

Consolidated financial statements of

# **BIOX Corporation**

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

# **BIOX Corporation**

For the three month periods ended December 31, 2010 and 2009

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# BIOX Corporation

## Consolidated statements of operations and comprehensive income (loss)

(Unaudited)

(All dollar amounts are expressed in thousands, except share and per share amounts)

	Three months ended	
	December 31	
	2010	2009
	\$	\$
<b>Sales (Notes 9 and 10)</b>	<b>26,989</b>	11,565
Cost of sales		
Direct expenses	21,841	10,070
Production facility depreciation and amortization	1,025	962
	<b>22,866</b>	11,032
Gross margin	<b>4,123</b>	533
Operating expenses		
General and administrative	1,749	1,217
Amortization of furniture, equipment and intangible assets	83	81
	<b>1,832</b>	1,298
Operating income (loss)	<b>2,291</b>	(765)
Other expenses		
Stock-based compensation (Note 8)	60	-
Interest and fees on loans (Note 5)	168	181
Financing and accretion (Note 5)	10	10
Expansion planning and development	134	-
Disposal of property, plant and equipment	-	42
Loss on foreign exchange	195	79
	<b>567</b>	312
Net income (loss) before interest income	1,724	(1,077)
Interest income	40	6
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>1,764</b>	(1,071)
<b>Basic and diluted income (loss) per common share</b>	<b>0.04</b>	(0.05)
<b>Weighted average number of common shares</b>	<b>45,748,690</b>	21,747,073

# BIOX Corporation

## Consolidated statements of deficit

(Unaudited)

(All dollar amounts are expressed in thousands)

	Three months ended	
	December 31	
	2010	2009
	\$	\$
Deficit, beginning of period	(91,343)	(75,337)
Net income (loss) for the period	1,764	(1,071)
Deficit, end of period	(89,579)	(76,408)

# BIOX Corporation

## Consolidated balance sheets

(Unaudited)

(All dollar amounts are expressed in thousands)

	At December 31 2010 \$	At September 30 2010 \$
<b>Assets</b>		
Current		
Cash and cash equivalents (Note 3)	19,125	21,470
Accounts receivable (Note 9)	12,322	3,475
Prepaid expenses and sundry assets	767	984
Inventory (Note 4)	11,939	13,752
	<b>44,153</b>	<b>39,681</b>
Restricted cash (Note 5)	1,173	1,173
Property, plant and equipment, net (Note 10)	57,103	57,758
Intangible assets, net (Note 10)	1,275	1,308
	<b>103,704</b>	<b>99,920</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	8,268	6,024
Current portion of long-term debt (Note 5)	1,380	1,380
	<b>9,648</b>	<b>7,404</b>
Long-term debt (Note 5)	9,331	9,666
Asset retirement obligation	2,110	2,059
	<b>21,089</b>	<b>19,129</b>
<b>Shareholders' equity</b>		
Capital stock (Note 6)	167,787	167,787
Warrants	3,151	3,151
Contributed surplus (Notes 7 and 8)	1,256	1,196
Deficit	(89,579)	(91,343)
	<b>82,615</b>	<b>80,791</b>
	<b>103,704</b>	<b>99,920</b>

# BIOX Corporation

## Consolidated statements of cash flows

(Unaudited)

(All dollar amounts are expressed in thousands, except share and per share amounts)

	Three months ended	
	December 31	
	2010	2009
	\$	\$
Cash provided by (used in):		
<b>Operating activities</b>		
Net income (loss) for the period	1,764	(1,071)
Add items not involving cash		
Amortization of property, plant and equipment and intangible assets	1,108	1,043
Amortization of deferred financing charges (Note 5)	10	10
Unrealized foreign exchange (gain) loss	7	(25)
Stock-based compensation	60	
Accretion of asset retirement obligation	51	47
Non-cash disposal of property, plant and equipment	-	42
	<b>3,000</b>	<b>46</b>
Net change in non-cash working capital balances related to operations (Note 11)	<b>(4,382)</b>	<b>1,031</b>
	<b>(1,382)</b>	<b>1,077</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment, net	<b>(611)</b>	<b>(229)</b>
	<b>(611)</b>	<b>(229)</b>
<b>Financing activities</b>		
Repayment of debt financing (Note 5)	<b>(345)</b>	<b>(345)</b>
Proceeds from demand loan	-	25
	<b>(345)</b>	<b>(320)</b>
<b>Effect of exchange rate changes on cash held in foreign currency</b>	<b>(7)</b>	<b>25</b>
Net (decrease) increase in cash and cash equivalents during the period	<b>(2,345)</b>	<b>553</b>
Cash and cash equivalents, beginning of period	<b>21,470</b>	<b>202</b>
<b>Cash and cash equivalents, end of period</b>	<b>19,125</b>	<b>755</b>
<b>Supplemental cash flow information</b>		
Interest paid	<b>166</b>	<b>164</b>

# BIOX Corporation

## Notes to the consolidated financial statements

For the three month periods ended December 31, 2010 and 2009

(Unaudited)

(Tabular information in thousands except for share and per share amounts)

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### 1. Nature of the business

BIOX Corporation ("BIOX") was incorporated on September 26, 2000 under the Canada Business Corporations Act ("CBCA") and commenced operations thereafter.

BIOX has developed a manufacturing process for the production of biodiesel fuel from recycled vegetable oils, agricultural seed oils, yellow greases and tallow. Since inception, the efforts of BIOX have been devoted to the development of the technology and the knowledge to achieve this goal. During April 2007, BIOX completed the construction and commissioning of a commercial plant with a nameplate capacity of 67 million litres per year and commenced commercial operations. BIOX started producing at full targeted capacity at the beginning of the third quarter of fiscal 2008.

On March 1, 2010, BIOX completed a Qualifying Transaction resulting in a reverse take over of JJR IV Acquisition Inc. ("JJR IV"), a capital pool company formerly listed on the TSX Venture Exchange. Pursuant to the Qualifying Transaction, BIOX and JJR IV amalgamated under the CBCA and continued as "BIOX Corporation" (the "Company").

The Company earns revenue from the sale of biodiesel and its by-products.

### 2. Basis of presentation

The interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These financial statements should be read in conjunction with the annual financial statements and notes thereto. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in Canada for annual financial statements. The financial information included herein reflects all adjustments which in the opinion of management are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three month periods ended December 31, 2010 and 2009 are not necessarily indicative of the results to be expected for the full year. The accounting policies used in the preparation of these unaudited interim consolidated financial statements are consistent with those described in the audited consolidated financial statements of the Company for the year ended September 30, 2010.

The consolidated financial statements include the accounts of BIOX Corporation and its wholly-owned subsidiaries, BIOX Canada Limited, Heckbert 27 Kft, BIOX USA Limited, BIOX Montreal Inc. and BIOX Hamilton II Inc. Intercompany transactions and balances have been eliminated on consolidation.

#### *Future changes to accounting standards*

In January 2009, the Accounting Standards Board ("AcSB") issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted.

In January 2009, the AcSB issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interest, which replaces existing guidance. Section 1601 provides guidance on the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 1, 2011 with earlier application permitted.

# BIOX Corporation

## Notes to the consolidated financial statements

For the three month periods ended December 31, 2010 and 2009

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### 2. Basis of presentation (continued)

In February 2008, the Canadian Accounting Standards Board confirmed the mandatory International Financial Reporting Standards ("IFRS") changeover date for Canadian profit-oriented publicly accountable entities. This means that publicly accountable entities will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatements for comparative purposes of amounts reported by the Company for annual and interim periods for the year ended September 30, 2011. The Company will adopt IFRS starting on October 1, 2011.

### 3. Cash and cash equivalents

Cash and cash equivalents at December 31, 2010 include cash accounts only, including a liquid Premium Investment Account yielding a rate of 0.95% (September 30, 2010 – 0.95%).

### 4. Inventory

	At December 31 2010	At September 30 2010
	\$	\$
Raw materials	1,128	1,023
Work in process	59	48
Finished goods	10,752	12,681
	<b>11,939</b>	<b>13,752</b>

The amount of inventories recognized as an expense for the three month period ended December 31, 2010 are \$22,865,720 (\$11,032,481 for the three month period ended December 31, 2009).

The Company recorded a write-down of inventory of \$147,728 for the three month period ended December 31, 2010 (December 31, 2009 – nil) which was recognized as an expense in cost of sales for the period.

There is a first ranking security interest on all finished goods and raw materials inventory for the Demand Loan.

# BIOX Corporation

## Notes to the consolidated financial statements

For the three month periods ended December 31, 2010 and 2009

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### 5. Long-term debt

During the year ended September 30, 2009, the Company entered into a \$13,800,000 term debt agreement with Farm Credit Canada Bank ("FCC"). The loan was issued December 10, 2008 for a term of 5 years with a 10 year amortization at an interest rate equal to FCC prime variable rate plus 2.0%. Payments of \$115,000 principal plus the variable interest are paid monthly. The debt is secured by all assets of BIOX Canada Limited as well as by a guarantee from BIOX Corporation and Heckbert 27 Kft. In addition, the Company maintains a segregated reserve fund in the amount of \$1,173,000 in trust for FCC which has been disclosed as restricted cash on the balance sheet.

During the three month period ended December 31, 2010, \$345,000 (three month period ended December 31, 2009 - \$345,000) of principal payments were made against the loan. During the three month period ended December 31, 2010, interest charges of \$168,315 (\$164,115 during the three month period ended December 31, 2009) were incurred and included in interest and fees on loans. The balance of the loan as at December 31, 2010 was \$11,040,000 (September 30, 2010 - \$11,385,000). Interest payable on the debt as at December 31, 2010 is \$55,571 (September 30, 2010 - \$53,171).

During the year ended September 30, 2009, all charges related to the financing were netted against the financing and are being deferred and amortized over its ten-year amortization period. During the year ended September 30, 2009, the Company incurred \$412,443 in legal costs related to the financing that have been deferred and netted against the long-term debt of which a total of \$84,037 has been amortized and expensed. During the three month period ended December 31, 2010, \$10,411 (\$10,411 during the three month period ended December 31, 2009) was amortized and is included in the financing and accretion expense. During the year ended September 30, 2010, \$41,305 of the deferred financing was amortized. The unamortized financing costs as at December 31, 2010 are \$328,406 (September 30, 2010 - \$338,817).

### 6. Capital stock

The Company is authorized to issue an unlimited number of common shares. Common shares grant the holder the right to one vote and the right to receive dividends at the discretion of the Board of Directors, paid in equal or equivalent amounts per share on all of the common shares at the time outstanding without preference or distinction.

*Authorized, unlimited*

Common shares

*Issued*

	#	\$
Balance, December 31, 2010 and September 30, 2010	<b>45,748,690</b>	<b>167,787</b>

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# BIOX Corporation

## Notes to the consolidated financial statements

For the three month periods ended December 31, 2010 and 2009

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### 7. Contributed surplus

	\$
Balance, September 30, 2010	1,196
Stock based compensation during the period (Note 8)	60
<b>Balance, December 31, 2010</b>	<b>1,256</b>

### 8. Employee stock option plans

#### *Stock-based compensation*

During the three month period ended December 31, 2010, stock-based compensation of \$60,263 was recorded as an expense, and added to contributed surplus for the fair value of the stock options granted determined using the Black-Scholes model as discussed above.

	Options #	Weighted average exercise price \$
Employee options outstanding, September 30, 2010	475,000	2.00
Granted	-	-
Exercised	-	-
<b>Employee options outstanding, December 31, 2010</b>	<b>475,000</b>	<b>2.00</b>
Non-employee options outstanding, September 30, 2010	50,000	2.40
Granted	-	-
Exercised	-	-
<b>Non-employee options outstanding, December 31, 2010</b>	<b>50,000</b>	<b>2.40</b>

The following table summarizes information about the Company's stock options outstanding and exercisable as at the dates noted below:

	Options outstanding			Options exercisable	
	Options #	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Options #	Weighted average exercise price \$
December 31, 2010	475,000	4.20	2.00	132,740	2.00
	50,000	0.20	2.40	50,000	2.40

# BIOX Corporation

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### 9. Sales revenue

	Three months ended December 31	
	2010	2009
	\$	\$
Revenue from sales	23,789	8,863
ecoEnergy for Biofuels Producer payment incentive (i)	3,200	2,702
	<b>26,989</b>	<b>11,565</b>

- (i) The Company has qualified for production incentives under the Canadian Federal government's ecoEnergy for Biofuels program. This program supports the production of renewable alternatives to gasoline and diesel, and encourages the development of a competitive domestic industry for renewable fuels. The program came into effect on April 1, 2008 and provides up to 26 cents per litre of eligible production sold. The rate in effect varies where it is \$0.26 for the first year of the program, \$0.24 for the second year of the program, \$0.20 for the third year and then a prescribed decline to the end. In order to qualify, biodiesel sold must meet an international quality standard and must be produced in Canada. In addition, a number of conditions must be met for a project to qualify. The Company has met all of the qualifying criteria including environmental assessment, and has been fully approved to participate in the program. The production incentive runs for seven years for each project, nine years overall.

During the three month period ended December 31, 2010, the Company has recognized incentive revenues from the program and submitted producer payment claims totaling \$3,199,765 compared to the \$2,701,951 recognized in the three month period ended December 31, 2009. As at December 31, 2010, \$2,700,415 (September 30, 2010 - \$1,589,733) of these claims were outstanding, and included in accounts receivable.

#### *U.S. Federal Tax Incentive*

At September 30, 2010 BIOX had sold biodiesel that included approximately \$3,500,000 of contingent revenue that could not be recognized until the biodiesel tax incentive was reinstated. This amount was not recorded in the audited 2010 financial statements. On December 17, 2010, the President of the United States signed into law the biodiesel tax incentive, which is part of an Act that was passed earlier in that week by the United States Senate and House of Representatives. The Act titled, "The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010" includes provisions for the reinstatement of the biodiesel tax incentive through to December 31, 2011 and it also makes the incentive retroactive to January 1, 2010. As such, the \$3,467,259 of contingent revenue has been recognized in revenue for the three months ended December 31, 2010.

# BIOX Corporation

## Notes to the consolidated financial statements

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### 10. Segment information

The Company has locations in Canada, the United States and Hungary. Current operations are based primarily in Canada. The following table sets out net property, plant and equipment, intangible assets, and sales by country as at:

	December 31 2010	September 30 2010
	\$	\$
Property, plant and equipment and intangible assets (net)		
Canada	57,225	57,883
Hungary	1,153	1,183
	<b>58,378</b>	<b>59,066</b>
	Three months ended December 31 2010	2009
	\$	\$
Sales		
Canada	14,784	11,565
United States	12,205	-
	<b>26,989</b>	<b>11,565</b>

### 11. Consolidated statements of cash flows

The consolidated statement of cash flows include the following changes in non-cash working capital balances related to operations:

	Three months ended December 31	
	2010	2009
	\$	\$
Accounts receivable	(8,847)	761
Prepaid expenses and sundry assets	217	102
Inventory	1,813	650
Accounts payable and accrued liabilities	2,435	(482)
Net change in non-cash working capital balances related to operations	<b>(4,382)</b>	<b>1,031</b>