm incomes can negatively affect demand for grain handling equipment.

Potential Volatility of Production Costs

Various materials and components are purchased in connection with Ag Growth's manufacturing process, some or all of which may be subject to wide price variation. Consistent with past and current practices within the industry, Ag Growth manages its exposure to material and component price volatility by planning and negotiating significant purchases on an annual basis, and passing through to customers, most, if not all, of the price volatility. There can be no assurance that industry dynamics will allow Ag Growth to continue to reduce its exposure to volatility of production costs by passing through price increases to its customers.

Commodity Prices, International Trade and Political Uncertainty

Prices of commodities are influenced by a variety of unpredictable factors that are beyond the control of Ag Growth, including weather, government (Canadian, United States and other) farm programs and policies, and changes in global demand or other economic factors. The world grain market is subject to numerous risks and uncertainties, including risks and uncertainties related to international trade and global political conditions.

Competition

Ag Growth experiences competition in the markets in which it operates. Certain of Ag Growth's competitors may have greater financial and capital resources than Ag Growth. Ag Growth could face increased competition from newly formed or emerging entities, as well as from established entities that choose to focus (or increase their existing focus) on Ag Growth's primary markets. As the grain handling equipment sector is fragmented, there is also a risk that a larger, formidable competitor may be created through a combination of one or more smaller competitors. Ag Growth may also face potential competition from the emergence of new products or technology.

Acquisition and Expansion Risk

The Fund may expand its operations, depending on certain conditions, by acquiring additional businesses, products or technologies. There can be no assurance that the Fund will be able to identify, acquire, or profitably manage additional businesses, or successfully integrate any acquired business, products, or technologies into the business without substantial expenses, delays or other operational or financial difficulties. Furthermore, acquisitions may involve a number of special risks including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances, and legal liabilities, some or all of which could have a material adverse effect on the Fund's performance. In addition, there can be no assurance that acquired businesses, products, or technologies, if any, will achieve anticipated revenues and income. The failure of the Fund to manage its acquisition or expansion strategy successfully could have a material adverse effect on the Fund's results of operations and financial condition. The Fund is subject to restrictions on its ability to grow without becoming subject to additional income taxes that would otherwise not apply to the Fund until the taxation year commencing January 1, 2011.

Business Interruption

The operation of the manufacturing facilities of Ag Growth are subject to a number of business interruption risks, including delays in obtaining production materials, plant shutdowns, labour disruptions and weather conditions/natural disasters. Ag Growth may suffer damages associated with such events that it cannot insure against or which it may elect not to insure against because of high premium costs or other reasons. For instance, Ag Growth's Rosenort facility is located in an area that was affected by widespread floods experienced in Manitoba in 1997, and insurance coverage for this type of business interruption is limited. Ag Growth is not able to predict the occurrence of business interruptions.

Litigation

In the ordinary course of its business, Ag Growth may be party to various legal actions, the outcome of which cannot be predicted with certainty. One category of potential legal actions is product liability claims. Farming is an inherently dangerous occupation. Grain handling equipment used on farms may result in product liability claims that require not only proper insuring of risk, but management of the legal process as well.

Dependence on Key Personnel

Ag Growth's future business, financial condition, and operating results depend on the continued contributions of certain of Ag Growth's executive officers and other key management and personnel, certain of whom would be difficult to replace.

Labour Costs and Shortages and Labour Relations

The success of Ag Growth's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of Ag Growth to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on the Fund's results of operations. There is no assurance that some or all of the employees of Ag Growth will not unionize in the future. If successful, such an occurrence could increase labour costs and thereby have an adverse affect on Ag Growth's results of operations.

Distribution, Sales Representative and Supply Contracts

Ag Growth typically does not enter into written agreements with its dealers, distributors or suppliers. As a result, such parties may, without notice or penalty, terminate their relationship with Ag Growth at any time. In addition, even if such parties should decide to continue their relationship with Ag Growth, there can be no guarantee that the consideration or other terms of such contracts will continue on the same basis.

Foreign Exchange Risk

Ag Growth generates a majority of its sales in U.S. dollars, but a materially smaller proportion of its expenses are denominated in U.S. dollars. As a result, a significant strengthening of the Canadian dollar against the U.S. dollar will negatively impact the return from U.S. dollar sales revenue. To partially mitigate the effects of exchange rate fluctuation, management has implemented a foreign currency hedging strategy. Ag Growth has entered into a series of hedging arrangements to partially mitigate the potential effect of fluctuating exchange rates through December 2008. To the extent that Ag Growth does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the U.S. dollar may have a material adverse effect on Ag Growth's results of operations, business, prospects and financial condition.

Interest Rates

The Fund's term and operating credit facilities bear interest at rates that are in part dependant on performance based financial ratios. The Fund's cost of borrowing may be impacted to the extent that the ratio calculation results in an increase in the performance based component of the interest rate. The Fund is party to a number of interest rate swap arrangements to mitigate the impact of fluctuating market interest rates. These swap arrangements mature on August 31, 2008. In the event the Fund enters new interest rate swap arrangements, the rate of the new contracts will be a function of prevailing market rates.

Uninsured and Underinsured Losses

Ag Growth will use its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on its assets and operations at a commercially reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of its assets or cover the cost of a particular claim.

Nature of Trust Units

Securities such as the Trust Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Trust Units do not represent a direct investment in the business of Ag Growth/AGLP and should not be viewed by investors as shares or debt of Ag Growth/AGLP. As holders of Trust Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Trust Units represent a fractional interest in the Fund. The Fund's primary asset will be its interest in AGOT. The price per Trust Unit is a function of anticipated distributable cash.

The rights of Unitholders are established by the Declaration of Trust. Although the Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies as an investor would have as a shareholder of a corporation governed by the *Canada Business Corporations Act* (the "CBCA"), significant differences exist.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to elect Trustees and appoint auditors. The Declaration of Trust also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and Trustees, the quorum for and procedures at such meetings and the right of Unitholders to participate in the decision-making process where certain fundamental actions are proposed to be undertaken. Unlike shareholders of a CBCA corporation, Unitholders do not have a comparable right of a shareholder to make a proposal at a general meeting of the Fund. The matters in respect of which Unitholder approval is required under the Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the Fund's subsidiary entities. These Unitholder approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are "reporting issuers" or the equivalent or listed on the TSX. Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting: (i) the business or businesses that the corporation can carry on; or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the Fund are entitled to exercise the redemption rights provided by the Declaration of Trust, as described under "— Redemption Right" above. Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or that disregard the interests of security holders and certain other parties.

Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders may rely only on the general provisions of the Declaration of Trust which permit the winding up of the Fund with the approval of a Special Resolution of the Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Declaration of Trust allows Unitholders to pass resolutions appointing an inspector to investigate the Trustees' performance of their responsibilities and duties, but this process would not be subject to court oversight or assurance of the other investigative procedures, rights and remedies available under the CBCA. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the Fund.

Taxation of Income Trusts

There can be no assurance that Canadian federal income tax laws or the judicial interpretation thereof or the administrative and/or assessing practices of the Canada Revenue Agency and/or the treatment of mutual fund trusts will not be changed in a manner that adversely affects the holders of Trust Units.

As described in the Fund's audited financial statements for the year ended December 31, 2007, in June 2007 the Government of Canada enacted legislation imposing additional income taxes on the Fund for taxation years commencing January 1, 2011. Effective January 1, 2011, taxable income generated by most income trusts will be subject to tax at a special rate based on the federal-provincial corporate tax rates. Unitholders will be taxed on such distributions as if they have received a taxable dividend paid by a taxable Canadian corporation. There will be a transitional period so that existing income trusts and their investors will not be subject to the proposed tax until 2011. The legislation also specifies that "undue growth" may result in immediate taxation of income trusts that would otherwise not be subject to taxation until 2011. The legislation provides that the maximum growth permissible is 100% of an entity's market capitalization determined as at the close of trading on October 31, 2006, and that the growth limit is phased in annually from 2007 – 2010. The legislation could have an adverse effect on the Fund, its ability to pay distributions and the market value of its units.

There can be no assurance that the Fund will be able to reorganize its legal and tax structure to reduce the expected impact of the legislation. In addition, there can be no assurance that the Fund will maintain its "grandfathered" status under the legislation until 2011. If the Fund exceeds "normal growth" during the transitional period from October 31, 2006 to December 31, 2010, the legislation would become effective on a date earlier than January 1, 2011. Loss of grandfathered status could have a material and adverse effect on the value of the Units.

Until June 2007 the Fund had been tax effecting the reversal of taxable temporary differences at a nil tax rate on the assumption that the Fund would make sufficient tax deductible cash distributions to unitholders such that the Fund's taxable income would be nil for the foreseeable future. The new legislation limits the tax deductibility of cash distributions such that income taxes may become payable in the future.

The Fund has estimated its future income taxes based on its best estimates of results of operations and tax pool claims and cash distributions in the future assuming no material change to the Fund's current organizational structure. As currently interpreted, Canadian GAAP does not permit the Fund's estimate of future income taxes to incorporate any assumptions related to a change in organizational structure until such structures are given legal effect.

The Fund's estimate of its future income taxes will vary as do the Fund's assumptions pertaining to the factors described above, and such variations may be material.

OUTLOOK

Demand for portable grain handling equipment in 2008 is expected to be very strong due to positive market sentiment in the U.S., fuelled by record high agricultural commodity prices and an increase in on-farm storage, successive large corn harvests in the U.S., and depleted inventory levels throughout the Fund's distribution network. Consistent with prior years, demand in 2008, particularly in the second half, will be influenced by crop conditions.

Demand for storage and stationary grain handling equipment, manufactured by the Fund's Hi Roller, Union Iron and Twister divisions, remains very strong. Hi Roller and Union Iron are expected to continue to benefit from the robust U.S. agricultural sector. Demand for Twister products is expected to be strong due to an improving Western Canadian agricultural sector and an increased focus on overseas markets.

Fiscal 2008 will include a full twelve months of results for Union Iron. In the three years prior to its acquisition, Union Iron averaged revenue of U.S. $17.4 million. Union Iron is a profitable but lower margin business and accordingly its inclusion should positively impact EBITDA but may result in lower consolidated gross margin and EBITDA percentages in 2008. Union Iron is historically seasonal with sales and EBITDA weighted towards the second and third quarters.

Fiscal 2008 will include a full twelve months of results for Twister. In the three years prior to its acquisition, Twister averaged revenue of $12.9 million. Twister is a lower margin business and accordingly its results may lower the Fund's consolidated gross margin and EBITDA percentages. The integration of Twister continued into the first quarter of 2008 and accordingly Twister may have a negative contribution to EBITDA in the first quarter.

The results of Applegate Steel will be included subsequent to its acquisition on January 15, 2008. Revenues from Applegate's business over the last number of years have ranged from U.S. $9 million to over U.S. $12 million. Applegate is a lower margin business that operates in livestock segment of the agricultural sector. Management does not expect Applegate to make a significant contribution to EBITDA in the first two quarters of 2008.

The Fund continues to face production capacity challenges due to labour constraints in Western Canada. A number of human resource initiatives appear to be alleviating this pressure, however, the benefit of these initiatives will be limited in the first quarter of 2008. Initiatives to address capacity also include the addition of a feeder plant in Winnipeg, Manitoba, which is expected to help alleviate capacity constraints at the Westfield facility starting in the second quarter of 2008, and the acquisition of a facility in Union City, Indiana, which in the third quarter of 2008 is expected to commence production of certain products currently manufactured in Western Canada.

Gross margin pressures related to the Westfield capacity improvement initiative continued into the first quarter of 2008 but are expected to be substantially resolved by the end of March 2008. Twister transition issues are expected to continue into the second quarter of 2008. Gross margin in 2008 may also be impacted by movement in the price of steel and a further strengthening of the Canadian dollar.

Net earnings in 2007 were negatively impacted by a $9.5 million non-cash future income tax accrual that related to the enactment of legislation that imposed taxation on income trusts. The Fund does not anticipate a similar future income tax charge in 2008. The Fund's outstanding long-term debt is at a lower level than was outstanding throughout most of fiscal 2007. Accordingly, at current debt levels and all other factors remaining constant, the Fund expects interest expense related to its long-term debt to decrease compared to 2007.

The value of the Canadian dollar relative to its U.S. counterpart will continue to impact the financial results of the Fund. Any appreciation of the Canadian dollar adversely impacts sales and earnings compared to prior years. In fiscal 2007, the Fund's average rate of exchange for quarters ended March 31, June 30, September 30 and December 31 were $1.17, $1.11, $1.06 and $0.99 respectively. Also, as the Fund's foreign currency hedging instruments in place for fiscal 2008 are at contract rates lower than the contract rates in 2007, the Fund expects to realize a smaller gain on foreign exchange in 2008.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Fund's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at December 31, 2007, management of the Fund, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Fund's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2007, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Fund's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings)* and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Fund, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

Management of the Fund is responsible for designing internal controls over financial reporting for the Fund as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

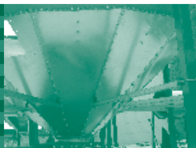
On November 19, 2007, the Fund acquired Union Iron Inc., and on January 15, 2008 the Fund acquired Applegate Steel Inc. Management has not fully completed its review of internal controls over financial reporting for the newly acquired operations. Management expects to have finalized the design and implementation of internal controls prior to completion of the current fiscal year. For the period covered by this MD&A, management has undertaken specific procedures to satisfy itself with respect to the accuracy and completeness of the acquired operations financial information.

ADDITIONAL INFORMATION

Additional information relating to the Fund, including the Fund's most recent Annual Information Form, is available on SEDAR (www.sedar.com).

INVESTOR RELATIONS

Steve Sommerfeld
1301 Kenaston Blvd, Winnipeg, MB R3P 2P2
Phone: (204) 489-1855
Email: steve@aggrowth.com



AUDITOR'S REPORT

To the Unitholders of Ag Growth Income Fund

We have audited the consolidated balance sheets of **Ag Growth Income Fund** as at December 31, 2007 and 2006 and the consolidated statements of earnings, unitholders' equity and cash flows for the years ended December 31, 2007 and 2006 and the consolidated statement of comprehensive income for the year ended December 31, 2007. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada
March 6, 2008

Chartered Accountants

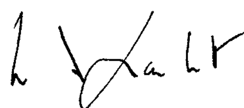
CONSOLIDATED BALANCE SHEETS

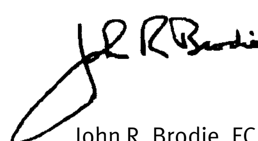
As at December 31

	2007 $	2006 $
ASSETS [notes 7 and 8]		
Current		
Cash and cash equivalents	**20,410,588**	8,706,130
Cash held in trust [note 3]	**1,488,100**	582,638
Accounts receivable	**9,923,311**	10,882,840
Inventory [note 4]	**28,958,667**	22,641,383
Prepaid expenses and other assets [note 12]	**1,972,143**	1,185,200
Future tax assets [note 10]	**—**	182,200
Total current assets	**62,752,809**	44,180,391
Property, plant and equipment, net [note 5]	**21,035,091**	14,226,481
Goodwill [note 3]	**51,925,887**	42,262,026
Intangible assets, net [note 6]	**74,969,253**	69,245,641
Deferred financing costs, net [note 2]	**—**	318,012
	210,683,040	170,232,551
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**10,312,067**	7,236,269
Customer deposits	**11,558,632**	5,661,420
Income taxes payable	**369,484**	523,855
Distributions payable	**1,813,700**	1,571,500
Long-term incentive plan	**—**	854,000
Deferred foreign exchange gain	**—**	20,116
Acquisition, transaction and financing costs payable [note 3]	**2,563,676**	1,825,121
Current portion of long-term debt [note 8]	**11,978**	15,334
Total current liabilities	**26,629,537**	17,707,615
Long-term debt [note 8]	**25,622,780**	41,560,311
Future income taxes [note 10]	**9,574,500**	—
Long-term incentive plan [note 14]	**799,596**	—
Unit award incentive plan [note 15]	**1,402,093**	—
Total liabilities	**64,028,506**	59,267,926
Commitments [notes 12 and 16]		
Unitholders' equity	**146,654,534**	110,964,625
	210,683,040	170,232,551

See accompanying notes

On behalf of the Board of Trustees:





Bill Lambert
Trustee

John R. Brodie, FCA
Trustee

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31

	2007 $	2006 $
Sales	**130,701,961**	81,525,437
Cost of goods sold	**79,985,690**	46,207,537
Gross margin	**50,716,271**	35,317,900
Expenses		
Selling, general and administrative	**18,742,608**	12,587,274
Professional fees	**740,505**	461,026
Long-term incentive plan [note 14]	**799,596**	854,000
Unit award incentive plan [note 15]	**1,402,093**	—
Research and development	**884,399**	1,160,200
Capital taxes	**250,000**	297,189
Gain on foreign exchange	**(4,117,783)**	(3,973,443)
Other income	**(353,483)**	(243,099)
	18,347,935	11,143,147
Earnings before the following	**32,368,336**	24,174,753
Interest expense		
Short-term debt	**191,470**	99,845
Long-term debt	**2,356,807**	917,671
	2,548,277	1,017,516
Earnings before amortization and income taxes	**29,820,059**	23,157,237
Amortization of property, plant and equipment	**3,396,489**	2,109,643
Amortization of deferred financing costs	**—**	149,188
Amortization of intangible assets	**2,368,047**	1,576,060
	5,764,536	3,834,891
Earnings before income taxes	**24,055,523**	19,322,346
Provision for income taxes [note 10]		
Current	**1,933,245**	48,705
Future	**9,756,700**	229,800
	11,689,945	278,505
Net earnings for the year	**12,365,578**	19,043,841
Basic and diluted net earnings per unit	**$1.06**	$1.70
Basic and diluted weighted average number of units outstanding [note 9]	**11,651,575**	11,225,000

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [note 2]

Year ended December 31

	2007 $
Net earnings	12,365,578
Other comprehensive income	
Change in fair value of derivatives designated as cash flow hedges	3,926,253
Realized gains on derivatives designated as cash flow hedges recognized in net earnings in the current year	(3,110,075)
Other comprehensive income	816,178
Comprehensive income	13,181,756

See accompanying notes

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Year ended December 31, 2007

	Unitholders' capital $	Accumulated earnings $	Accumulated distributions $	Accumulated other comprehensive income $	Total $
				[note 2]	
Balance, December 31, 2006	**110,430,194**	**47,419,320**	**(46,884,889)**	**—**	**110,964,625**
Transition adjustment [note 2]	—	—	—	(276,679)	(276,679)
Issuance of units [note 9]	44,980,000	—	—	—	44,980,000
Issuance costs [note 9]	(2,610,568)	—	—	—	(2,610,568)
Net earnings for the year	—	12,365,578	—	—	12,365,578
Distributions declared [note 11]	—	—	(19,584,600)	—	(19,584,600)
Other comprehensive income for the year	—	—	—	816,178	816,178
Balance, December 31, 2007	**152,799,626**	**59,784,898**	**(66,469,489)**	**539,499**	**146,654,534**

Year ended December 31, 2006

	Unitholders' capital $	Accumulated earnings $	Accumulated distributions $	Accumulated other comprehensive income $	Total $
				[note 2]	
Balance, December 31, 2005	**110,430,194**	**28,375,479**	**(28,026,889)**	**—**	**110,778,784**
Net earnings for the year	—	19,043,841	—	—	19,043,841
Distributions declared [note 11]	—	—	(18,858,000)	—	(18,858,000)
Balance, December 31, 2006	**110,430,194**	**47,419,320**	**(46,884,889)**	**—**	**110,964,625**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

	2007 $	2006 $
OPERATING ACTIVITIES		
Net earnings for the year	**12,365,578**	19,043,841
Add (deduct) items not affecting cash		
Amortization	**5,764,536**	3,834,891
Future income taxes	**9,756,700**	229,800
Deferred foreign exchange gain	**—**	33,476
Translation gain on foreign exchange	**(2,866,877)**	—
Non-cash component of interest expense	**189,802**	—
Long-term incentive plan	**799,596**	—
Unit award incentive plan	**1,402,093**	—
Gain on sale of property, plant and equipment	**(43,526)**	(37,546)
	27,367,902	23,104,462
Net change in non-cash working capital balances related to operations [note 17]	**9,705,457**	2,132,240
Cash provided by operating activities	**37,073,359**	25,236,702
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	**(6,305,511)**	(2,767,084)
Acquisition of assets of Hansen Manufacturing Corp. [note 3]	**(1,405,499)**	(21,655,971)
Acquisition of assets of Twister Pipe Ltd. [note 3]	**(7,720,793)**	—
Acquisition of shares in Union Iron Inc., net of cash acquired [note 3]	**(19,187,464)**	—
Proceeds from sale of property, plant and equipment	**94,750**	58,945
Transfer to cash held in trust	**(905,450)**	(582,638)
Cash used in investing activities	**(35,429,967)**	(24,946,748)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(42,669,454)**	(23,498)
Distributions paid	**(19,342,400)**	(21,267,010)
Issuance of units, net of expenses	**42,369,432**	—
Issuance of long-term debt	**30,158,104**	21,558,050
Financing costs on long-term debt	**(454,616)**	—
Cash provided by financing activities	**10,061,066**	267,542
Net increase in cash and cash equivalents during the year	**11,704,458**	557,496
Cash and cash equivalents, beginning of year	**8,706,130**	8,148,634
Cash and cash equivalents, end of year	**20,410,588**	8,706,130
Supplemental cash flow information		
Interest paid	**2,550,257**	1,028,367
Income taxes paid	**2,066,661**	49,600

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007

1. DESCRIPTION OF BUSINESS

Ag Growth Income Fund [the "Fund"] is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust made as at March 24, 2004. The Fund and its wholly-owned subsidiaries conduct business in the grain handling, storage, and conditioning market. Each unitholder participates pro rata in distributions of net earnings and, in the event of termination, participates pro rata in the net assets remaining after satisfaction of all liabilities. Income tax obligations related to the distribution of net earnings by the Fund are the obligations of the unitholders.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are summarized below:

Principles of consolidation

The consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiaries Ag Growth Operating Trust, AGX Holdings Inc., AGX Holdings Limited Partnership ["AGHLP"], Ag Growth Industries Limited Partnership, Ag Growth Industries Inc. ["Ag Growth"], Westfield Distributing Ltd., Westfield Distributing (North Dakota) Inc., Hansen Manufacturing Corp. and Union Iron Inc. All material intercompany balances and transactions have been eliminated.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid money market funds with maturities of less than three months.

Inventory

Inventory is comprised of raw materials and finished goods. Raw materials are recorded at the lower of cost and replacement cost. Finished goods are recorded at the lower of cost, which includes direct costs and an allocation of direct manufacturing overhead, and net realizable value. Cost is determined on a first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of amortization. Amortization is provided over the estimated useful lives of the assets on a declining balance basis using the following annual rates:

Buildings	4% – 5%
Furniture and fixtures	20%
Automotive equipment	30%
Computer equipment	30%
Manufacturing equipment	30%

Leasehold improvements are amortized over the term of the lease.

Goodwill

Goodwill represents the amounts paid to acquire Ag Growth, the Edwards Group, Union Iron Inc. ["Union Iron"] *[note 3[a]]*, Twister Pipe Ltd. ["Twister"] *[note 3[b]]* and Hansen Manufacturing Corp. ["Hansen"] *[note 3[c]]* in excess of the estimated fair value of the net identifiable assets acquired. Goodwill is not subject to amortization. Goodwill is tested for impairment annually or when an event or change in circumstances that indicate the carrying value may not be recoverable by comparing the estimated fair value of its reporting unit to its carrying value. The carrying value of goodwill is written down to estimated fair value if the carrying value of the reporting unit's goodwill exceeds its estimated fair value.

Intangible assets

Intangible assets are comprised of brand names, which are considered to have an indefinite life, distribution networks, which are being amortized over 8, 10 and 25 years on a straight-line basis and patents acquired from Hansen which will be amortized over their remaining lives. Indefinite life intangible assets are tested for impairment annually or when an event or change in circumstances that indicate the carrying value may not be recoverable by comparing their estimated fair values to their carrying values. The carrying value of an indefinite life intangible asset is written down to its estimated fair value if its carrying value exceeds its estimated fair value.

Impairment of property, plant and equipment and finite life intangible assets

Impairment of property, plant and equipment and finite life intangible assets is recognized when an event or change in circumstances causes the assets' carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the estimated fair value of the asset from its carrying value.

Income taxes

In June 2007, the Government of Canada enacted new legislation imposing additional income taxes upon publicly traded income trusts, including the Fund, effective January 1, 2011. Prior to June 2007, the Fund estimated the future income tax on certain temporary differences between amounts recorded on its consolidated balance sheets for book and tax purposes at a nil effective tax rate. Under the legislation, the Fund now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be 29.5% in 2011 and 28% thereafter. Temporary differences reversing before 2011 will still give rise to nil future income taxes.

While the Fund believes it will be subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of the future income tax liability.

The amount and timing of reversals of temporary differences will also depend on the Fund's future operating results, acquisitions and dispositions of assets and liabilities, and distribution policy. A significant change in any of the preceding assumptions could materially affect the Fund's estimate of the future tax liability.

Foreign currency translation

The Fund follows the temporal method of accounting for the translation of its integrated foreign subsidiaries and foreign currency transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet dates. Non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at their historical exchange rates. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the monthly rate of exchange. Gains and losses on translation are reflected in net earnings for the year.

Revenue recognition

The Fund recognizes revenue at the time product is shipped, free on board shipping point, title passes and there is evidence a sales arrangement exists, the sales price is fixed and determinable and collectibility is reasonably assured. For products on consignment, revenue is recognized upon the sale of the product by the consignee. A provision is made at the time revenue is recognized for estimated product returns and warranties based on historical experience. Customer deposits are recorded as a current liability when cash is received from the customer and recognized as revenue at the time product is shipped as noted above.

Research and development

Research expenses are charged to earnings in the period they are incurred. Development expenses are charged to earnings unless management believes the costs meet generally accepted criteria for deferral and amortization.

Leases

Leases are classified as either capital or operating. Leases which transfer substantially all the benefits and risks of ownership of the property to the Fund are accounted for as capital leases. Capital lease obligations reflect the present value of future lease payments, discounted at the appropriate interest rate. All other leases are accounted for as operating leases whereby rental payments are expensed as incurred.

Net earnings per unit

Net earnings per unit is based on the consolidated net earnings for the year divided by the weighted average number of units outstanding during the year. Diluted earnings per unit is computed in accordance with the treasury stock method and based on the weighted average number of units and dilutive unit equivalents.

Long-term incentive plan

Under the terms of the long-term incentive plan ["LTIP"], as described in note 14, the Fund establishes an amount to be allocated to eligible participants based on 10% to 20% of distributable cash in excess of an established threshold. The cost is charged against earnings over the period of time to which the award vests.

Unit award incentive plan

The Fund has a unit award incentive plan [the "UAIP"] as described in note 15. The UAIP will be recognized as a direct award of units, resulting in an expense to be charged against earnings over the period of time to which the award vests. The expense and related liability are based on the market price of the Fund's units at the end of the year and as such could increase or decrease from one period to the next in relation to the market price.

Financial instruments, hedges and comprehensive income

Effective January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3865, "Hedges"; and Section 1530, "Comprehensive Income". The adoption of these new standards resulted in changes in the accounting policies for financial instruments and hedges.

The principal changes in accounting policies, financial statement reporting and disclosure recommendations for comprehensive income and its components and the presentation of equity are described below:

[a] Section 3855, "Financial Instruments – Recognition and Measurement"

This Section sets out the standards for the recognition and measurement of financial assets and financial liabilities. The standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or amortized costs are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net earnings or other comprehensive income.

The Fund has made the following classifications:

- Cash and cash equivalents are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net earnings.
- Accounts receivable are classified as "loans and receivables" and are recorded at fair value plus initial measurement. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities, distributions payable, acquisition, transaction and financing costs payable are classified as "other financial liabilities" and are measured at their fair value upon initial measurement. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Long-term debt is classified as an "other financial liability" and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The deferred financing costs, previously reported on a separate line item on the consolidated balance sheets, are now netted against the carrying value of the related debt and amortized into interest expense using the effective interest rate method. Prior to the adoption of the new standards, the amortization of deferred financing costs was reported as a separate line item in the consolidated statements of earnings.
- Derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. All changes in fair value are recorded in earnings unless cash flow hedge accounting is used, in which case the effective portion of the changes in fair value is recorded in other comprehensive income.

Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors with similar characteristics and risk profiles.

[b] Section 3865, "Hedges"

This Section sets out the standards specifying when and how an entity can use hedge accounting. This standard offers entities the possibility of applying different reporting options than those set out in Section 3855, "Financial Instruments – Recognition and Measurement", to qualifying transactions that they elect to designate as hedges for accounting purposes.

The Fund elected to apply hedge accounting for certain of its foreign exchange forward contracts and interest rate swaps. The foreign exchange forward contracts and swaps are designated as cash flow hedges. They are measured at fair value at the end of each period and the effective portion of the gain or loss resulting from remeasurement is recognized in other comprehensive income. Any ineffectiveness is recognized in net earnings. When hedge accounting is discontinued, the amounts previously

recognized in accumulated other comprehensive income are classified to net earnings during the periods when the variability in the cash flows of the hedged items affects net earnings. Gains and losses on derivatives are reclassified immediately to net earnings when the hedged item is sold or early terminated, or the hedged anticipated transaction is probable of not occurring. Accumulated gains or losses in other comprehensive income related to the foreign exchange forward contracts and swaps are subsequently recognized in earnings when the hedged item affects earnings.

[c] Section 1530, "Comprehensive Income"

This Section describes the reporting and disclosure standards with respect to comprehensive income and its components. Comprehensive income is comprised of net earnings and other comprehensive income or loss. Other comprehensive income includes changes in the fair value of derivative instruments designated as cash flow hedges, all net of applicable income taxes. The components of comprehensive income are disclosed in the consolidated statement of comprehensive income.

Impact of change on the consolidated financial statements

The Sections were adopted retroactively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, the impact on the consolidated balance sheet of measuring the long-term debt using the effective interest rate method was a decrease in deferred financing costs of $318,012 and a decrease in long-term debt of $318,012. The impact on the consolidated balance sheet of measuring derivatives at fair value as at January 1, 2007 was a decrease in prepaid expenses and other assets by $276,679. Comprehensive income was decreased by the same amount as a transition adjustment.

Accounting changes

Effective January 1, 2007, the Fund adopted the new CICA Handbook Section 1506, "Accounting Changes". The section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. It includes the disclosure on an interim and an annual basis, a description and the impact of the Fund's financial results of any new primary source of Canadian generally accepted accounting principles that has been issued but is not yet effective. The adoption of this new section did not have an effect on the Fund's financial position or on the results of its operations.

Employee benefit plans

The Fund contributes to group retirement savings plans subject to maximum limits per employee. The Fund accounts for such defined contributions as an expense in the period in which the contributions are made. The expense recorded in 2007 was $553,418 [2006 – $419,444].

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the consolidated balance sheet date and the reported amounts of revenue and expenses during the reporting periods. Key areas where management has made complex or subjective judgements, as a result of matters that are inherently uncertain, include among others, the fair value of certain assets including long-lived assets and goodwill, valuation of accounts receivable, inventory and income taxes. By nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods. Actual results could differ from these estimates.

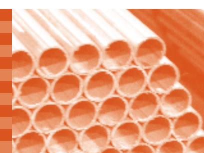
Future accounting changes

[a] Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: Section 1535, "Capital Disclosures"; Section 3862, "Financial Instruments – Disclosures"; and Section 3863, "Financial Instruments – Presentation". These new standards will be effective for fiscal years beginning on or after October 1, 2007 and the Fund will adopt them on January 1, 2008. The Fund is in the process of evaluating the disclosure and presentation requirements of the new standards.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace Section 3861, "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward the presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.



[b] Inventories

The CICA issued Section 3031, "Inventories", which will replace Section 3030, "Inventories". The Fund will adopt this section on January 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Fund's accounting policy for inventories is consistent with measurement requirements in the new standard and therefore it is not anticipated that the results of the Fund will be impacted, however, additional disclosures will be required in relation to inventories carried at net realizable value, the amount of inventories recognized as an expense and the amount of any write-downs of inventories. Section 3031 also provides for the recognition and measurement of any reversal arising from an increase of net realizable value.

[c] International Financial Reporting Standards ["IFRS"]

In 2005, the AcSB announced that accounting standards in Canada are to converge with IFRS. On February 13, 2008, the AcSB had confirmed that the use of IFRS will be required by January 1, 2011, with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy that must be addressed. While the Fund has begun assessing the adoption of IFRS for 2011, the financial impact of the transition to IFRS cannot be reasonably estimated at this time.

3. ACQUISITIONS

[a] Union Iron Inc.

Effective November 19, 2007, the Fund acquired 100% of the outstanding shares of Union Iron and the shares and assets of certain companies related to Union Iron, a manufacturer of material handling and storage equipment, for consideration of $21,532,520. In conjunction with the acquisition, the Fund incurred transaction costs of $223,122.

The acquisition has been accounted for by the purchase method with the results of Union Iron's operations included in the Fund's earnings from the date of acquisition. As a result of the timing of the acquisition in relation to the Fund's reporting schedule, the purchase price allocation has not been finalized. Management is in the process of updating its estimates and adjustments to the initial estimates may be required, and these adjustments may be material. The assets and liabilities of Union Iron have been recorded in the consolidated financial statements at their estimated fair values, as follows:

	$
Net assets acquired	
Cash	775,431
Accounts receivable	1,797,305
Inventory	2,672,665
Prepaid expenses and other assets	160,724
Property, plant and equipment	2,925,812
Intangible assets – distribution network	5,243,530
Intangible assets – brand name	2,098,196
Goodwill	7,822,249
Accounts payable and accrued liabilities	(1,759,685)
Customer deposits	(203,707)
	21,532,520
Consideration	
Cash	19,962,895
Acquisition and transaction costs payable	1,569,625
	21,532,520

As at December 31, 2007, the Fund had cash held in trust in the amount of $494,050 relating to the acquisition of Union Iron. Cash held in trust will be released when the terms of the purchase agreement are met.

The asset purchase agreement provides for adjustments to the purchase price of up to U.S. $3,100,000 based on the achievement of certain earnings targets for the years 2008, 2009 and 2010. An increase in the purchase price adjustment will be recognized upon the achievement of the earnings targets and will be recorded to goodwill.

[b] Acquisition of Twister Pipe Ltd.

Effective May 31, 2007, the Fund acquired substantially all of the operating assets of Twister, a manufacturer of grain bins for consideration of $8,220,793. In conjunction with the acquisition, the Fund incurred transaction costs of $388,223.

The acquisition has been accounted for by the purchase method with the results of Twister's operations included in the Fund's earnings from the date of acquisition. The assets and liabilities of Twister were initially recorded in the consolidated financial statements at their estimated fair values, as follows:

	$
Net assets acquired	
Accounts receivable	**1,972,323**
Inventory	**4,166,541**
Prepaid expenses and other assets	**56,486**
Property, plant and equipment	**1,025,000**
Intangible asset – brand name	**800,000**
Goodwill	**1,717,078**
Accounts payable and accrued liabilities	**(1,228,766)**
Customer deposits	**(287,869)**
	8,220,793
Consideration	
Cash	**7,720,793**
Acquisition and transaction costs payable	**500,000**
	8,220,793

As at December 31, 2007, the Fund had cash held in trust in the amount of $500,000 relating to the acquisition of Twister which was released subsequent to year end.

In the course of the completion of the purchase price allocation there was an increase recorded to goodwill in the amount of $630,000.

[c] Acquisition of Hansen Manufacturing Corp.

Effective December 31, 2006, the Fund acquired substantially all of the assets of Hansen, a manufacturer of enclosed belt conveyors, for consideration of $23,237,508. In conjunction with the acquisition, the Fund incurred an additional term loan of U.S. $18,500,000 and incurred transaction costs of $650,598.

The acquisition was accounted for by the purchase method with the results of Hansen's operations included in the Fund's earnings from the date of acquisition [the 2006 consolidated statement of earnings does not include results of Hansen's operations for the year ended December 31, 2006 as the acquisition was effective at the close of business on December 31, 2006]. The assets and liabilities of Hansen were initially recorded in the consolidated financial statements at their estimated fair values, as follows:

	$
Net assets acquired	
Accounts receivable	**3,168,215**
Inventory	**2,022,200**
Prepaid expenses and other assets	**111,888**
Property, plant and equipment	**1,497,411**
Intangible assets	
Brand name	**3,776,736**
Distribution network	**7,031,420**
Patent	**1,039,448**
Goodwill	**6,416,504**
Accounts payable and accrued liabilities	**(1,826,314)**
	23,237,508
Consideration	
Cash	**22,743,458**
Acquisition and transaction costs payable	**494,050**
	23,237,508

As at December 31, 2007, the Fund had cash held in trust in the amount of $494,050 [2006 – $582,638] relating to the acquisition of Hansen which was released subsequent to year end.

During the year, the fund finalized the working capital and purchase price allocation, resulting in a decrease in brand name of $294,822, and increase in distribution network of $244,713 and an increase in goodwill of $124,536. Additional acquisition costs of $74,428 were recorded during the year.

4. INVENTORY

	2007 $	2006 $
Raw materials	**12,342,820**	7,823,469
Finished goods	**16,615,847**	14,817,914
	28,958,667	22,641,383

5. PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Land	**894,394**	**—**	**894,394**	861,315	—	861,315
Buildings	**7,961,631**	**781,564**	**7,180,067**	5,408,773	521,148	4,887,625
Leasehold improvements	**419,209**	**22,698**	**396,511**	16,167	1,855	14,312
Furniture and fixtures	**263,929**	**95,727**	**168,202**	187,575	49,231	138,344
Automotive equipment	**2,428,632**	**1,154,981**	**1,273,651**	1,921,817	807,165	1,114,652
Computer equipment	**985,038**	**493,547**	**491,491**	793,973	300,909	493,064
Manufacturing equipment	**15,861,128**	**5,230,353**	**10,630,775**	9,512,456	2,795,287	6,717,169
	28,813,961	**7,778,870**	**21,035,091**	18,702,076	4,475,595	14,226,481

Included in manufacturing equipment above is approximately $520,000 [2006 – $1,882,000] of construction-in-progress, the cost of which has not been amortized as this asset was not placed in use as of year end.

6. INTANGIBLE ASSETS

	2007			2006		
	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Distribution networks	**50,113,950**	**6,129,034**	**43,984,916**	44,625,707	3,854,072	40,771,635
Brand names	**30,037,973**	**—**	**30,037,973**	27,434,558	—	27,434,558
Patents	**1,289,448**	**343,084**	**946,364**	1,289,448	250,000	1,039,448
	81,441,371	**6,472,118**	**74,969,253**	73,349,713	4,104,072	69,245,641

7. BANK INDEBTEDNESS

The Fund has an operating facility of $10 million. The facility bears interest at a rate of prime to prime plus 1.0% per annum based on performance calculations. The effective interest rate during the year was 6.10% [2006 – 5.76%]. At December 31, 2007 and 2006, there were no amounts outstanding under this facility. Collateral for the operating facility includes a general security agreement over all assets, first position collateral mortgages on land and buildings, and assignments of rents and leases and security agreements for patents and trademarks.

In conjunction with the acquisitions of Hansen and Union Iron, the Fund added two operating facilities of U.S. $1.0 million. The facilities bear interest at a rate of prime to prime plus 1% per annum based on performance calculations. The effective interest rate during the year was 8.55% [2006 – not applicable]. As at December 31, 2007 and December 31, 2006, there were no amounts outstanding under these facilities.

8. LONG-TERM DEBT

	2007 $	2006 $
Term loan, interest payable monthly at prime to prime plus 1% per annum based on performance calculations. The Fund has entered into a swap contract that effectively fixes the Fund's interest rate at 3.68%, plus 1.0%, 1.5%, or 2.0% per annum based on performance calculations. The effective interest rate during the year ended December 31, 2006 would have been 5.76% and after consideration of the effect of the interest rate swap was 4.68%. Balance of principal was repaid during 2007	**—**	20,000,000
Term loans of U.S. $26,500,000 [2006 – U.S. $18,500,000], interest payable monthly at prime to prime plus 1% per annum based on performance calculations. The Fund entered into interest rate swap contracts that effectively fixes the Fund's interest rate at 4.83% on U.S. $20,000,000 and 5.10% on U.S. $6,500,000 plus 1.0%, 1.5%, or 2.0% per annum based on performance calculations. The effective interest rate during the year ended December 31, 2007 would have been 8.6% and after consideration of the effect of the interest rate swap was 6.5%	**26,184,650**	21,558,050
GMAC loans, 0% maturing in 2008 and 2011, with monthly payments of $1,928. Vehicles financed are pledged as collateral	**32,934**	17,595
	26,217,584	41,575,645
Less current portion	**11,978**	15,334
Less deferred financing costs	**582,826**	—
	25,622,780	41,560,311

The Fund's credit facility provides for long-term debt of up to U.S. $66,500,000.

Under the agreement for the term loans, the Fund is required to maintain certain financial covenants. As at December 31, 2007 and 2006, the Fund was in compliance with the applicable financial covenant terms. Collateral for the term loans and operating facility [note 7] includes a general security agreement over all assets, first position collateral mortgages on land and buildings, assignments of rents and leases and security agreements for patents and trademarks.

The term loans mature August 31, 2008 and are extendible annually for an additional one-year term at the lender's option. Under the terms of the credit facility agreement, if the bank elects to not extend the operating loan and term loan facilities beyond the current August 31, 2008 maturity date, all amounts outstanding under the facilities become repayable in four equal quarterly instalments of principal, commencing on November 30, 2009.

Principal repayments due within the next four fiscal years, if the term loans are not renewed and are repayable commencing November 30, 2009, are as follows:

	$
2008	11,978
2009	6,555,727
2010	19,648,052
2011	1,827
	26,217,584

9. UNITHOLDERS' CAPITAL

Unitholders' capital is comprised of the following:

	Fund Trust units $	Class B Exchangeable units of AGHLP $	Class C Exchangeable units of AGHLP $	Total Unitholders' capital $
Balance, December 31, 2005	**89,470,414**	**1,699,780**	**19,260,000**	**110,430,194**
Exchange of units	19,598,930	(338,930)	(19,260,000)	—
Balance, December 31, 2006	**109,069,344**	**1,360,850**	**—**	**110,430,194**
Issuance of units, net of costs	42,369,432	—	—	42,369,432
Balance, December 31, 2007	**151,438,776**	**1,360,850**	**—**	**152,799,626**

	Fund Trust units #	Class B Exchangeable units of AGHLP #	Class C Exchangeable units of AGHLP #
Balance, December 31, 2005	**9,129,022**	**169,978**	**1,926,000**
Exchange of units	1,959,893	(33,893)	(1,926,000)
Balance, December 31, 2006	**11,088,915**	**136,085**	**—**
Issuance of units	1,730,000	—	—
Balance, December 31, 2007	**12,818,915**	**136,085**	**—**

On October 2, 2007, the Fund completed an equity financing whereby it issued 1,730,000 Trust Units at a price of $26.00 per Trust Unit for gross proceeds of $44,980,000. Expenses incurred in connection with the offering were $2,610,568 resulting in net proceeds of $42,369,432.

The Fund Declaration of Trust provides that an unlimited number of trust units may be issued. Each trust unit represents an equal undivided beneficial interest in the Fund and any distributions from the Fund. Each trust unit is transferable, entitles the holder thereof to participate equally in distributions of the Fund, is not subject to future calls or assessments, entitles the holder to rights of redemption and entitles the holder to one vote at all meetings of unitholders.

The Fund Declaration of Trust also provides for the issuance of an unlimited number of Special Voting Units. The Special Voting Units are only issuable for the purpose of providing voting rights to the holders of Exchangeable LP Units or Subordinated LP Units. Each unit is entitled to one vote on matters related to the Fund. The Special Voting Units are not entitled to any interest or share in the Fund or in any distribution from the Fund. There is no value attached to these units. At December 31, 2007, there were 136,085 Special Voting Units outstanding [2006 - 136,085 units], which were attached to the outstanding Class B Exchangeable LP Units of AGHLP and the Class C Exchangeable Subordinated LP Units of AGHLP.

AGHLP exchanged all Class C units to Class B units on a one-for-one basis upon the occurrence of the subordination end date in 2006. The Class B units are exchangeable for Fund Trust units at the option of the holder on a one-for-one basis at any time.

10. INCOME TAXES

The components of income tax expense are as follows:

	2007 $	2006 $
Current	**1,933,245**	48,705
Future	**9,756,700**	229,800
Provision for income taxes	**11,689,945**	278,505

The provision for income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial statutory income tax rates to earnings before income taxes as shown in the following table:

	2007 $	2006 $
Earnings before income taxes and other comprehensive income	**24,055,523**	19,322,346
Temporary differences and non-tax deductible expenses	**2,761,711**	260,372
Earnings subject to tax in the hands of unitholders/limited partners	**(19,584,600)**	(18,858,000)
Income of subsidiary companies subject to tax	**7,232,634**	724,718
Combined federal and provincial income tax at statutory rate of 35.41% [2006 – 38.43%]	**2,561,076**	278,505
Reversal of reserve	**(500,000)**	—
Income trust future tax	**9,494,000**	—
Rate differential and other	**(134,369)**	—
Income tax provision	**11,689,945**	278,505

Significant components of the Fund's future tax assets and liabilities are shown below:

	2007 $	2006 $
Future tax assets		
Financing costs	**—**	31,200
Non-capital losses	**—**	151,000
	—	182,200
Future tax liabilities		
Net taxable temporary difference	**9,574,500**	—

For the year ended December 31, 2007, the Fund has recorded a current income tax expense of $1,933,245. The expense is comprised of an income tax expense of $2,376,224 related to income of U.S. corporation subsidiaries, $57,021 related to income of a Canadian subsidiary, and a recovery of $500,000 related to the reversal of an accrual for which management has determined is no longer required.

Due to new legislation enacted by the Government of Canada in June 2007 that imposed additional income taxes upon publicly traded income trusts effective January 1, 2011, the Fund recorded a one-time charge of $11,135,000 to the future tax provision during the second quarter of 2007. This charge was based on an effective tax rate of 31.5% applied to the temporary differences expected to reverse after December 31, 2010. On December 14, 2007, further legislation was enacted by the federal government to reduce the effective rate of tax on the Fund's temporary differences from the previous rate of 31.5% to 29.5% in 2011 and 28% in 2012 and thereafter.

Based on its assets and liabilities as at December 31, 2007, the Fund has estimated the amount of its temporary differences which were previously not subject to tax and has estimated the periods in which these differences will reverse. The Fund estimates that approximately $33,849,292 net taxable differences will reverse after January 1, 2011, resulting in an additional $9,494,500 future income tax liability. The taxable temporary differences relate principally to the Fund's intangible assets.

11. DISTRIBUTIONS TO UNITHOLDERS

The Declaration of Trust provides that the Fund will, subject to applicable law, distribute to Trust Unitholders by way of monthly distributions all of its distributable cash, being all cash received from its indirect ownership in Ag Growth Industries Limited Partnership ["AGLP"], which will carry on the business of Ag Growth, less amounts set aside for:

[a] administrative expenses and other obligations of the Fund;

[b] amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of Trust Units;

[c] satisfaction of its debt service obligations [principal and interest] on indebtedness, if any; and

[d] any amount that the Trustees may reasonably consider to be necessary to provide for the payment of any costs or expenses and for reasonable reserves.

The Fund's distribution policy is to pay cash distributions on or about the 30th of each month to unitholders of record on the last business day of the preceding month.

The Fund may make additional distributions in excess of monthly distributions. The distribution in respect of the month ended December 31 of each year will include such amounts as are necessary to ensure that the Fund will not be liable for income taxes under Part I of the Tax Act. Any income of the Fund that is unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have any such income tax liability, be distributed to Trust Unitholders in the form of additional Trust Units, subject to applicable securities laws. The distribution policy may be amended only with the approval of a majority of the votes cast at a meeting of Unitholders.

For the year ended December 31, 2007, the Fund declared distributions of $19,584,600 which equated to $1.68 weighted average per unit [2006 – $18,858,000 or $1.68 weighted average per unit].

12. FINANCIAL INSTRUMENTS

The Fund has the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable, distributions payable, acquisition, transaction and financing costs payable, long-term debt, interest rate and cash management swap arrangements, foreign exchange contracts and foreign currency swap agreements. It is management's opinion that the Fund is not exposed to significant credit risks arising from these financial instruments.

Risk management policies

The Fund manages risk and risk exposures through a combination of insurance, derivative financial instruments, a system of internal and disclosure controls and sound business practices. The Fund uses certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. The Fund enters into interest rate swap agreements in order to limit exposure to increases in interest rates and fix interest rates on certain portions of long-term debt. The Fund enters into foreign currency forward and option contracts to limit exposure on certain anticipated future U.S. dollar sales and cash flows. The maximum length of time over which the Fund hedges its exposure to the variability in future cash flows related to anticipated future U.S. dollar sales is no more than two years.

Currency exposures

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. dollar. The Fund has entered into foreign exchange contracts to hedge its foreign currency exposure on anticipated U.S. dollar sales transactions and the collection of the related accounts receivable.

At December 31, 2007, the Fund has outstanding foreign exchange call and put options with an aggregate face value of U.S. $7,800,000 outstanding with various settlement dates throughout 2008 as follows:

Face value U.S. $	Call Cdn. $	Put Cdn. $
7,800,000	1.0700	1.2115

Interest rate exposures

The Fund is subject to risks associated with fluctuating interest rates on its long-term debt. To manage this risk, the Fund has entered into a number of interest rate swap transactions with a Canadian chartered bank:

[a] Notional amount of U.S. $17.5 million, expires August 31, 2008, effective interest rate of 4.83%, resulting in interest charges to the Fund of 4.83% plus a variable rate based on performance calculations.

[b] Notional amount of U.S. $6.5 million, expires August 31, 2008, effective interest rate of 5.10%, resulting in interest charges to the Fund of 5.10% plus a variable rate based on performance calculations.

[c] Notional amount of U.S. $2.5 million, expires August 31, 2008, effective interest rate of 4.83%, resulting in interest charges to the Fund of 4.83% plus a variable rate based on performance calculations.

Fair value

At December 31, 2007, the carrying value of cash and cash equivalents, accounts receivable, accounts payable, distributions payable, acquisition, transaction and financing costs payable and long-term debt approximates their fair value. At December 31, 2007, the fair value and carrying value of the foreign exchange contracts that are part of an effective hedging relationship was an unrealized gain (loss) of $647,063 [2006 – ($276,679)], the fair value and carrying value of the interest rate swaps that are part of an effective hedging relationship was an unrealized loss of $107,564 [2006 – nil] and the fair value and carrying value of the interest rate and cash management swaps that are not part of an effective hedging relationship was nil [2006 – unrealized gain of $141,398]. The fair value of these derivatives is included in prepaid expenses and other assets.

Over the next twelve months, the Fund expects to realize an estimated $0.5 million in net gains reported in other comprehensive income as at December 31, 2007.

The following summarizes the methods and assumptions used in estimating the fair value of the Fund's financial instruments:

[a] Short-term financial instruments approximate their carrying amount due to the relatively short period to maturity. These include cash and cash equivalents, accounts receivable, accounts payable, distributions payable, acquisition, transaction and financing costs payable.

[b] Long-term debt with a variable interest rate is carried at amortized cost, which reflects fair value as the interest rate is the current market rate available to the Fund.

[c] Derivatives are fair valued using standard pricing models with market-based inputs.

13. SEGMENTED DISCLOSURE

The Fund operates in one business segment related to the manufacturing and distributing of portable and stationary grain handling, storage and conditioning equipment. Geographic information about the Fund's revenues is based on the product shipment destination. Assets are based on their physical location as at the year end:

	Revenues		Property, plant and equipment, goodwill and intangible assets as at December 31	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Canada	**30,549,763**	24,240,155	**109,801,110**	105,819,068
United States	**93,846,690**	54,483,272	**38,129,121**	19,915,080
International	**6,305,508**	2,802,010	**—**	—
	130,701,961	81,525,437	**147,930,231**	125,734,148

14. LONG-TERM INCENTIVE PLAN

The Fund adopted an amended and restated long-term incentive plan with an effective date of January 1, 2007. Pursuant to the long-term incentive plan, the Fund establishes the amount to be allocated to eligible participants based upon the amount by which the Fund's distributable cash as defined in the long-term incentive plan exceeds a predetermined threshold. Accordingly, the Fund will make available $2.2 million for the long-term incentive plan and will use these funds to purchase units within 121 days of year end. The units awarded vest over a three-year period commencing one year after the fiscal year of the award. The expense related to the long-term incentive plan will be recorded in relation to the vesting period and accordingly the total award related to the current fiscal year will be expensed as to 36% in the current fiscal year, and 36%, 20% and 8% in the three fiscal years subsequent to the current year.

For the year ended December 31, 2007, the Fund has recorded an expense with respect to the long-term incentive plan of $799,596.

15. UNIT AWARD INCENTIVE PLAN

On May 10, 2007, the unitholders of Ag Growth approved the adoption by the Fund of a unit award incentive plan which will authorize the Trustees to grant awards ["Unit Awards"] to employees or officers of the Fund or any affiliates of the Fund or who are consultants or other service providers to the Fund and its affiliates ["Service Providers"]. Unit Awards may not be granted to non-management Trustees.

Under the terms of the UAIP, any Service Provider may be granted Unit Awards. Each Unit Award will entitle the holder to be issued the number of Fund Units designated in the Unit Award, upon payment of an exercise price of $0.10 per Fund Unit and such Fund Units will vest and may be issued as to one third on each of January 1, 2010, January 1, 2011 and January 1, 2012 or such earlier or later dates as may be determined by the Trustees. In lieu of receiving units, the holder, with the consent of the Fund, may elect to be paid cash for market value of the units in excess of exercise price of the units. The UAIP provides for immediate vesting of the Unit Awards in the event of retirement, death, termination without cause, or in the event the Service Provider becomes disabled.

The unitholders reserved for issuance 220,000 Fund Units, subject to adjustment in lieu of distributions, if applicable. The aggregate number of Unit Awards granted to any single Service Provider shall not exceed 5% of the issued and outstanding Fund Units. In addition:

[a] The number of Fund Units issuable to insiders at any time, under all security based compensation arrangements of the Fund, shall not exceed 10% of the issued and outstanding Fund Units; and

[b] The number of Fund Units issued to insiders, within any one-year period, under all security based compensation arrangements of the Fund, shall not exceed 10% of the issued and outstanding Fund Units.

During the year, 220,000 Unit Awards were granted and remain outstanding as at December 31, 2007. For the year ended December 31, 2007, the Fund recorded an expense of $1,402,093 for the Unit Awards.

For the year ended December 31, 2007, the 220,000 Unit Awards granted were excluded from the calculation of diluted net earnings per unit because their effect is anti-dilutive.

16. COMMITMENTS

The Fund has entered into various operating leases for office and manufacturing equipment, warehouse facilities and vehicles. Minimum annual lease payments required in aggregate are as follows:

	$
2008	812,318
2009	636,848
2010	537,288
2011	381,367
2012	195,861
	2,563,682

17. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

The net change in non-cash working capital balances related to operations consists of the following:

	2007 $	2006 $
Decrease (increase) in current assets		
Accounts receivable	**4,729,157**	(408,816)
Inventory	**521,922**	(505,850)
Prepaid expenses and other assets	**(30,234)**	329,687
	5,220,845	(584,979)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**87,347**	267,421
Customer deposits	**5,405,636**	2,558,018
Income taxes payable	**(154,371)**	(29,219)
Long-term incentive plan	**(854,000)**	(79,001)
	4,484,612	2,717,219
	9,705,457	2,132,240

18. SUBSEQUENT EVENTS

Effective January 15, 2008, the Fund acquired substantially all of the operating assets of Applegate Steel Inc., a manufacturer of livestock gates, panels, feeders and stock tanks, for cash consideration of $3.4 million. The asset acquisition and related transaction costs were funded from the Fund's cash balance. Due to the timing of the acquisition, the allocation of the purchase price has not yet been finalized.

Subsequent to year end, the Fund acquired a building in Sioux Falls, South Dakota for consideration of approximately U.S. $3.3 million.

Profiles – 2007 Acquisitions

Union Iron Works, Inc.

- Founded in 1852
- Located in Decatur, Illinois
- Approximately 135,000 sq. ft. of manufacturing and warehousing facilities
- Well respected brands (Union Iron and HSI)
- Acquired November 19, 2007
- Purchased for U.S. $20.5 million

Twister Pipe Ltd.

- Founded in 1976
- Originally located in Calgary, Alberta
- Relocated to Edward's Nobleford Plant in fall 2007
- Second largest corrugated bin supplier in Western Canada
- Acquired May 31, 2007
- Purchased for CAD $6.2 million

Officers

Rob Stenson, Chief Executive Officer and Trustee
Gary Anderson, President, Chief Operating Officer and Trustee
Steve Sommerfeld, Chief Financial Officer
Dan Donner, Vice President Sales and Marketing
Paul Franzmann, Vice President Corporate Development

Trustees

Gary Anderson
John R. Brodie, FCA
Bill Lambert, Chairman
Bill Maslechko
Rob Stenson
David White

Additional information relating to the Fund, including all public filings, is available on SEDAR (www.sedar.com).

AG GROWTH
INCOME FUND