

**Integrated Grain Processors
Co-operative Inc.**

Consolidated Financial Statements
September 30, 2011

December 13, 2011

PricewaterhouseCoopers LLP
Chartered Accountants
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Independent Auditor's Report

To the Shareholders of Integrated Grain Processors Co-operative Inc.

We have audited the accompanying consolidated financial statements of Integrated Grain Processors Co-operative Inc. and its subsidiary, which comprise the consolidated balance sheet as at September 30, 2011 and the consolidated statements of operations and retained earnings and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Integrated Grain Processors Co-operative Inc. and its subsidiary as at September 30, 2011 and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Price Waterhouse Coopers LLP

Chartered Accountants, Licensed Public Accountants

Integrated Grain Processors Co-operative Inc.

Consolidated Balance Sheet

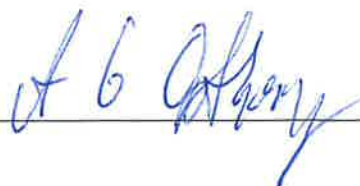
As at September 30, 2011

	2011	2010
	\$	\$
Assets (note 7)		
Current assets		
Cash	17,656,630	14,180,256
Restricted cash (note 3)	2,708,217	3,707,130
Accounts receivable (note 4)	6,763,620	10,534,594
Inventory (note 5)	5,575,966	4,088,165
Prepaid expenses and deposits (note 14)	1,555,500	3,164,335
Income taxes recoverable	229,636	-
Future income taxes	1,511,000	628,000
	<u>36,000,569</u>	<u>36,302,480</u>
Property, plant and equipment (note 6)	74,504,491	79,829,439
Intangible assets	2,766,284	2,996,803
Future income taxes	835,000	1,521,000
	<u>114,106,344</u>	<u>120,649,722</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,380,326	3,555,221
Income taxes payable	-	540,517
Fair value of commodity derivative contracts (note 13)	100,662	898,991
Fair value of interest rate swap contracts (note 18)	944,838	1,436,240
Current portion of capital lease obligation (note 8)	619,905	539,670
Current portion of subordinated debentures and notes (note 9)	-	731,544
Current portion of term debt (note 7)	3,822,000	5,150,000
Current portion of research and development fund liability (note 15)	280,000	-
	<u>10,147,731</u>	<u>12,852,183</u>
Capital lease obligation (note 8)	2,566,478	3,186,383
Subordinated debentures and notes (note 9)	1,107,000	1,107,000
Term debt (note 7)	16,393,645	29,336,112
Research and development fund liability (note 15)	1,661,464	1,821,261
Future income taxes	9,718,000	6,285,000
	<u>41,594,318</u>	<u>54,587,939</u>
Shareholders' Equity		
Capital stock (note 10)	47,788,960	52,966,860
Contributed surplus (note 20)	703,186	806,150
Retained earnings	24,019,880	12,288,773
	<u>72,512,026</u>	<u>66,061,783</u>
	<u>114,106,344</u>	<u>120,649,722</u>
Commitments (note 14)		
Contingencies (note 21)		

Approved by the Board of Directors



Director



Director

Integrated Grain Processors Co-operative Inc.

Consolidated Statement of Operations and Retained Earnings

For the year ended September 30, 2011

	2011 \$	2010 \$
Net sales	124,689,093	94,572,758
Cost of goods sold	122,812,566	86,862,984
Depreciation and amortization	6,594,380	6,584,951
Net loss on commodity derivative contracts	1,056,061	1,914,480
Operating grants (note 15)	(28,695,041)	(27,116,164)
	101,767,966	68,246,251
Gross profit	22,921,127	26,326,507
Selling, general and administrative expenses	3,961,433	4,191,364
Amortization of deferred financing costs and depreciation	1,306,573	1,570,667
	5,268,006	5,762,031
Operating income	17,653,121	20,564,476
Other income (expenses)		
Interest expense (note 16)	(3,060,457)	(4,184,054)
Interest and other income	52,207	33,779
Gain on interest rate swap (note 18)	491,402	606,724
Gain (loss) on foreign exchange	251,134	(79,690)
	(2,265,714)	(3,623,241)
Income before provision for taxes	15,387,407	16,941,235
Provision for current income taxes	420,300	628,000
Provision for future income taxes	3,236,000	3,861,000
	3,656,300	4,489,000
Net income for the year	11,731,107	12,452,235
Retained earnings (deficit) - Beginning of year	12,288,773	(163,462)
Retained earnings - End of year	24,019,880	12,288,773

Integrated Grain Processors Co-operative Inc.

Consolidated Statement of Cash Flows

For the year ended September 30, 2011

	2011 \$	2010 \$
Cash provided by (used in)		
Operating activities		
Net income for the year	11,731,107	12,452,235
Changes (credits) to income not involving cash		
Depreciation and amortization	7,900,953	8,155,618
Unrealized (gain) loss on commodity derivative contracts	(798,329)	1,125,492
Gain on interest rate swap contracts	(491,402)	(606,723)
Loss on disposal of property, plant and equipment	9,296	-
Interest on research and development fund liability	120,203	112,761
Future income taxes	3,236,000	3,861,000
	<hr/>	<hr/>
	21,707,828	25,100,383
Net change in non-cash working capital balances (note 19)	<hr/>	<hr/>
	3,946,960	(989,185)
	<hr/>	<hr/>
	25,654,788	24,111,198
Financing activities		
Repayments of subordinated debentures and notes	(731,544)	(545,956)
Net proceeds and redemptions of share subscriptions	(8,500)	(70,100)
Return of capital	(5,247,520)	-
Settlement of stock options (note 20)	(24,844)	(100,000)
Payment of term debt (note 7)	(15,500,000)	(16,971,188)
Payment of capital lease obligation	(539,670)	(464,433)
Repayment of capital grant (note 15)	(179,021)	-
Decrease in restricted cash	998,913	992,214
	<hr/>	<hr/>
	(21,232,186)	(17,159,463)
Investing activities		
Purchase of property and equipment	(988,228)	(312,248)
Proceeds from disposal of property, plant and equipment	42,000	-
	<hr/>	<hr/>
	(946,228)	(312,248)
Net increase in cash	<hr/>	<hr/>
	3,476,374	6,639,487
Cash - Beginning of year	<hr/>	<hr/>
	14,180,256	7,540,769
Cash - End of year	<hr/>	<hr/>
	17,656,630	14,180,256

Integrated Grain Processors Co-operative Inc.

Notes to Consolidated Financial Statements

September 30, 2011

1 Nature of operations

Integrated Grain Processors Co-operative Inc. (the “Co-operative”) was incorporated on April 4, 2002 under the Ontario Co-operative Corporations Act.

The Co-operative produces and sells ethanol and distillers grain through its 150 million litre fuel ethanol production facility in south western Ontario, which was completed on October 15, 2008.

2 Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the financial statements of the Co-operative and its wholly-owned subsidiary, IGPC Ethanol Inc. (the “subsidiary”). Intercompany balances and transactions have been eliminated on consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the year reported. Actual results could differ from those estimates.

Revenue recognition

The Co-operative recognizes revenue on the sale of ethanol and distillers grains at the time of shipment.

Government assistance

Government grants are recognized when there is reasonable assurance that the Co-operative has complied with the conditions of the grant. Such grants are accounted for as reduction of the related expense or asset, or as income, as appropriate.

Inventories

Inventories of finished products, feedstock, process chemicals and supplies are valued at the lower of net realizable value and average cost. Work in process consists of cost of material and direct labour and is valued at the lower of net realizable value and average cost.

Integrated Grain Processors Co-operative Inc.

Notes to Consolidated Financial Statements

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Property, plant and equipment

Property, plant and equipment are stated at cost. Amortization is provided for in the accounts as follows:

Buildings and site pipelines	5% declining balance
Furniture and fixtures	20% declining balance
Equipment	30% declining balance
Process equipment	15 years straight line
Gas pipeline under capital lease	7 years straight line

In the year of acquisition, amortization is provided for at one-half of the above rates, except in 2009 when the cost of the process plant was transferred from construction in progress to the appropriate asset categories and amortization was provided for from the date of production.

The total cost of major capital projects includes related interest incurred during the period of construction. Capitalization of interest ceased on October 15, 2008 when the ethanol plant was substantially complete and ready for its intended productive use.

Grants under government capital assistance programs are deducted from the cost of the assets to which the grant relates.

Intangible asset

The intangible asset recorded on the balance sheet, relates to the right to use the proprietary design and processes to produce ethanol. The asset is being amortized over the life of the process equipment of 15 years.

Financial instruments

Under CICA Handbook Section 3855 - Financial Assets and Liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as held-for-trading, available-for-sale financial assets, held-to-maturity, loans and receivables, or other financial liabilities as follows:

- Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the year.
- Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet.
- Loans and receivables are measured at cost or amortized cost using the effective interest rate method.
- Other financial liabilities are measured at cost or amortized cost using the effective interest rate method.

Integrated Grain Processors Co-operative Inc.

Notes to Consolidated Financial Statements

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- Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the year unless the instrument is a cash flow hedge and hedge accounting applies in which case changes in fair value are recognized in other comprehensive income.

The following is a summary of the classification of assets and liabilities of the Co-operative:

Financial Instrument	Classification
Cash	Held-for-trading
Restricted cash	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Fair value of commodity derivative contracts	Derivative instrument (non-hedge)
Fair value of interest rate swap contracts	Derivative instrument (non-hedge)
Term and bank debt	Other financial liabilities
Capital lease obligation	Other financial liabilities
Shareholder loan	Other financial liabilities
Research and development fund liability	Other financial liabilities
Preference shares	Other financial liabilities

As a non-publicly accountable enterprise, the Co-operative has elected to apply CICA Handbook Section 3861 - Financial Instruments - Disclosure and Presentation, in lieu of CICA Handbook Section 3862 - Financial Instruments - Disclosure, and 3863 - Financial Instruments - Presentation. CICA Handbook Section 3861 specifies the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed.

Deferred financing costs

Transaction costs related to the credit agreement are netted against the carrying value of the term loan and are amortized over the duration of the credit agreement using the effective interest rate method, based on target debt levels of the term loan and expect levels of available credit under the revolving term facility.

Interest rate swap contracts

Exposure to interest rates on debt is managed through the use of interest rate swap contracts. These swap contracts require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Settlement amounts under interest rate swap contracts have been included in capitalized interest during the pre-operating period prior to October 15, 2008. Changes in the fair value of the interest rate swap contracts have been recorded in the statement of operations.

Stock options

Options are accounted for under the fair market method. Stock-based compensation costs, measured at the grant date based on the fair value of the options granted and recognized over the service period involved, are recorded as expenses on the income statement. The amounts are credited to contributed surplus. The consideration paid upon exercise of the options and the originally recorded fair value of the options are added to share capital.

Integrated Grain Processors Co-operative Inc.

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Income taxes

The liability method of accounting for income taxes is used. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities and the tax cost bases of these assets and liabilities measured using substantially enacted income tax laws and rates.

Future accounting changes

Non-publicly accountable enterprises have the option of adopting International Financial Reporting Standards (IFRS) or Accounting Standards for Private Enterprises (ASPE) for annual financial statements for fiscal years beginning on or after January 1, 2011. Management and the Board of Directors have determined that the Co-operative will adopt IFRS for its fiscal year ending September 30, 2012. Management is in the process of determining the impact of this change on its accounting policies and reporting practices.

3 Restricted cash

	2011 \$	2010 \$
Debt service reserve account	2,708,217	3,497,575
Post completion account	-	209,555
	<hr/> 2,708,217	<hr/> 3,707,130

Under the terms of the credit agreement, as construction funds were obtained, a portion was added to the debt service reserve account such that at substantial completion the sum of two principal instalments plus six months of interest is available in a separate account to service bank debt. In the event cash flow is insufficient to meet the quarterly requirement, these funds may be used but must be replenished.

4 Accounts receivable

	2011 \$	2010 \$
Trade accounts receivable	2,742,211	2,058,381
Operating grants receivable (note 15)	4,016,990	8,403,816
Other receivables	4,419	72,397
	<hr/> 6,763,620	<hr/> 10,534,594

Integrated Grain Processors Co-operative Inc.

Notes to Consolidated Financial Statements

September 30, 2011

5 Inventory

	2011 \$	2010 \$
Fuel grade ethanol	1,903,821	925,550
Work in process	1,076,700	1,143,096
Feedstock, process chemicals and supplies	2,595,445	2,019,519
	5,575,966	4,088,165

6 Property, plant and equipment

	2011		
	Cost \$	Accumulated Amortization \$	Net \$
Land	2,923,721	-	2,923,721
Buildings	14,313,440	1,930,780	12,382,660
Site pipelines	2,287,513	339,944	1,947,569
Furniture and fixtures	93,703	39,711	53,992
Equipment	739,630	386,715	352,915
Process equipment	64,920,588	12,918,415	52,002,173
Gas pipeline under capital lease (note 8)	8,472,554	3,631,093	4,841,461
	93,751,149	19,246,658	74,504,491

	2010		
	Cost \$	Accumulated Amortization \$	Net \$
Land	2,923,721	-	2,923,721
Buildings	13,648,830	1,296,645	12,352,185
Site pipelines	2,287,513	237,440	2,050,073
Furniture and fixtures	75,703	28,463	47,240
Equipment	715,077	311,914	403,163
Process equipment	64,575,452	8,574,220	56,001,232
Gas pipe line under capital lease (note 8)	8,472,554	2,420,729	6,051,825
	92,698,850	12,869,411	79,829,439

Integrated Grain Processors Co-operative Inc.

Notes to Consolidated Financial Statements

September 30, 2011

7 Term debt

	2011 \$	2010 \$
Term debt	21,500,000	37,000,000
Less: Current portion	(3,822,000)	(5,150,000)
Less: Deferred financing costs	(1,284,355)	(2,513,888)
	<u>16,393,645</u>	<u>29,336,112</u>

The Co-operative entered into a credit agreement on June 15, 2007 with a lead bank as Agent for certain lenders to initially make the following credit facilities available:

- a) A seven year non-revolving term loan facility for \$63,700,000 to be used for construction of the plant with principal payments of \$3,822,000 commencing in 2009, due June 27, 2014.
- b) Certain non-revolving bridge facilities for construction costs prior to receipt of government funding in the amount of \$14,000,000.
- c) A seven year revolving term facility for working capital purposes not to exceed lesser of \$7,000,000 or the borrowing base. Borrowing base uses as collateral 85% of eligible receivables and inventory. During the year, the amount was reduced to \$6,000,000.

In 2009, the Co-operative had drawn the full amount allowed against the seven year non-revolving term loan facility. The revolving facility became available after substantial completion of the ethanol plant as defined under the credit agreement.

The credit agreement also provided a short-term bridge facility for \$14,000,000 which was repaid in March 2009 when the Co-operative received the \$14,000,000 capital grant from OMAFRA (note 15).

Deferred financing costs have been allocated to the term loan, revolving term facility and bridge facility. At year-end the unamortized balances allocated to these elements of the credit agreement are \$897,155 (2010 - \$1,933,088), \$387,200 (2010 - \$580,800) and Nil (2010 - Nil) respectively.

As at September 30, 2011, the Co-operative had \$2,754,481 (2010 - \$2,754,481) of letters of credit drawn against the seven year revolving term facility.

Integrated Grain Processors Co-operative Inc.

Notes to Consolidated Financial Statements

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During construction, interest was based on the variable banker's acceptance rate and a stamping fee of 3.75%. After substantial completion, the debt became a term debt with interest at the variable banker's acceptance rate and a stamping fee of 3.25% which was increased to 4% after negotiating the amendment to the credit agreement. The aggregate amount of principal payments required in each of the next three years under debt facilities are:

	\$
2012	3,822,000
2013	11,581,818
2014	<u>6,096,182</u>
	<u>21,500,000</u>

Debt repayments made on each repayment date has been the greater: of 70% of excess cash flows; and the difference between the outstanding amount and the target outstanding debt to a maximum of 100% of the excess cash flows. The target outstanding debt is reduced by \$2,895,455 per quarter. If there are no excess cash flows, the Co-operative is required to pay 1.50% of the initial debt outstanding for a total of \$955,500 per quarter, which has been disclosed in the principal payments required above and adjusted for the target outstanding debt amount. As at September 30, 2011, the target debt outstanding was \$31,850,000 (2010 - \$43,431,818). A voluntary prepayment feature allows the Co-operative to prepay a minimum of \$500,000 with adequate notice to the Agent.

Since the inception of the seven year revolving term facility, the Co-operative has made the following principal payments:

	\$
Term debt at inception	63,700,000
Principal payments in 2009	(9,728,812)
Principal payments in 2010	(16,971,188)
Principal payments in 2011	<u>(15,500,000)</u>
	<u>21,500,000</u>

Under the credit agreement, the Co-operative has provided security to the lenders, the key elements of which are as follows:

- a) a fixed and floating charge debenture in the amount of \$150,000,000;
- b) a general security agreement covering all assets of the Co-operative;
- c) an assignment of insurance; and
- d) a limited recourse guarantee and a securities pledge agreement

Integrated Grain Processors Co-operative Inc.

Notes to Consolidated Financial Statements

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8 Capital lease obligation

As part of the construction of the ethanol plant, it was necessary for the local natural gas distributor to construct a 29 km pipeline from a Union Gas trunk pipeline to the town of Aylmer. The costs of the pipeline are fully borne by the Co-operative, through 'aid-to-construct' payments, plus certain fixed gas delivery charges over a seven year contract period. While the Co-operative has no ownership interest in the pipeline, accounting guidelines require that in such instances where the value of the asset is fully recovered by the supplier and the customer has exclusive, or virtually exclusive, use of the asset, the arrangement is accounted for as a lease.

Accordingly, the Co-operative has recorded the capital cost of the pipeline as a capital lease, and the discounted value of certain fixed gas delivery charges over the next four years as a capital lease obligation, with notional interest of 15%. The details of the capital lease obligation are as follows:

Future minimum lease payments:	\$
2012	1,066,252
2013	1,066,252
2014	1,066,252
2015	<u>1,066,252</u>
	4,265,008
Amounts representing interest	<u>1,078,625</u>
	3,186,383
Less: Current portion	<u>619,905</u>
Long-term portion	<u><u>2,566,478</u></u>

In addition to the foregoing, the Co-operative is obligated to provide a letter of credit to the natural gas distributor to ensure performance under the agreement. At year end, a letter of credit in the amount of \$5,214,173 (2010 - \$5,214,173) was issued in their favour.

The final cost of the pipeline is currently under review by the Ontario Energy Board. Should the final costs differ from costs determined for purposes of calculating the capital lease obligation, the obligation will be adjusted accordingly.

Integrated Grain Processors Co-operative Inc.

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9 Subordinated debentures and notes

	2011 \$	2010 \$
Class A debentures maturing on December 31, 2013 and bearing interest at 8.50% per annum	1,070,000	1,070,000
Class B debentures maturing on December 31, 2013 and bearing interest at 7.50% per annum	37,000	37,000
Promissory notes maturing on December 31, 2010 and bearing interest at 8% per annum	-	731,544
	<hr/>	<hr/>
	1,107,000	1,838,544
Less: Current portion	-	731,544
	<hr/>	<hr/>
	1,107,000	1,107,000

The redemption of these subordinate debentures at maturity and the payment of interest thereon are subject to the prior consent of the lenders.

10 Capital stock

Authorized

Prior to June 8, 2010:

100,000 membership shares, voting, with a par value of \$100 each.

11,000,000 Class A preference shares, non-voting, redeemable at the discretion of the Board, with a par value of \$5 each.

5,000,000 Class B preference shares, non-voting, redeemable at the discretion of the Board, with a par value of \$5 each.

5,000,000 Class C preference shares, non-voting, redeemable at the discretion of the Board, with a par value of \$5 each.

5,000,000 Class D preference shares, non-voting, redeemable at the discretion of the Board, with a par value of \$5 each.

The Class A and Class B preference shares were redeemable at their par value, plus a premium, if any, equivalent to a pro rata share of retained earnings of the Co-operative, calculated at the end of the immediately preceding fiscal year subject to certain conditions. The Class C and D preference shares were redeemable at their par value. The preference shares do not carry a retraction right.

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Each of the Class A, B, C, and D preference shares were entitled to non-cumulative preferential dividends to be declared at the discretion of the Board.

With effect from June 8, 2010:

100,000 membership shares, voting, with a par value of \$100 each.

20,000,000 Class E preference shares, non-voting, redeemable at the discretion of the Board, with a par value of \$5 each.

The Class E preference shares are redeemable at their par value, plus a premium, if any, equivalent to a pro rata share of retained earnings of the Co-operative, calculated at the end of the immediately preceding fiscal year subject to certain conditions, plus a pro rata share of such premiums as may have been paid upon the purchase of any Class E preference shares. The preference shares do not carry a retraction right.

Each of the Class E preference shares is entitled to non-cumulative preferential dividends to be declared at the discretion of the Board.

In the prior year, all Class C and D preference shares were redeemed in full and all Class B preference shares were re-designated as Class A preference shares on a one to one basis. After which, all Class A preference shares were renamed as Class E preference shares. The Class A, B, C and D preference shares were deleted in the articles of amendment dated June 8, 2010, leaving only the membership shares and Class E preference shares authorized and issued at year end. These changes were approved by the members of the Co-operative at the Annual General Meeting on March 25, 2010.

Integrated Grain Processors Co-operative Inc.

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Issued and fully paid	Membership		Class E (Class A prior to June 8, 2010)		Class B		Class C		Class D		Total
	#	\$	#	\$	#	\$	#	\$	#	\$	\$
Issued at October 1, 2009	4,135	413,500	10,642,198	51,618,795	191,713	958,565	800	4,000	8,420	42,100	53,036,960
New subscriptions	-	-	-	-	2,000	10,000	-	-	-	-	10,000
Redemptions	(15)	(1,500)	(2,900)	(14,500)	(3,600)	(18,000)	(800)	(4,000)	(8,420)	(42,100)	(80,100)
Re-designation of Class B shares as Class E shares	-	-	190,113	950,565	(190,113)	(950,565)	-	-	-	-	-
Balance, September 30, 2010	4,120	412,000	10,829,411	52,554,860	-	-	-	-	-	-	52,966,860
New issues	5	500	-	-	-	-	-	-	-	-	500
Exercised stock options	-	-	15,624	78,120	-	-	-	-	-	-	78,120
Share conversions	-	-	1,000	5,000	-	-	-	-	-	-	5,000
Redemptions	(140)	(14,000)	-	-	-	-	-	-	-	-	(14,000)
Return of capital	-	-	-	(5,247,520)	-	-	-	-	-	-	(5,247,520)
Balance, September 30, 2011	3,985	398,500	10,846,035	47,390,460	-	-	-	-	-	-	47,788,960

Integrated Grain Processors Co-operative Inc.

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11 Capital disclosures

The Co-operative has two primary capital management objectives. The first of which is to raise and maintain a capital base to finance the construction and operation of an ethanol manufacturing facility. In compliance with the credit agreement, membership and preference shares and subordinate debentures (“securities”) have been issued. These securities are governed by the Co-operative Corporations Act. Annually, an Offering Statement is filed with the Superintendent (Financial Services Corporation of Ontario).

The second primary capital management objective is to safeguard the Co-operative’s ability to continue as a going concern so that it can provide returns to its shareholders and benefits for other stakeholders. In this context, management considers capital to be its net worth as defined in the credit agreement as containing shareholders' equity and capital grants. The agent for the syndicate of the term debt has imposed certain covenants in connection with the term debt and credit facilities. As at September 30, 2011, the Co-operative was in compliance with these covenants.

12 Financial instruments

Fair value

The fair value of financial instruments, such as cash, restricted cash, accounts receivable, and accounts payable and accrued liabilities are determined to approximate their recorded value due to their short term maturity.

Commodity derivative contracts and the interest rate swap contract are carried at fair value.

The research and development fund liability has been recorded at fair value at the time of recognition and is carried at amortized cost (note 15).

Management has not determined the fair value of its bank debt, capital lease obligations or subordinated debentures and notes.

Credit risk

The Co-operative’s exposure to credit risk relates to its accounts receivable. Due to the exclusive marketing arrangements for ethanol and distillers grains, all of the trade accounts receivables are with two customers.

Interest rate risk

The Co-operative is exposed to fluctuations in interest rates on its cash, restricted cash and term debt. A portion of this risk due to variable interest rates has been addressed by the use of interest rate swap contracts (note 18).

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13 Commodity derivative contracts

The Co-operative is exposed to the impact of market fluctuations associated with commodity prices and uses derivative financial instruments as part of an overall strategy to manage market risk, assuming it has sufficient liquidity to manage such a strategy. The Co-operative uses cash, futures, swaps, costless collars and option contracts to mitigate against the risk of changes to the commodity prices of corn, natural gas and ethanol. The Co-operative will not enter into these derivative financial instruments for trading or speculative purposes, nor will it designate these contracts as cash flow or fair value hedges for accounting. These financial instruments are accounted for using the mark-to-market method, with any changes in fair value immediately recognized in operations.

At September 30, 2011, the Co-operative had the following derivative contracts outstanding:

	Average cost/price in USD	Expiry
Natural gas	\$4.25 - \$5.00 / MMBtu	November 2011 - December 2011

The net market value of these open positions is an unrealized loss of \$100,662 (2010 - \$898,991).

14 Commitments

Corn supply agreement

The Co-operative has entered into an exclusive agreement for the supply of corn for production of ethanol for an initial term of five years from October 1, 2008, and it is expected that 400,000 metric tonnes are to be supplied each year. The Co-operative is also required under the agreement to provide adequate assurance for the corn supplier's mark-to-market exposure over a pre-determined threshold. At year end, the Co-operative had deposited \$Nil (2010 - \$500,000) with the corn supplier with respect to this commitment, and this amount is recorded in prepaid expenses and deposits.

Risk management agreement

The Co-operative has entered into an agreement with a risk management services provider to implement an integrated price risk management program for an initial term of one year from June 22, 2007 and is automatically renewed each year for an additional one year term.

Ethanol marketing agreement

The Co-operative has entered into an exclusive agreement with an ethanol marketer for the marketing of all of the ethanol production for an initial term of one year from the first day of production, which was October 15, 2008, and the agreement has been renewed for an additional two year term. The ethanol marketing company has agreed to take and pay for 100% of the output.

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Distillers grain purchaser agreement

The Co-operative has entered into an exclusive agreement with a marketer to market the following by-products of ethanol production: dry grains with solubles, wet grains with solubles, and wet modified grains with solubles for an initial term of five years from the first day of production, which was October 15, 2008.

15 Government grants

Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA)

The Co-operative has been awarded two grants from OMAFRA:

- a) In March 2009, the Co-operative received a capital grant of \$14,000,000 after completion of the project and achieving nameplate capacity by establishing the capability of producing 145,000,000 litres of ethanol in a calendar year. As a condition precedent to receiving the grant, the Co-operative is committed to contribute \$2,800,000 over ten years to a future industry related Research and Development Fund, as administered by the Agricultural Research Institute of Ontario. The first payment is to be made on April 1, 2012, three years after the full grant was received. An amount of \$1,653,921, representing the present value of these payments discounted at 6.60%, was recorded as a research and development fund liability, thus reducing the amount of capital grant recognized for the purpose of recording the net cost of capital assets. At year end, the balance of this obligation was \$1,941,464 (2010 - \$1,821,261).
- b) An operating grant was activated when the plant began operation in October 2008. Funding is based on the actual volume of denatured ethanol produced in a month times the rate of payment for that month (not to exceed \$0.11 per litre) subject to an annual maximum of 145,000,000 litres. During the current and prior year, the Co-operative reached this maximum and earned \$14,918,113 (2010 - \$10,822,542) in operating grants (2011 - \$0.1028 per litre, 2010 - \$0.0746 per litre), of which \$1,818,598 (2010 - \$1,868,872) has been accrued as an amount receivable. The agreement is set to expire December 31, 2016.

If the profitability of the Co-operative reaches or exceeds the threshold of 17.50% as calculated by the internal rate of return on a cash flow basis, the grant is reduced by 40%. This reduction increases incrementally up to 100% if profitability remains above 17.50%. As at September 30, 2011, the Co-operative's internal rate of return was below the threshold of 17.50%.

Ethanol Expansion Program contribution

This capital grant, managed by NRCan (Natural Resources Canada), has reimbursed \$11,900,000 of construction costs for the ethanol facility.

For each of the calendar years from 2009 to 2016 inclusive or until the grants have been repaid in full, the Co-operative must repay an amount calculated as of December 31 of each year as follows:

(Average Gross Income per Litre minus \$0.20 per litre) X the total Fuel Ethanol Produced in the previous twelve (12) months X 0.20

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If the average gross income per litre is \$0.20 or less, the repayment will be zero. During the year, the Co-operative repaid \$179,021 (2010 \$Nil) of this capital grant as the average gross income per litre exceeded \$0.20 for calendar year 2010.

ecoEnergy for Biofuels

The Co-operative qualified for an operating grant under the Federal Government's ecoEnergy for Biofuels program, managed by NRCan. The operating grant is payable quarterly, from 2008 to 2016. The maximum incentive rate payable declines from \$0.10 per litre of ethanol sold in the first year to \$0.04 per litre in the last. The maximum eligible sales volume is 162,000,000 litres per year. During the current and prior years, the Co-operative reached the maximum eligible sales volume and earned \$13,776,928 (2010 - \$16,293,622) in operating grants (2011 - \$0.0849 per litre, 2010 - \$0.0957 per litre) of which \$2,198,392 (2010 - \$6,534,944) has been accrued as an amount receivable.

EcoAgriculture Biofuels Capital Program contribution

On March 27, 2009, Agriculture and Agri-Food Canada signed an amendment to the agreement which increased the grant to \$6,087,514. The grant is based on eligible project costs and maintaining a minimum level of investment in its parent by agriculture producers. This grant was received during the fiscal 2010 year.

16 Interest

	2011 \$	2010 \$
Term debt	1,577,257	2,122,255
Settlement interest on swap	729,012	1,108,995
Subordinated debentures and notes	103,365	163,755
Capital lease obligation	526,584	601,817
Other	124,239	187,232
	<hr/> 3,060,457	<hr/> 4,184,054

Integrated Grain Processors Co-operative Inc.

Notes to Consolidated Financial Statements

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17 Income taxes

The Co-operative has non-capital losses available for carry forward of \$1,577,835 (2010 - \$1,398,308) that may only be offset against future taxable income. The non-capital losses consist of \$1,020,636 (2010 - \$841,109) which can be carried forward for 20 years and \$557,109 (2010 - \$557,199) which can be carried forward for ten years. In addition, the Co-operative has capital losses available for carry-forward of \$736,539 (2010 - \$736,539) that may be offset against future capital gains. These losses have no expiry date. The Co-operative has recognized the benefit of the non-capital losses as these are expected to be recovered, while the benefit of the capital losses has not been recognized because the timing of the recovery is unknown.

18 Interest rate swap contracts

Under the terms of the credit agreement, on August 30, 2007, the Co-operative entered into monthly interest rate swap contracts to match the construction drawdown and term debt repayment schedule. These swap agreements convert a portion of the variable-rate liability into a fixed-rate liability. At September 30, 2011, the unrealized loss on these interest rate swap agreements was \$944,838 (2010 - \$1,436,240).

Terms of the agreement at September 30, 2011 are as follows:

Termination date:	June 1, 2014
Notional amount of principal (maximum):	\$15,925,000 (2010 - \$21,175,909)
Fixed paying rate:	4.91%

19 Net change in non-cash working capital balances

	2011	2010
	\$	\$
(Increase) decrease in:		
Accounts receivable	3,770,974	4,001,751
Inventories	(1,487,801)	(588,437)
Prepaid expenses and deposits	1,608,835	(1,506,001)
Income taxes recoverable	(229,636)	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	825,105	(3,350,015)
Income taxes payable	(540,517)	453,517
	<hr/>	<hr/>
	3,946,960	(989,185)
Cash paid (received) during the year for:		
Interest paid	2,397,689	4,063,771
Interest received	(52,207)	(27,803)
Income taxes paid	1,195,000	87,483

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20 Stock options

Integrated Grain Processors Co-operative Inc. is authorized to grant certain directors options to purchase Class E (Class A prior to June 8, 2010) preference shares of the Co-operative. The Co-operative, in a prior year, authorized \$695,300 worth of Class A preference share options to certain directors for services provided prior to substantial completion of the ethanol plant which occurred on October 15, 2008.

These options vest when exercised and under the Co-operative Corporations Act are exercisable at \$5.00 per share until they expire on June 24, 2017. They will be deemed to have been automatically exercised immediately before any change in control of the Co-operative or before the sale of substantially all of its assets.

The Co-operative had also, in a prior year, authorized \$124,500 worth of Class A preference share options and \$500 worth of membership share options to a non-employee for services provided leading up to obtaining financing. These options were settled with a cash payment of \$25,000 in the current year and \$100,000 in the prior year.

During the year, the Co-operative received \$156 from the exercise of 15,624 options at \$0.01 per Class E preference share. Capital stock and contributed surplus were each adjusted by \$78,120 for stock-based compensation previously recorded on these exercised stock options.

	2011 \$	2010 \$
Options granted to acquire 139,060 Class E (Class A prior to June 8, 2010) preference shares to directors	695,300	695,300
Options exercised to acquire 15,624 Class E preference shares by directors	(78,120)	-
Total stock options - End of year	<u>617,180</u>	<u>695,300</u>

21 Contingencies

The Co-operative has been named as a defendant in a lawsuit arising from the construction of the gas pipeline. The outcome of this claim is not currently determinable, however management is of the view that no payments will be made, other than defense costs, as a result of the claim. Any settlement that should arise will be accounted for in the year that a liability is established.

22 Statutory information

The remuneration of directors, as defined by the Co-operative Corporation Act R.S.O. 1990, Chapter C.35 is \$252,724 (2010 - \$223,704).

23 Comparative financial information

Certain prior period financial information has been amended to conform to the current period presentation.

