



Better Fuel For A Cleaner World

BIOX Corporation  
2011 Second Quarter Report

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

This Management's Discussion and Analysis ("MD&A") has been prepared as of May 5, 2011.

*The purpose of this MD&A is to provide the reader with an overview of the consolidated financial position, operating results, and cash flows of BIOX Corporation ("BIOX") for the three-month and six-month periods ended March 31, 2011. This MD&A of BIOX's financial condition and results of operations should be read together with BIOX's audited consolidated financial statements for the years ended September 30, 2010 and 2009, and related notes that have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). BIOX reports its results in Canadian dollars. Certain amounts included in this MD&A are rounded, to make reading easier. References in this MD&A to the "Company", "we", "us" or "our" mean BIOX and its subsidiaries. Additional information relating to BIOX, including its annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

### FORWARD LOOKING STATEMENTS

Certain statements in this MD&A constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, objectives or achievements of the Company, or industry results, to be materially different from any future results, performance, objectives or achievements expressed or implied by such forward-looking statements. These statements reflect BIOX's current views regarding future events and operating performance and are based on information currently available to BIOX, and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks, uncertainties and assumptions and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such performance or results will be achieved. Those assumptions and risks include, but are not limited to, the fact that BIOX's results of operations and business outlook are highly dependent on a mix of legislation and producer payment programs and tax credits, and commodity prices, which are subject to significant volatility and uncertainty. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including factors described in this MD&A and those discussed in BIOX's publicly available disclosure documents, as filed by BIOX on SEDAR ([www.sedar.com](http://www.sedar.com)). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Unless required by applicable securities law, BIOX does not intend and does not assume any obligation to update these forward-looking statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

### OVERVIEW

We are a renewable energy company that designs, builds, owns and operates biodiesel production facilities. We produce biodiesel using our own technology and unique, proprietary and patented process. We produce biodiesel which meets or exceeds American Society of Testing Materials ("ASTM") quality standards for on road fuels using multiple feedstocks. We currently own and operate a continuous flow biodiesel production facility in Hamilton, Ontario that has a nameplate production capacity of 67 million litres per year.

Our production process converts both triglycerides and free fatty acids ("FFA") in a two-step, single-phase, continuous process at atmospheric pressures in near ambient temperatures. Through the addition of a co-solvent, we convert first the FFA and then the triglycerides into methyl esters without any pre-treatment step. Our biodiesel production process results in conversion yields of greater than 99% even when using higher FFA feedstock such as animal fats, used cooking oils, corn oil from ethanol production or crude palm oil. The "feedstock conversion yield" is the extent to which feedstock is fully converted into methyl esters. Of the methyl esters produced in the process, approximately 91% to 98% is produced to meet on road ASTM standards, depending on the feedstock used, with the balance consisting of a lower grade form of fuel oil, which we refer to as "bioheavies". Our ability to produce a higher percentage of on road ASTM grade biodiesel varies according to the qualities of the feedstock used in our production process. We recapture and recycle 99.97% of the co-solvent used in the production process. Our production of biodiesel also produces, as a by-product, a grade of glycerine for which there is a limited market.

We have sustained operating losses since our inception as we have been continually engaged in developing the manufacturing process for the production of biodiesel fuel from animal fats, used cooking oils, and agricultural seed oils. Since inception, our efforts have been devoted to the development of the technology used in our production process and the knowledge to achieve this goal. By April 2007, we had completed the construction and commissioning of our Hamilton production facility. We commenced commercial production of biodiesel at our Hamilton production facility in April 2007. Since April 2008, the plant has been operating both production trains simultaneously each month, and producing at or near target annual production levels, being 60 million litres annually (including maintenance downtime). As our production levels have increased, we have had to maintain finished goods and raw materials inventory in increased quantities. With the expansion of our capacity upon commissioning of an additional biodiesel production facility, we expect that increased inventory levels will increase our working capital requirements in the future. In addition, higher production volumes have resulted, and will result in, increased accounts receivable, further increasing our requirement for working capital. Net loss and comprehensive loss for the years ended September 30, 2010, 2009 and 2008 was \$16.0 million, \$5.6 million and \$13.8 million, respectively. Our Hamilton production facility has been able to produce product on a consistent basis as demonstrated by the approximately 179 million litres of on-specification biodiesel produced to March 31, 2011.

### *Business Strategy*

Key elements of our strategy include:

- *Focus on strategic locations.* Within the markets identified below, we intend to locate our facilities near large scale petroleum storage and diesel distribution infrastructure and users of petroleum diesel and blenders of biodiesel in order to minimize transportation costs to them. Our multi-feedstock capability provides increased flexibility to determine where to locate production facilities. Rather than being forced

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

to locate a facility near a particular feedstock source, we are able to take advantage of the existing distribution networks of petroleum industry customers by establishing facilities near their distribution infrastructure. In addition, we intend to locate within close proximity to port, rail and other transportation hubs.

- *Establish production facilities in attractive markets.* We plan to establish production facilities in markets that are the most attractive to BIOX, taking into account a number of factors, such as the nature of legislation or policies promoting the use of biodiesel and other renewable fuels, existing petroleum storage and distribution infrastructure, availability of feedstock, and economic and political stability. We also intend to locate in industrial centres where petroleum diesel use is high.
- *Continue to focus on process improvement and research and development.* We will continue to refine our production technology and develop process improvements aimed at increasing efficiency and reducing production costs. We will also continue to conduct research and development, including supporting research initiatives at educational institutions and enhancing our in-house research and development program. Our research and development will focus on areas such as new sources of feedstock, new technologies and increasing the value of by-products.
- *Continue to monitor emerging biodiesel markets.* We intend to seek out opportunities to exploit emerging biodiesel markets outside of North America and Europe as those markets develop. In addition to owning and operating additional production facilities, other profitable business models may develop in these markets, including opportunities to license BIOX's patented biodiesel production process.

### *Key Performance Indicators and Non-GAAP Measures*

We measure our performance through key indicators that include litres of methyl esters produced, the ratio of biodiesel produced to total methyl esters produced, and sales volume. We also measure our performance through operating income (loss) prior to non-cash items, which is defined as operating income or loss less production facility depreciation and amortization and less amortization of furniture, equipment and intangibles. Our management uses this measurement to monitor the operating cash flow of our business. We believe that this measure is important, as it provides management and the reader with additional information about our cash generation capabilities and facilitates comparison of results over different periods, and is therefore useful supplemental information to a reader of this MD&A. Operating income (loss) prior to non-cash items is not a performance measure recognized under GAAP, and therefore is not likely to be comparable to similar measures presented by other issuers. Investors are cautioned that operating income (loss) prior to non-cash items should not be construed as an alternative to operating income (loss) determined in accordance with GAAP. For a reconciliation of operating income (loss) prior to non-cash items to operating income, see "Results of Operations" included in this MD&A.

### *Sources of Revenue and Revenue Recognition Policy*

We derive revenue primarily from the sale of our principal product, biodiesel. We also sell bioheavies, which are a by-product of the production of biodiesel. We commenced commercial production of biodiesel at our Hamilton facility in April 2007. As of March 31, 2011, we had sold approximately 178 million litres of biodiesel, including 173 million litres produced by BIOX and 5 million litres acquired from third parties, and 16 million litres of our bioheavies. Our production of biodiesel also produces, as a by-product, a grade of glycerine for which there is a limited market.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

The sale price of our biodiesel to our customers is based upon the posted rates for NYMEX Heating Oil and the value of Renewable Identification Numbers ("RINs") plus a negotiated premium or discount that reflects applicable tax incentives which vary by jurisdiction. The premium or discount achieved relative to the posted rates is also dependent upon the costs and margin of our customers, which in turn are impacted by market factors including changes in supply and demand, and seasonality. The premium or discount that we have historically achieved has fluctuated, and will fluctuate, as a result of the factors referred to above and those discussed below and therefore past operating results should not be relied upon as an indication of our future performance. During the fiscal year ended September 30 2010, the sale price of our biodiesel was negatively impacted by uncertainty surrounding the reinstatement of the U.S. federal excise tax incentive (or "blender") program which had ended on December 31, 2009. The \$1 per U.S. gallon refundable tax credit that was available to our customers under that program prior to January 1, 2010 resulted in the price of our biodiesel achieving a premium over the posted NYMEX Heating Oil rack rate during the first and second quarters of fiscal 2010. As a result of that uncertainty, we were not able to achieve such a premium on sales of our biodiesel in the latter half of fiscal 2010. On December 17, 2010, the U.S. federal excise tax incentive was reinstated on a retroactive basis to January 1, 2010 through to December 31, 2011. As a result of the reinstatement, results for the six months ended March 31, 2011 include \$3.5 million in revenue related to biodiesel sales that occurred in our fiscal 2010 year ended September 30, 2010. More details on the U.S. federal excise tax incentive are included in the "Outlook" section of this MD&A. In addition, we receive payments under Natural Resources Canada's ecoENERGY for Biofuels Program for qualified sales of biodiesel. The program provides an operating incentive to facilities that produce renewable alternatives to gasoline and diesel in Canada. The program runs from April 1, 2008 to March 31, 2017 and recipients are entitled to receive incentives for up to seven consecutive years. The incentive rate for the sale of biodiesel is \$0.20 per litre for the first six months of our fiscal 2011. The incentive rate for qualified sales of biodiesel is \$0.18 per litre for the balance of our fiscal 2011. The incentive rate for qualified sales of biodiesel is \$0.20 per litre, \$0.18 per litre, \$0.14 per litre, \$0.10 per litre, \$0.08 per litre, \$0.06 per litre and \$0.04 per litre for the twelve month periods ending March 31, 2011, 2012, 2013, 2014, 2015, 2016 and 2017, respectively.

We recognize revenue from the sale of products when transfer of title and risk of loss passes to the buyer, which generally occurs when we transfer product to customers' storage tanks, trucks, barges or railcars.

### *Cost of Sales*

Our cost of sales consists of direct expenses, which include raw materials and production costs, and production facility depreciation and amortization.

Raw material costs include the cost of feedstocks such as tallow, yellow greases, recycled vegetable oils, and agricultural seed oils, methanol and other chemicals used to produce biodiesel. Feedstock costs make up the majority of our direct cost of sales, comprising 70% of direct cost of sales for the three-month period ended March 31, 2011. As feedstock costs make up the vast majority of the cost to produce biodiesel, the key relationship impacting our profitability is the sale price of our biodiesel, which as discussed above is based on the NYMEX Heating Oil rack rate and RIN values plus a negotiated premium or discount, compared with our feedstock cost.

Production costs consist of employee salaries as well as other direct and indirect costs incurred at our Hamilton production facility such as energy, storage, maintenance, laboratory, transportation and related overhead. Production facility depreciation and amortization represents the allocation to income of the cost of production facility capital assets over their estimated useful lives. On April 17, 2007, our Hamilton facility commenced operations and as a result amortization

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three-month and six-month periods ended March 31, 2011

of the plant commenced on a straight line basis over the term of the land lease including the asset retirement obligation, with other shorter-life components being amortized over 5 years.

### *Operating Expenses*

General and administrative expenses consist primarily of salaries and related overhead costs at our Oakville, Ontario head office plus insurance and administrative costs at all locations.

Amortization of furniture, equipment and intangible assets represents the allocation to income of the cost of non-production facility capital assets over their estimated useful lives. Amortization for furniture, equipment and intangible assets is for computer hardware and software, office equipment, leasehold improvements and intangible assets.

### *Other Expenses*

Stock-based compensation costs consist of the non-cash charges for options issued under our long-term incentive plan. We account for stock options using the Black-Scholes option pricing model, an established methodology. Compensation expense for stock options granted is measured at the fair value at the grant date and is charged to operations over the vesting period of the options granted with a corresponding increase to contributed surplus.

Interest and fees on loans include costs associated with loans payable, including interest and bonus interest costs, prepayment penalties and loan fees.

Financing and accretion costs consist of the amortization of charges related to our long-term debt.

Expansion planning and development costs are costs related to our expansion plan that cannot be capitalized in accordance with GAAP.

Disposal of property, plant and equipment cost consists of the cost to replace parts and components that were capitalized as part of the production facility in prior years with the intention of getting the facility ready for its intended use.

### *Significant Industry and Economic Factors Affecting Our Business*

Industry and economic factors affecting our business are substantially unchanged from those factors discussed in our MD&A for the year ended September 30, 2010. For more information on government mandates; incentives and subsidies affecting, or which could affect, our business and industry in which we operate, see "Outlook" included in this MD&A.

### *Critical Accounting Estimates*

In preparing our consolidated financial statements and accounting for the underlying transactions and balances, we have applied the accounting policies disclosed in the notes to our consolidated financial statements. The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Our management also makes estimates and judgments about future results of operations in assessing recoverability of assets, recorded values of liabilities and other costs. Actual results could differ materially from those estimates.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three-month and six-month periods ended March 31, 2011

We consider the accounting policies discussed below as critical to an understanding of our consolidated financial statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimates about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. The impact on our business operations and any associated risks related to these policies are discussed throughout this MD&A where such policies affect reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, see the notes to our consolidated financial statements for the years ended September 30, 2010 and 2009.

### *Stock-Based Compensation*

We have an employee stock option plan and have accounted for stock options granted under that plan using the fair value method. Under this method, compensation expense for stock options granted is measured at the fair value at the grant date using the minimum value option valuation model and is charged to operations over the vesting period of the options granted with a corresponding increase to contributed surplus. Upon completion of the amalgamation we effected on March 1, 2010, we adopted a new long-term incentive plan. Stock options granted under that plan have been, and will be, accounted for using the Black-Scholes model.

### *Warrant Valuation*

Warrants are valued using the Black-Scholes model. As at March 31, 2011, there were a total of 1,982,143 share purchase warrants outstanding. Each share purchase warrant entitles the holder thereof to acquire one of our common shares at a price of \$1.40 per share. The share purchase warrants expire on March 2, 2015.

### *Asset Retirement Obligations*

We recognize the liability for an asset retirement that results from acquisition, construction, development or normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which the asset is acquired and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings.

### *Impairment of Long-Lived Assets*

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Long-lived assets include our property, plant and equipment and intangible assets. We regularly review the carrying value of property, plant and equipment and consider whether there have been any changes in events or circumstances that would indicate impairment. Impairment is assessed by comparing the asset's carrying value with the sum of its expected future net undiscounted cash flows. The preparation of future cash flows requires management to make significant estimates and assumptions on expected revenues and expenses, which are subject to change. If impairment is considered to exist, the impairment loss would be recognized as a charge to income and a write-down of the asset. The impairment loss is recognized to the extent that its fair value, generally measured on a discounted cash flow basis, is below the asset's carrying value. The determination of the fair value requires management to make a number of estimates about future events.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three-month and six-month periods ended March 31, 2011

### *Property, Plant and Equipment*

Our property, plant and equipment consist primarily of production facility assets. Production facility costs consist of all costs incurred in connection with the construction, installation and commissioning of a facility to put it into its intended use. Determining when a production facility is available for use, and therefore capitalization of costs ends, requires judgment on the decision as to when the facility is capable of producing product on a consistent basis. Judgment is also required in the determination of what costs should be capitalized versus expensed during the construction and commissioning phase. Our Hamilton production facility was considered available for its intended use starting in April 2007 and, since April 2008, the plant has been operating both production trains simultaneously each month and producing product on a consistent basis.

Depreciation and amortization of the Hamilton production facility costs commenced in April 2007. As well, the amortization of the asset retirement obligation commenced in April 2007 as it is directly related to the start of use of the production facility.

### *Income Taxes*

We follow the liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the years in which the future income tax assets or liabilities are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that those future income tax assets will not be realized. The factors used to assess the likelihood of realization are forecasts of future taxable income and available tax planning strategies that could be implemented to realize future income tax assets.

### *Future Accounting Policy Changes*

#### International Financial Reporting Standards

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, such as BIOX, 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 BIOX for annual and interim periods for the year ended September 30, 2011. We will adopt IFRS starting on October 1, 2011. IFRS will require increased financial statement disclosure. Although IFRS uses a conceptual framework similar to GAAP, differences in accounting policies will need to be addressed. We are currently assessing the impact IFRS will have on our consolidated financial statements. A detailed analysis of the differences between IFRS and our existing accounting policies, as well as an assessment of the impact of various alternatives under IFRS, are currently in progress. Changes to our accounting policies are likely and may materially impact our consolidated financial statements. We will provide quarterly updates on the conversion process and its impact on our accounting policies and consolidated financial statements.

We have established a changeover plan to convert to these new standards according to the timetable set within these new rules. The implementation project consists of three primary phases, which in certain cases will be in process concurrently as IFRS is applied to specific areas from start to finish:

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three-month and six-month periods ended March 31, 2011

### Scoping and diagnostic phase

This phase involves performing a detailed diagnostic comparing GAAP to IFRS and identifying key areas that may be impacted by the transition to IFRS. We completed the scoping and diagnostic phase in the third quarter of fiscal 2010.

### Impact analysis and design phase

In this phase, each area identified from the scoping and diagnostic phase will be addressed. This phase will determine changes required to existing accounting policies, information systems and business processes, together with an analysis of accounting policy alternatives allowed under IFRS and development of draft IFRS financial statement content. We are also assessing the impact of the conversion on our business activities, including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls.

Management has obtained assistance from a third party in assessing the impact IFRS will have on the Company's financial statements. A preliminary impact study on the Company's conversion to IFRS was completed during the third quarter of fiscal 2010. Our analysis of IFRS in comparison to GAAP has identified a number of differences that are likely to impact us. They include but are not limited to:

#### IFRS 1

IFRS 1 provides entities with a number of optional and mandatory exemptions upon initial adoption of the standards. We have analyzed the exemption choices and will implement those determined to be most appropriate.

#### Property, plant and equipment

International Accounting Standards ("IAS") 16 requires an entity to break an asset down to its significant component parts upon initial measurement and depreciate assets based on the useful life of the significant individual components as opposed to the assets as a whole. This could have an impact on the way significant parts of our production facility are tracked and depreciated.

#### Share based payments

The new standard requires that if options vest in instalments, each tranche is considered a separate award with the compensation cost amortized accordingly. In accordance with IFRS 2, the Company's plan will be analyzed and revalued at the conversion date accordingly.

#### Income taxes

There are currently several differences between GAAP and IFRS with respect to income taxes but this could change as the result of proposed amendments to IAS 12. We will monitor these proposed changes to assess the impact on the consolidated financial statements once the amendments to IAS 12 have been finalized.

#### Recognition of leases

Unlike Canadian GAAP, IAS 17 does not provide prescriptive measurements on lease contracts. As a result, all lease contracts will need to be reviewed to determine if they are

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

operating or capital leases based on whether or not management feels that substantially all the risks and rewards incidental to ownership have been transferred.

In addition to the sections noted above, there are generally more extensive presentation and disclosure requirements under IFRS compared to GAAP. These will be noted during the impact analysis and design phase and will result in additional data collection where required.

### Implementation and review phase

This phase may include execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training programs across our finance and other staff, as necessary. The ultimate objective is being able to provide IFRS compliant financial information.

Based on the results of the scoping and diagnostic study completed in the third quarter of fiscal 2010, the Company has started its implementation of IFRS in the area of property, plant and equipment, as described below.

### Property, plant and equipment

Management has elected to apply the IFRS 1 election and reset the deemed cost of the Hamilton production facility to fair value on transition to the new standards. We contracted to have a professional valuation of the fair value of the facility completed as of September 30, 2010. This revaluation is expected to result in a one-time write down of the plant directly to equity in the amount of approximately \$12.2 million at October 1, 2010, from the opening net cost of \$54.6 million to \$42.4 million. This one-time write down will have no impact on our consolidated financial statements for the years ended September 30, 2010 and 2011 under GAAP, as this election takes effect on the first day of the IFRS comparative year ended September 30, 2011, and will only be reported in our consolidated financial statements prepared in accordance with IFRS, and not our consolidated financial statements prepared in accordance with GAAP.

Implementation of the new standards related to other significant areas identified during the scoping and diagnostic phase, as discussed above, were addressed during the fourth quarter of fiscal 2010 and are being implemented for purposes of our interim and annual consolidated financial statements for fiscal 2012 prepared in accordance with IFRS. We are in the process of developing the Opening Statement of Financial Position ("OSFP") in accordance with IFRS. Management has provided to its auditors their preliminary assessment of the OSFP as at October 1, 2010. They are in the process of reviewing the following items:

- Revaluation of the Hamilton Plant and the related adjustment to reflect the fair value as at October 1, 2010 under IFRS
- Fair value of the unvested options as at October 2010 in accordance with *IFRS 2 – Share Based Payments*
- Management's assessment of lease arrangements in accordance with *IAS 17 – Leases* and the related adjustment to reflect additional capital leases as at October 1, 2010 under IFRS
- Management's documentation surrounding the IFRS elections and exemptions adopted.

Additional information has been requested from, and provided by management on the fair value and the lease arrangement assessment.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three-month and six-month periods ended March 31, 2011

Management intends to contact the Company's tax consultants to assist in determining the extent to which the above items will impact its tax liabilities and/or tax assets. This will not have an impact on the OSFP, but will be necessary to determine the nature of the disclosure in the Company's first set of interim financial statements under IFRS. Management will ensure that this information is disclosed in accordance with the guidance in *IAS 12 – Income Taxes*.

Management has begun discussions with regards to obtaining an assessment of the Company's Asset Retirement Obligations related to the Hamilton Plant before the Company's transition to IFRS on October 1, 2011. This assessment, and management's review of it, will be made in accordance with the guidance in *IAS 37 – Contingent Liabilities*.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

### SUPPLEMENTARY FINANCIAL INFORMATION

#### *Selected Unaudited Consolidated Quarterly Financial Information*

The following table presents selected unaudited consolidated quarterly financial information for each of the eight quarters indicated. Our quarterly operating results have historically fluctuated significantly as a result of a variety of factors. Therefore, we believe that our past operating results and period-to-period comparisons should not be relied upon as an indication of our future performance. See "Risk Factors".

(in thousands, except per share amounts)

	Three Months Ended							
	Jun 30 2009	Sep 30 2009	Dec 31 2009	Mar 31 2010	Jun 30 2010	Sep 30 2010	Dec 31 2010	Mar 31 2011
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Sales	10,837	16,180	11,565	14,844	6,581	7,255	26,989	22,862
Operating income (loss)	(1,167)	1,112	(764)	(822)	(5,604)	(2,773)	2,291	(1,279)
Net income (loss)	(1,547)	605	(1,071)	(5,950)	(6,024)	(2,961)	1,764	(1,968)
Net Income (loss)-per share, basic	(0.07)	0.03	(0.05)	(0.20)	(0.13)	(0.07)	0.04	(0.04)
Net income (loss)-per share, diluted	(0.07)	0.03	(0.05)	(0.20)	(0.13)	(0.07)	0.04	(0.04)

As at March 31, 2011, 45,748,691 common shares of BIOX, options to purchase up to 1,150,000 common shares of BIOX, and share purchase warrants to acquire up to 1,982,143 common shares of BIOX, were outstanding.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

### *Sales*

Quarterly sales variations are largely due to changes in the average price per litre of biodiesel sold based on changes in the average heating oil rack rate and RIN values. Sales are also impacted by production levels, which vary quarter to quarter as a result of scheduled and unscheduled maintenance of our production facility. Sales for the quarter ended September 30, 2009 were positively impacted by retroactive changes implemented in the ecoENERGY for Biofuels Program, which resulted in an additional \$4.2 million of sales recognized during the quarter. Sales for the quarter ended June 30, 2010 and for the quarter ended September 30, 2010 were negatively impacted by the delayed sale of biodiesel into fiscal 2011, and by the uncertainty during that quarter as to whether and when the U.S. biodiesel tax incentive would be reinstated and whether or not the biodiesel tax incentive, if reinstated, would apply retroactively. On December 17, 2010, the U.S. biodiesel tax incentive was reinstated through to December 31, 2011 and retroactive to January 1, 2010. The reinstatement of the tax incentive allowed us to invoice \$3.5 million in sales to our customers related to biodiesel sold during fiscal 2010. Sales for the quarter ended December 31, 2010 were positively impacted by increased sales of inventory from September 30, 2010, the retroactive reinstatement of the U.S. biodiesel tax incentive, which resulted in an additional \$3.5 million of sales recognized during the quarter, and the sale of 4.9 million litres of biodiesel purchased from third parties. Sales for the quarter ended March 31, 2011 were positively impacted by increased sales of inventory from December 31, 2010.

### *Net income or loss*

Quarterly net income or loss has varied historically primarily as a result of changes in the sale price of our biodiesel relative to our feedstock cost. Net income for the quarter ended September 30, 2009 was positively impacted by retroactive changes implemented in the ecoENERGY for Biofuels Program which resulted in an additional \$4.2 million of sales recognized during the quarter. Net income for the quarter ended March 31, 2010 was negatively impacted by the valuation of warrants of \$3.9 million recorded as a result of the amalgamation we completed on March 1, 2010, and the recognition of \$0.6 million of net costs related to the amalgamation in accordance with EIC-10 Reverse Takeover accounting. Net income for the quarter ended June 30, 2010 and for the quarter ended September 30, 2010 was negatively impacted by the delayed sale of product into fiscal 2011 and due to the impact of reduced margins as a result of the adverse impact on the price of biodiesel caused by the further delay in the reinstatement of the U.S. federal excise tax incentive. Net income for the quarter ended December 31, 2010 was positively impacted by the retroactive reinstatement of the U.S. biodiesel tax incentive, which resulted in an additional \$3.5 million of sales recognized during the quarter. Net Income for the quarter ended March 31, 2011 was negatively impacted by non-recurring charges related to the CEO transition during the quarter.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

### RESULTS OF OPERATIONS

#### *Production*

Production of methyl esters was 14.9 million litres and 29.6 million litres, respectively, for the three-month and six-month periods ended March 31, 2011 compared with 15.6 million litres and 27.3 million litres for the corresponding period in 2010. The ratio of biodiesel to total methyl esters produced was 91.4% and 91.0%, respectively, for the three-month and six-month periods ended March 31, 2011 compared with 92.8% and 92.0% for the corresponding period in 2010.

#### *Sales*

Sales were \$22.9 million and \$49.9 million, respectively, for the three-month and six-month periods ended March 31, 2011 compared with \$14.8 million and \$26.4 for the corresponding periods in 2010. We sold 17.2 million litres and 38.1 million litres of biodiesel, respectively, for the three-month and six-month periods ended March 31, 2011 compared with 14.6 million litres and 25.9 million litres for the corresponding periods in 2010. The 55% increase in sales for the three-month period ended March 31, 2011 was primarily the result of increased sales of inventory from December 31, 2010, and higher revenue per litre of biodiesel sold. The 89% increase in sales for the six-month period ended March 31, 2011 was primarily the result of the implementation of a produce and store strategy implemented by us during the third quarter of fiscal 2010, which resulted in higher levels of inventory available for sale on October 1, 2010, the sale of 4.9 million litres of biodiesel acquired from third parties during the three-month period ended December 31, 2010, \$3.5 million of sales related to the retroactive reinstatement of the U.S. biodiesel tax incentive, and higher revenue per litre of biodiesel sold.

We sold 0.8 million litres and 3.7 million litres of bioheavies, respectively, for the three-month and six-month periods ended March 31, 2011 compared with 1.1 million litres and 2.5 million litres for the corresponding period in 2010.

We sold 2.6 million pounds and 15.9 million pounds of glycerin, respectively, for the three-month and six-month periods ended March 31, 2011 compared with 0.6 million pounds for the three-month and six-month periods ending March 31, 2010.

#### *Cost of Sales*

Direct expenses were \$21.0 million and \$42.8 million, respectively, for the three-month and six-month periods ended March 31, 2011 compared with \$13.1 million and \$23.2 million for the corresponding period in 2010. The increase in direct expenses was primarily a result of higher sales volumes for the three-month and six-month periods ended March 31, 2011 compared with the corresponding period in 2010 as discussed above under "Sales", and higher cost per litre sold for the three-month and six-month periods ended March 31, 2011 compared with the corresponding periods in 2010. Total direct cost of sales was \$1.163 per litre for the three-month period ended March 31, 2011 compared with \$0.833 per litre for the corresponding period in 2010. Total direct cost of sales was \$1.023 per litre for the six-month period ended March 31, 2011 compared with \$0.815 for the six-month period ended March 31, 2010. Increased direct costs of sales per litre for the quarter and year to date were primarily due to the increase cost of feedstock. Feedstock costs accounted for 70% of total direct costs for the three-month and six month periods ended March 31, 2011 compared with 74% and 73% for the corresponding periods in 2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

Production facility depreciation and amortization was \$1.0 million and \$2.0 million, respectively for the three-month and six-month periods ended March 31, 2011 compared to \$1.0 million and \$1.9 million for the corresponding periods in 2010.

### *Operating Expenses*

General and administrative expenses were \$2.1 million and \$3.8 million, respectively, for the three-month and six-month periods ended March 31, 2011 compared with \$1.5 million and \$2.7 million for the corresponding period in 2010. General and administrative costs for the three-month period ended March 31, 2011 included \$0.4 million of non-recurring costs related to the CEO transition. In addition, higher costs in fiscal 2011 compared with fiscal 2010 were due to additional administrative costs and professional fees as a result of BIOX becoming a public company on March 1, 2010, and higher salaries and wages costs.

Amortization of furniture, equipment and intangible assets was \$0.1 million and \$0.2 million, respectively for the three-month and six-month periods ended March 31, 2011 compared with \$0.1 million for both the three-month and six-month periods ended March 31, 2010.

### *Operating Income/ Loss*

Operating loss was \$1.3 million for the three-month period ended March 31, 2011 compared with an operating loss of \$0.8 million for the corresponding period in 2010. Operating income for the six-month period ending March 31, 2011 was \$1.0 million compared with an operating loss of \$1.6 million for the corresponding period in 2010. The increase in operating income during the six-month period ended March 31, 2011 was primarily due to higher sales partially offset by increased direct cost of sales per litre as discussed above under "Sales" and "Cost of Sales".

Combined operating income for BIOX Canada Limited and BIOX USA Limited, BIOX's wholly-owned subsidiaries which owns and operates our Hamilton plant and distributes our products in the U.S., was \$0.6 million and \$4.5 million, respectively, for the three-month and six-month periods ended March 31, 2011 compared with operating income of \$0.5 million and \$0.9 million for the corresponding periods in 2010. The increase in operating income was primarily due to higher sales partially offset by increased direct cost of sales per litre as discussed above under "Sales" and "Cost of Sales".

### *Operating Income Prior to Non-Cash Items*

Operating loss prior to non-cash items was \$0.2 million for the three-month period ended March 31, 2011 compared with operating income prior to non-cash items of \$0.2 million for the corresponding period in 2010. Operating income prior to non-cash items was \$3.2 million for the six-month period ended March 31, 2011 compared with \$0.5 million for the corresponding period in 2010. The increase in operating income prior to non-cash items for the six-month period ended March 31, 2011 was primarily due to higher sales partially offset by increased direct cost of sales per litre as discussed above under "Sales" and "Cost of Sales".

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

The following table presents a reconciliation of operating income prior to non-cash items to operating income for the three-month and six-month periods ended March 31, 2011 and 2010:

(in thousands)	Three months ended		Six months ended	
	March 31		March 31	
	2011	2010	2011	2010
	\$	\$	\$	\$
Operating income (loss) before non-cash items	(174)	229	3,227	508
Deduct:				
Production facility depreciation and amortization	(1,021)	(987)	(2,046)	(1,949)
Amortization of furniture, equipment and intangibles	(84)	(64)	(167)	(145)
Operating income (loss)	(1,279)	(822)	1,014	(1,586)

Combined operating income prior to non-cash items for BIOX's wholly-owned operating subsidiaries, BIOX Canada Limited and BIOX USA Limited, was \$1.7 million and \$6.6 million, respectively, for the three-month and six-month periods ended March 31, 2011 compared with operating income prior to non-cash items of \$1.5 million and \$2.8 million for the corresponding period in 2010. The increase in operating income prior to non-cash items for BIOX Canada Limited and BIOX USA Limited was primarily due to higher sales partially offset by increased direct cost of sales per litre as discussed above under "Sales" and "Cost of Sales".

### *Other Expenses*

Stock-based compensation expense was \$0.1 million for both three-month and six-month periods ended March 31, 2011. Stock-based compensation expense was related to the 475,000 stock options we issued to certain of our employees on March 1, 2010, 525,000 options we issued to certain of our employees and to the Chairman of the Board on February 8, 2011, and 150,000 options issued to the President and CEO on March 7, 2011. These options are exercisable at prices ranging from \$1.42 to \$2.00 per share for a period of 5 years from the date of grant. The options vest daily over a three year period and have been valued at an average of \$1.14 per option as determined under the Black-Scholes option pricing model.

Interest and fees on loans was \$0.2 million and \$0.3 million, respectively, for the three-month and six-month periods ended March 31, 2011 compared with \$0.2 million and \$0.4 million for both the corresponding periods in 2010.

Loss on foreign exchange was \$0.4 million and \$0.6 million, respectively, for the three-month and six-month periods ended March 31, 2011 compared with \$0.1 million for the corresponding periods in 2010. The increased loss on foreign exchange in 2011 is due to the impact of an increase in the value of the Canadian dollar versus the U.S. dollar.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

### *Net Income/Loss and Comprehensive Income/Loss*

Net loss and comprehensive loss was \$2.0 million and \$0.2 million, respectively, for the three-month and six-month periods ended March 31, 2011 compared with a net loss and comprehensive loss of \$6.0 million and \$7.0 million for the corresponding periods in 2010. The decreased net loss and comprehensive loss in 2011 compared with the corresponding period in 2010 was primarily due to \$4.5 million of non-recurring charges in March, 2010 related to the amalgamation completed on March 1, 2010, and higher sales partially offset by increased direct cost of sales per litre as discussed above under "Sales" and "Cost of Sales".

### *Basic and Diluted Income/ Loss per Common Share*

Basic and diluted loss per common share was \$0.04 per common share and \$0.00 per common share, respectively, for the three-month and six-month periods ended March 31, 2011 compared with a loss of \$0.20 per share and \$0.27 for the corresponding periods in 2010.

Basic and diluted per-share figures for the three-month period ended March 31, 2011 and March 31, 2010 are based on the weighted average number of 45,748,691 and 30,238,357 shares outstanding at these dates, respectively. Basic and diluted per-share figures for the six-month period ended March 31, 2011 and March 31, 2010 are based on the weighted average number of 45,748,691 shares outstanding and 25,946,056 shares outstanding at these dates, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

To date, we have funded our operations primarily through the private placement of equity securities, shareholder and third party loans, convertible debentures, government assistance, federal and provincial investment tax credits on qualified Scientific Research and Experimental Development expenditures, and interest income on cash balances. We believe that our future cash flow from operations combined with our current financial resources should be sufficient to enable us to meet ongoing requirements for capital expenditures and working capital requirements, including the construction and commissioning of a second 67 million litre per annum nameplate capacity production facility, assuming that capital expenditures related to future production facilities will include only the process area and associated construction management, engineering and commissioning costs as we intend to contract for storage, terminal services and utilities services under long-term agreements from third parties located near our facilities. See "Outlook" included in this MD&A. However, our financial needs may change and in such event our ability to satisfy our obligations will be dependent upon our future results of operations and our ability to raise additional capital, which, in turn, will be subject to financial, tax, business and other factors, including those beyond our control. If we are unable to obtain required additional financing on acceptable terms, or at all, or we fail to generate sufficient cash flow from operations, we may be forced to restrain our growth plans or cut back existing operations. Our ability to execute on our longer term growth plans is dependent upon our ability to raise additional capital to fund our production expansion plans. We have not generated sufficient positive cash flow from our Hamilton production facility from the commencement of commercial operations to March 31, 2011 to cover corporate overhead costs and interest and principal repayments on our outstanding loan obligations. Our ability to do so going forward is highly dependent upon our ability to increase production, and on raw material costs and petroleum diesel prices, biodiesel prices, and other factors, over which we have no control. As such, we anticipate that it could be a significant period of time before we do generate consistent positive cash flow.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

### *Operating Activities*

For the three-month period ended March 31, 2011, cash generated from operating activities totalled \$5.1 million compared to cash used of \$1.0 million for the corresponding period in 2010. For the six-month period ended March 31, 2011 cash generated from operating activities totalled \$3.8 million compared to cash generated of \$0.1 million for the corresponding period in 2010. The increase in cash used in operations for the periods ended March 31, 2011 was due to the reduced net losses and decreased use of cash related to the net change in non-cash working capital balances.

### *Investing Activities*

For the three-month period ended March 31, 2011, cash used in investing activities was \$0.3 million compared with \$0.5 million for the corresponding period in 2010. For the six-month period ended March 31, 2011, cash used in investing activities was \$0.9 million compared with \$0.7 million for the corresponding period in 2010.

### *Financing Activities*

For the three-month period ended March 31, 2011, cash used in financing activities was \$0.3 million compared with cash generated of \$43.2 million for the corresponding period in 2010. For the six-month period ended March 31, 2011, cash used in financing activities \$0.7 million compared with cash generated of \$42.9 million for the corresponding period in 2010. The decrease in cash generated in 2011 is the result of the \$44.2 million of net proceeds from the issuance of common shares during the second fiscal quarter of 2010; there were no proceeds from the issuance of common shares during the three-month and six-month periods ended March 31, 2011.

## FINANCIAL POSITION

### *Assets*

As at March 31, 2011, we had \$99.5 million in total assets, compared with \$99.9 million in total assets at September 30, 2010.

### *Cash and cash equivalents*

Our cash and cash equivalents balance, including short-term investments, at March 31, 2011 was \$23.5 million compared to \$21.5 million at September 30, 2010. Our working capital balance at March 31, 2011 was \$33.2 million compared with \$32.3 million at September 30, 2010.

### *Accounts receivable*

Our accounts receivable balance at March 31, 2011 was \$7.6 million compared with \$3.5 million at September 30, 2010. The increase in accounts receivable was due to the higher level of sales for the quarter, and the timing of those sales.

### *Inventory*

Inventory at March 31, 2011 was \$9.2 million compared with \$13.8 million at September 30, 2010. The decrease in inventory at March 31, 2011 reflects lower finished goods inventory as

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

the result of higher sales volumes during the three-month and six-month periods ended March 31, 2011 as discussed above under "Sales". Our finished goods inventory levels have historically fluctuated, and may in the future fluctuate, as a result of market conditions for biodiesel and petroleum diesel. Those fluctuations have been, and may in the future be, material. In the near term we intend, and in the longer term we may, from time to time, choose to maintain high levels of finished goods inventory in order to maximize the selling price and gross margin we achieve on sales of our biodiesel, and doing so may adversely impact our total sales and gross margins in the near term and cause fluctuations in our quarterly financial results. At March 31, 2011, we held 1.3 million litres of feedstock inventory with a value of \$1.2 million compared with 1.4 million litres with a value of \$0.9 million at September 30, 2010.

### *Restricted cash*

The restricted cash balance was \$1.2 million at both March 31, 2011 and at September 30, 2010. Restricted cash relates to the term debt agreement we have with Farm Credit Corporation ("FCC"). We are required to maintain a segregated reserve fund in the amount of \$1.2 million in trust for FCC under the terms of that agreement.

### *Property, plant and equipment and intangible assets*

Property, plant and equipment balance at March 31, 2011 was \$56.2 million compared with \$57.8 million at September 30, 2010. Intangible assets balance at March 31, 2011 was \$1.2 million compared with \$1.3 million at September 30, 2010. Our capital expenditures consist primarily of production facility assets. The breakdown of gross capital asset and intangible assets balances at March 31, 2011 was as follows:

	(in thousands)
	(\$)
Computer hardware and software .....	453
Furniture and equipment .....	209
Leasehold improvements .....	1,073
Production facility .....	71,373
Intangible assets .....	2,316
<b>Total</b> .....	<b>75,424</b>

### *Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities at March 31, 2011 were \$6.2 million compared with \$6.0 million at September 30, 2010.

### *Current portion of long-term debt and long-term debt*

Current portion of long-term debt and long-term debt outstanding was \$10.3 million at March 31, 2011 compared with \$11.0 million at September 30, 2010. The reduction in this balance reflects principal repayments of \$0.1 million per month which are required to be made under the terms of our term debt agreement with FCC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

### *Asset Retirement Obligation*

Asset retirement obligation at both March 31, 2011 was \$2.2 million compared with \$2.1 million at September 30, 2010.

### *Shareholders' equity and outstanding share data*

Our authorized share capital currently consists of an unlimited number of common shares. At February 3, 2011, we had outstanding 45,748,691 common shares, options to purchase up to 1,150,000 of our common shares and share purchase warrants to acquire up to 1,982,143 of our common shares. We had shareholder's equity at March 31, 2011 of \$80.7 million compared with \$80.8 million at September 30, 2010.

## CAPITAL EXPENDITURES

We anticipate that a significant majority of our capital expenditures will continue to be made on our production facility assets. We intend to proceed with the construction and commissioning of a second 67 million litre per annum nameplate capacity production facility. For more detail on our planned expansion please see "Outlook" included in this MD&A.

## RELATED PARTY TRANSACTIONS

In the normal course of business, we may enter into transactions with related parties on terms similar to those of unrelated parties. We use the exchange amount as the measurement basis for these related party transactions. During the three-month and six-month periods ended March 31, 2011, we did not purchase any services from companies related to shareholders.

## COMMITMENTS:

(in thousands of dollars)

<i>Contractual Obligations</i>	<i>Payments due by Period</i>				
	<i>Total</i>	<i>Less than 1 year</i>	<i>1 – 3 years</i>	<i>4 – 5 years</i>	<i>After 5 years</i>
<i>Long Term Debt</i>	10,695	1,380	4,140	5,175	-
<i>Capital Lease Obligations</i>	-	-	-	-	-
<i>Operating Leases</i>	3,342	1,844	1,491	7	-
<i>Purchase Obligations</i>	1,746	1,746	-	-	-
<i>Other Long Term Obligations</i>	-	-	-	-	-
<i>Total Contractual Obligations</i>	15,783	4,970	5,631	5,182	-

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

### OUTLOOK

The implementation of the expanded Renewable Fuels Standard ("RFS2") in the U.S. has created increased demand for our biodiesel, which has had a positive impact on pricing since July 1, 2010. We believe RFS2 and the confirmation of minimum use requirements for 2011 are very important steps toward the evolution of a sustainable biodiesel industry. We are executing on our expansion plans and are actively pursuing options available to us both in Canada and the U.S. regarding the location of our next production facility.

#### *Expansion Plan*

As announced on October 4, 2010, we received notice from Natural Resources Canada ("NRCan") that the Company's ecoENERGY for Biofuels program application for a second 67 million litre per annum nameplate capacity biodiesel facility in Hamilton, Ontario met all requirements to be accepted for incentive funding, subject to funding becoming available under the program. However, NRCan has advised us that the ecoENERGY for Biofuels program is unable to fully fund all eight biodiesel projects that met the requirements at this time due to insufficient funding. The funding envelope is insufficient to fully fund the proposed Hamilton project at this time. In March 2011, NRCan informed us that partial incentive funding is now available in the program for the proposed Hamilton facility. We continue to pursue further discussions with the Canadian federal government to determine if additional funding can be made available in a timely manner to provide full incentive payments for a second Hamilton facility.

We are executing on our expansion plans and are actively pursuing options available to us regarding the location of our next production facility. We believe that the capital cost of future facilities will include only the process area and associated construction management, engineering and commissioning costs as we intend to contract for storage, terminal services and utilities services under long-term agreements from third parties located near our facilities. To date we have not entered into any such long-term agreements and there can be no assurance that we will be able to do so upon acceptable terms or at all. In addition, we believe that the commissioning period for future facilities will be significantly shorter than that associated with the existing Hamilton facility as we expect that many of the issues that were encountered at our existing facility have been resolved and are not expected to re-occur at future plants. As a result, we expect that expenditures related to commissioning future facilities and included in capital expenditures will be significantly reduced. Our current estimate of capital expenditures to be incurred by us, including commissioning costs, required for future 67 million litre nameplate capacity plants is approximately \$29 million in today's dollars. Our current estimate of the total cost of each facility, including storage, terminal services and utilities services is approximately \$53 million. Since submitting our ecoENERGY applications in March 2010, we have continued to optimize our design plans to reduce the capital required for our next facility. As part of our expansion plans, we are actively pursuing potential locations for the second BIOX facility, in Hamilton or at an alternate location in Canada or the U.S., considering a number of criteria including availability of infrastructure and service providers, potential strategic partnerships, logistics and other market factors.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended March 31, 2011

### *Regulatory Update*

#### Canadian Renewable Fuel Content Regulations

In August 2010, the Government of Canada enacted regulations that require petroleum fuel producers and importers to have:

- an average renewable fuel content of at least 5% based on the volume of gasoline, commencing 2010; and
- an average 2% renewable fuel content in diesel fuel and heating oil, upon successful demonstration of renewable diesel fuels used under the range of Canadian conditions no later than 2012

The first compliance period for the 5% renewable content in gasoline requirement is December 15, 2010 to December 31, 2012. Biodiesel qualifies as renewable content under those regulations and therefore can be used to comply with the 5% requirement. BIOX Canada Limited is now registered under the Canadian Environmental Protection Act as a renewable fuel producer and therefore our production qualifies as renewable content under the program. The commencement of the 2% renewable diesel requirement was published in the Gazette Part I on February 26, 2011 with the first compliance period being July 1, 2011 to December 31, 2012. The 60 day comment period on Gazette Part I ended on April 27, 2011 and we do not anticipate any substantive changes to the current proposed regulations.

#### European Union Tariff on Biodiesel Imports from Canada

The European Union ("EU") originally imposed countervailing duties ("CVD's) on U.S. biodiesel imports of greater than B20 (more than 20% biodiesel blended with less than 80% petroleum diesel) in 2009. This CVD was implemented on U.S. origin biodiesel and biodiesel blends of greater than 20% imported into the E.U. in order to offset the benefit of the U.S. Blender Tax Credit. Recent disclosures from the European Commission report that those CVD's will now be extended to include imports of blended products containing greater than B20 listed as originating in Canada as well as the U.S. The value of the CVD is €237 per tonne of imported biodiesel. The extension of the CVD from U.S. to Canadian exports of products containing greater than 20% biodiesel is meant to prevent the alleged circumvention of the CVD pertaining to U.S. product. Extending the tariff to include Canadian biodiesel and biodiesel blends of greater than B20 is intended to discourage biodiesel originating in the U.S. from being sold through Canada, re-labeled to be of "Canadian origin", as a way to circumvent the CVD's imposed on US products, into the EU market.

The EU has indicated that BIOX will receive an exemption from the CVD, effectively making BIOX one of only two entities in North America exempted from the CVD imposed by the EU Commission.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three-month and six-month periods ended March 31, 2011

### U.S. Renewable Fuels Standard

Effective July 1, 2010, RFS2 specifically provides for a renewable component in U.S. diesel fuel. RFS2 requires the use of 500 million gallons of Biomass-based diesel in 2009, increasing to 1 billion gallons in 2012. From 2012 through 2022, a minimum of 1 billion U.S. gallons must be used domestically, and the Administrator of the EPA has the authority to increase the minimum volume requirement. To qualify as Biomass-based diesel, the fuel must reduce greenhouse gas ("GHG") emissions by 50 percent compared to petroleum diesel. Biodiesel produced from soybean oil is assessed to reduce GHG emissions by 57 percent compared to petroleum diesel fuel, and the EPA's analysis recognizes that the GHG reduction could be as high as 86 percent for biodiesel made from waste oils, waste grease and animal fats. In November 2010, the U.S. Environmental Protection Agency confirmed 2011 overall volumes, including the required use of a minimum 1.35 billion U.S. gallons of Advanced Biofuels including a minimum 800 million U.S. gallons of Biomass-based diesel in U.S. diesel fuel. BIOX's wholly-owned subsidiaries are registered with the EPA as a Foreign Renewable Fuel Producer (BIOX Canada Limited), and as a Renewable Fuel Importer and RIN Generator (BIOX USA Limited). Registration under RFS2 provides BIOX with access to the U.S. renewable fuels market, including the ability to generate RINs which are required for obligated parties in the U.S., which includes all refiners and importers of transportation fuel, to show compliance with RFS2. 1.5 RINs are issued per U.S. gallon of Biomass-based diesel sold in the U.S., and these Biomass-based diesel RINs are currently valued at approximately U.S. \$1.25 per RIN.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and the Chief Financial Officer have evaluated the design and effectiveness of the Company's internal controls over financial reporting based on the Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission.

The President and Chief Executive Officer and the Chief Financial Officer of BIOX have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that (i) material information relating to BIOX, including its consolidated subsidiaries, is made known to the President and Chief Executive Officer and the Chief Financial Officer of BIOX by others within those entities, particularly during the period in which the interim filings are being prepared, and (ii) information required to be disclosed by BIOX in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

There were no changes in the internal controls over financial reporting of BIOX during the most recent interim reporting period that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting of BIOX.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three-month and six-month periods ended March 31, 2011

### **RISK FACTORS**

An investment in our securities involves risks. Before making an investment decision with respect to our securities, you should carefully consider the risks and uncertainties described elsewhere in this MD&A and those described under the heading "Risk Factors" in BIOX's annual information form for the year ended September 30, 2010. The risks and uncertainties described in the documents referred to in the preceding sentence and in other documents filed by us with Canadian securities regulatory authorities are not the only ones we may face. Those risks and uncertainties, together with additional risks and uncertainties not currently known to us or that we may deem immaterial, could impair our business, financial condition and results of operations. The market price of our securities could decline if one or more of these risks and uncertainties develop into actual events, and you may lose all or part of your investment.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three-month and six-month periods ended March 31, 2011

### **INVESTOR INFORMATION**

#### **Stock Exchange Listing**

The common shares of BIOX Corporation are listed on the TSX under the symbol BX.

#### **Transfer Agent and Registrar**

Computershare Trust Company of Canada

#### **Auditors**

Deloitte & Touche LLP

#### **Investor Relations**

If you have inquiries, please visit our website at [www.bioxcorp.com](http://www.bioxcorp.com) or contact:

#### **BIOX Corporation**

Chris Clinning  
Chief Financial Officer  
Phone: (905) 337-4970  
E-mail: [cclinning@bioxcorp.com](mailto:cclinning@bioxcorp.com)

#### **Investor Relations**

Ross Marshall  
The Equicom Group Inc.  
Phone: (416) 815-0700 ext. 238  
E-mail: [rmarshall@equicomgroup.com](mailto:rmarshall@equicomgroup.com)

# BIOX Corporation

## Consolidated statements of operations and comprehensive loss

(Unaudited)

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

	Three months ended		Six months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Sales (Note 7)</b>	<b>22,862</b>	14,844	<b>49,851</b>	26,409
Cost of sales				
Direct expenses	<b>20,958</b>	13,094	<b>42,798</b>	23,164
Production facility depreciation and amortization	<b>1,021</b>	987	<b>2,046</b>	1,949
	<b>21,979</b>	14,081	<b>44,844</b>	25,113
Gross margin	<b>883</b>	763	<b>5,007</b>	1,296
Operating expenses				
General and administrative	<b>2,078</b>	1,521	<b>3,826</b>	2,703
Amortization of furniture, equipment and intangibles	<b>84</b>	64	<b>167</b>	145
	<b>2,162</b>	1,585	<b>3,993</b>	2,882
Operating (loss) income	<b>(1,279)</b>	(822)	<b>1,014</b>	(1,586)
Other expenses				
Stock-based compensation (Note 6)	<b>83</b>	20	<b>144</b>	20
Interest and fees on loans	<b>161</b>	169	<b>329</b>	350
Financing and accretion	<b>10</b>	25	<b>21</b>	36
Expansion planning and development	<b>72</b>	366	<b>206</b>	366
Disposal of property, plant and equipment	-	-	-	42
Loss on foreign exchange	<b>405</b>	70	<b>600</b>	149
Valuation of warrants	-	3,861	-	3,861
Costs related to the qualifying transaction	-	627	-	627
	<b>731</b>	5,138	<b>1,300</b>	5,451
Net loss before interest income	<b>2,010</b>	5,960	<b>286</b>	7,037
Interest income	<b>(42)</b>	(10)	<b>(82)</b>	(16)
<b>Net loss and comprehensive loss for the period</b>	<b>1,968</b>	5,950	<b>204</b>	7,021
<b>Basic and diluted loss per common share</b>	<b>0.04</b>	0.20	<b>0.00</b>	0.27
<b>Weighted average number of common shares</b>	<b>45,748,691</b>	30,238,357	<b>45,748,691</b>	25,946,056

# BIOX Corporation

## Consolidated statements of deficit

(Unaudited)

(All dollar amounts are expressed in thousands)

	Three months ended		Six months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Deficit, beginning of period</b>	<b>89,579</b>	76,408	<b>91,343</b>	75,337
Net loss for the period	<b>1,968</b>	5,950	<b>204</b>	7,021
<b>Deficit, end of period</b>	<b>91,547</b>	82,358	<b>91,547</b>	82,358

# BIOX Corporation

## Consolidated balance sheets

(Unaudited)

(All dollar amounts are expressed in thousands)

	At March 31, 2011	At September 30, 2010
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 3)	23,549	21,470
Accounts receivable (Note 7)	7,592	3,475
Prepaid expenses and sundry assets	562	984
Inventory	9,152	13,752
	<b>40,855</b>	<b>39,681</b>
Restricted cash	1,173	1,173
Property, plant and equipment, net	56,241	57,758
Intangible assets, net (Note 8)	1,242	1,308
	<b>99,511</b>	<b>99,920</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	6,241	6,024
Current portion of long-term debt	1,380	1,380
	<b>7,621</b>	<b>7,404</b>
Long-term debt	8,997	9,666
Asset retirement obligation	2,162	2,059
	<b>18,780</b>	<b>19,129</b>
<b>Shareholders' equity</b>		
Capital stock (Note 4)	167,787	167,787
Warrants	3,151	3,151
Contributed surplus (Notes 5 and 6)	1,340	1,196
Deficit	(91,547)	(91,343)
	<b>80,731</b>	<b>80,791</b>
	<b>99,511</b>	<b>99,920</b>

# BIOX Corporation

## Consolidated statements of cash flows

(Unaudited)

(All dollar amounts are expressed in thousands)

	Three months ended		Six months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss for the period	(1,968)	(5,950)	(204)	(7,021)
Add items not involving cash				
Amortization of property, plant and equipment and intangible assets	1,105	1,051	2,213	2,094
Amortization of deferred financing charges	10	10	21	21
Unrealized foreign exchange loss	91	-	91	-
Stock-based compensation (Note 6)	83	20	144	20
Accretion of asset retirement obligation	52	47	103	93
Interest on debt financing	-	53	-	53
Valuation of warrants	-	3,861	-	3,861
Non-cash disposal of property, plant and equipment	-	-	-	42
	(627)	(908)	2,368	(837)
Net change in non-cash working capital balances related to operations (Note 9)	5,775	(124)	1,391	907
	5,148	(1,032)	3,759	70
<b>Investing activity</b>				
Purchase of property, plant and equipment, net	(288)	(464)	(899)	(693)
<b>Financing activities</b>				
Proceeds from debt financing	-	1,380	-	1,380
Repayment of debt financing	(345)	(1,725)	(690)	(2,070)
Repayment of demand loan	-	(600)	-	(575)
Proceeds from issuance of common shares	-	46,700	-	46,700
Share issuance costs	-	(2,518)	-	(2,518)
	(345)	43,237	(690)	42,917
Effect of exchange rate on cash held in foreign currency	(91)	-	(91)	-
Net increase in cash and cash equivalents during the period	4,424	41,741	2,079	42,294
Cash and cash equivalents, beginning of period	19,125	755	21,470	202
<b>Cash and cash equivalents, end of period</b>	<b>23,549</b>	<b>42,496</b>	<b>23,549</b>	<b>42,496</b>
<b>Supplemental cash flow information</b>				
Interest paid	160	195	326	375

# BIOX Corporation

## Notes to the consolidated financial statements

For the three and six month periods ended March 31, 2011 and 2010

(Unaudited)

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

---

### 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 and six month periods ended March 31, 2011 and 2010 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 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 Company's transition date of October 1, 2010 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 March 31, 2011 and September 30, 2010 include cash accounts only, including a liquid Premium Investment Account yielding a rate of 0.95% (September 30, 2010 - 0.95%).

# BIOX Corporation

## Notes to the consolidated financial statements

For the three and six month periods ended March 31, 2011 and 2010

(Unaudited)

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

---

#### 4. 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, March 31, 2011 and September 30, 2010	45,748,691	167,787

---

#### 5. Contributed surplus

	\$
Balance, September 30, 2010	1,196
Stock based compensation during the period (Note 6)	144
Balance, March 31, 2011	1,340

---

#### 6. Employee stock option plans

On February 28, 2010 a long-term incentive plan was established for employees and officers of the Company. On that day, the Board of Directors granted 475,000 options to certain employees of the Company at an exercise price of \$2.00 per common share. These options vest daily over 3 years. The value of the options was \$717,250 based on the number of options granted multiplied by \$1.51 which corresponds to the fair value of the option awards as determined under the Black-Scholes model, with a risk free interest rate of 2.5%, an expected life of 5 years, a dividend rate of 0.0%, and 100% expected volatility based on the historical volatility of comparable companies.

On February 6, 2008, JJR IV granted 1,200,000 stock options at an exercise price of \$0.10 per option. These options vested immediately. On February 25, 2010, JJR IV completed a 24:1 share consolidation which resulted in the existing JJR IV options being consolidated into 50,000 BIOX Corporation stock options at an exercise price of \$2.40 per share. The options expired twelve months following the completion of the Qualifying Transaction on February 28, 2011.

On February 8, 2011, the Board of Directors granted 525,000 options to certain employees and the Chairman of the Board of Directors at an exercise price of \$1.44 per common share. These options vest daily over 3 years. The value of the options is \$467,250 based on the number of options granted multiplied by \$0.89 which corresponds to the fair value of the option awards as determined under the Black-Scholes model, with a risk free interest rate of 2.0%, an expected life of 5 years, a dividend rate of 0.0%, and 75.5% expected volatility based on the historical volatility of the Company since it listed on the Toronto Stock Exchange.

# BIOX Corporation

## Notes to the consolidated financial statements

For the three and six month periods ended March 31, 2011 and 2010

(Unaudited)

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

### 6. Employee stock option plans (continued)

On March 7, 2011, the Board of Directors granted 150,000 options to the Chief Executive Officer at an exercise price of \$1.35 per common share. These options vest daily over 3 years. The value of the options is \$126,000 based on the number of options granted multiplied by \$0.84 which corresponds to the fair value of the option awards as determined under the Black-Scholes model, with a risk free interest rate of 2.0%, an expected life of 5 years, a dividend rate of 0.0%, and 75.5% expected volatility since it listed on the Toronto Stock Exchange.

#### *Stock-based compensation*

During the three and six month periods ended March 31, 2011, stock-based compensation of \$83,475 and \$143,737 respectively was recorded as an expense, and added to contributed surplus representing the fair value of the stock options granted determined using the Black-Scholes model as discussed above, compared to the \$20,306 recognized in both the three and six month periods ended March 31, 2010.

	Options #	Weighted average exercise price \$
Employee and director options outstanding, September 30, 2010	475,000	2.00
Granted	675,000	1.42
Exercised	-	-
<b>Employee and director options outstanding, March 31, 2011</b>	<b>1,150,000</b>	<b>1.66</b>
Non-employee options outstanding, September 30, 2010	50,000	2.40
Granted	-	-
Expired	(50,000)	2.40
<b>Non-employee options outstanding, March 31, 2011</b>	<b>-</b>	<b>-</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 \$
March 31, 2011	475,000	3.90	2.00	171,781	2.00
	525,000	4.80	1.44	24,932	1.44
	150,000	4.90	1.35	3,425	1.35

# BIOX Corporation

## Notes to the consolidated financial statements

For the three and six month periods ended March 31, 2011 and 2010

(Unaudited)

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

### 7. Sales revenue

	Three months ended		Six months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenue from sales	19,425	11,328	43,215	20,191
ecoEnergy for Biofuels Producer payment incentive (i)	3,437	3,516	6,636	6,218
	<b>22,862</b>	<b>14,844</b>	<b>49,851</b>	<b>26,409</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. March 31, 2011 marks the end of the third year of the program at an effective rate of \$0.20 per litre. The rate in effect varies where it is \$0.18 per litre in the fourth year of the program, \$0.14 per litre for the fifth year of the program, \$0.10 per litre for the sixth year and \$0.08 per litre for the seventh and final year. 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 and six month periods ended March 31, 2011, the Company has recognized incentive revenues from the program and submitted producer payment claims totalling \$3,436,565 and \$6,636,330 respectively compared to the \$3,515,567 and \$6,217,518 recognized in the three and six month periods ended March 31, 2010 respectively. As at March 31, 2011, \$2,671,590 (September 30, 2010 - \$1,589,733) of these claims were outstanding, and included in accounts receivable.

### 8. 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:

	March 31, 2011	September 30, 2010
	\$	\$
Property, plant and equipment and intangible assets (net)		
Canada	56,359	57,883
Hungary	1,124	1,183
	<b>57,483</b>	<b>59,066</b>

# BIOX Corporation

## Notes to the consolidated financial statements

For the three and six month periods ended March 31, 2011 and 2010

(Unaudited)

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

### 8. Segment information (continued)

	Three months ended		Six months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Sales				
Canada	3,638	14,844	18,421	26,409
United States	19,224	-	31,430	-
	<b>22,862</b>	<b>14,844</b>	<b>49,851</b>	<b>26,409</b>

### 9. 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		Six months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Accounts receivable	4,731	4,468	(4,116)	5,228
Prepaid expenses and sundry assets	204	251	422	353
Inventory	2,787	793	4,600	1,443
Accounts payable and accrued liabilities	(1,947)	(5,636)	485	(6,117)
Net change in non-cash working capital balances related to operations	<b>5,775</b>	<b>(124)</b>	<b>1,391</b>	<b>907</b>