

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED JANUARY 31, 2014

COMMISSION FILE NO. 001-09097

REX AMERICAN RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

31-1095548
(I.R.S. Employer Identification No.)

7720 Paragon Road, Dayton, Ohio
(Address of principal executive offices)

45459
(Zip Code)

Registrant's telephone number, including area code (937) 276-3931

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No R

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No F

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No F

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. F

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer F Accelerated filer R Non-accelerated filer F Smaller reporting company F
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes F No R

At the close of business on July 31, 2013 the aggregate market value of the registrant's outstanding Common Stock held by non-affiliates of the registrant (for purposes of this calculation, 2,602,773 shares beneficially owned by directors and executive officers of the registrant were treated as being held by affiliates of the registrant), was \$202,530,910.

There were 8,120,561 shares of the registrant's Common Stock outstanding as of April 8, 2014.

Documents Incorporated by Reference

Portions of REX American Resources Corporation's definitive Proxy Statement for its Annual Meeting of Shareholders on June 3, 2014 are incorporated by reference into Part III of this Form 10-K.

FORWARD-LOOKING STATEMENTS

This Form 10-K contains or may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such statements can be identified by use of forward-looking terminology such as “may,” “expect,” “believe,” “estimate,” “anticipate” or “continue” or the negative thereof or other variations thereon or comparable terminology. Readers are cautioned that there are risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. These risks and uncertainties include the risk factors set forth from time to time in the Company’s filings with the Securities and Exchange Commission and include among other things: the impact of legislative changes, the price volatility and availability of corn, distillers grains, ethanol, non-food grade corn oil, gasoline, natural gas, ethanol plants operating efficiently and according to forecasts and projections, changes in the national or regional economies, weather, the effects of terrorism or acts of war and changes in real estate market conditions. The Company does not intend to update publicly any forward-looking statements except as required by law. Other factors that could cause actual results to differ materially from those in the forward-looking statements are set forth in Item 1A.

AVAILABLE INFORMATION

REX makes available free of charge on its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. REX’s Internet website address is www.rexamerican.com. The contents of the Company’s website are not a part of this report.

PART I

Item 1. Business

Overview

REX was incorporated in Delaware in 1984 as a holding company to succeed to the entire ownership of three affiliated corporations, Rex Radio and Television, Inc., Stereo Town, Inc. and Kelly & Cohen Appliances, Inc., which were formed in 1980, 1981 and 1983, respectively. Our principal offices are located at 7720 Paragon Road, Dayton, Ohio 45459. Our telephone number is (937) 276-3931. Historically, we were a specialty retailer in the consumer electronics and appliance industry serving small to medium-sized towns and communities. In addition, we have been an investor in various alternative energy entities beginning with synthetic fuel partnerships in 1998 and later ethanol production facilities beginning in 2006. Recognizing the change in our business, we changed our corporate name from REX Stores Corporation to REX American Resources Corporation in 2010 as we completed the diversification out of the retail business into the ethanol business.

At January 31, 2014, we had lease agreements, as landlord, for four owned former retail stores and had seven vacant former retail properties. We are marketing these vacant properties to lease or sell. Should our marketing efforts result in additional tenants to whom we lease property, we would expect to execute leases with terms of five to twenty years.

We are currently invested in four ethanol production entities, two of which we have a majority ownership interest in. We may make additional investments in the energy industry during fiscal year 2014.

Our ethanol operations are highly dependent on commodity prices, especially prices for corn, ethanol, distillers grains, non-food grade corn oil and natural gas. As a result of price volatility for these commodities, our operating results can fluctuate substantially. The price and availability of corn is subject to

significant fluctuations depending upon a number of factors that affect commodity prices in general, including crop conditions, weather, federal policy and foreign trade. Because the market price of ethanol is not always directly related to corn prices, at times ethanol prices may lag movements in corn prices and, in an environment of higher prices, reduce the overall margin structure at the plants. As a result, at times, we may operate our plants at negative or marginally positive operating margins.

We expect our ethanol plants to produce approximately 2.8 gallons of denatured ethanol for each bushel of grain processed in the production cycle. We refer to the difference between the price per gallon of ethanol and the price per bushel of grain (divided by 2.8) as the “crush spread.” Should the crush spread decline, it is possible that our ethanol plants will generate operating results that do not provide adequate cash flows for sustained periods of time. In such cases, production at the ethanol plants may be reduced or stopped altogether in order to minimize variable costs at individual plants.

We attempt to manage the risk related to the volatility of grain and ethanol prices by utilizing forward grain purchase and forward ethanol and distillers grain sale contracts. We attempt to match quantities of ethanol and distillers grains sale contracts with an appropriate quantity of grain purchase contracts over a given period of time when we can obtain an adequate gross margin resulting from the crush spread inherent in the contracts we have executed. However, the market for future ethanol sales contracts is not a mature market. Consequently, we generally execute fixed price contracts for no more than four months into the future at any given time and we may lock in our corn price without having a corresponding locked in ethanol price for short durations of time. As a result of the relatively short period of time our fixed price contracts cover, we generally cannot predict the future movements in the crush spread for more than four months; thus, we are unable to predict the likelihood or amounts of future income or loss from the operations of our ethanol facilities.

The crush spread realized in 2013 was subject to significant volatility. For calendar year 2013, the average Chicago Board of Trade (“CBOT”) near-month corn price was approximately \$5.45 per bushel, ranging from a low of approximately \$4.12 per bushel in November 2013 to a high of approximately \$7.36 per bushel in February 2013. Corn prices were high at the beginning of 2013 as a result of the drought condition experienced in the Midwest in 2012 and decreased later in 2013 as a result of the much improved corn harvest in 2013. Ethanol prices had significant fluctuations ranging from approximately \$1.61 per gallon in November 2013 to approximately \$2.74 per gallon in May 2013. Ethanol and corn prices have tended to trade in the same direction but with varying spreads. In 2013, the CBOT crush spread (excludes any impact from variations in local corn and ethanol prices due to basis paid or charged) ranged from a low of approximately negative \$0.16 per gallon in February 2013 to a high of approximately \$0.70 per gallon in August 2013. The actual crush spreads we realized varied from the published CBOT crush spreads as we paid larger than normal basis for corn for much of 2013 resulting from the 2012 drought and risk management practices.

We reported segment profit (before income taxes and noncontrolling interests) from our alternative energy segment of approximately \$63.2 million in fiscal year 2013 compared to a segment loss of approximately \$1.0 million in fiscal year 2012. The increase in profitability primarily resulted from higher crush spreads (compared to the prior year) experienced in the ethanol industry for a majority of fiscal year 2013 and lower corn prices in the second half of fiscal year 2013 resulting from the improved corn harvest in the current year. We expect that future operating results, from our consolidated plants, will be based upon combined annual production of between 200 and 230 million gallons of ethanol, which assumes that our consolidated ethanol plants will operate at or above nameplate capacity. However, due to the inherent volatility of the crush spread, we cannot predict the likelihood of future operating results being similar to the fiscal year 2013 results.

We plan to seek and evaluate various investment opportunities including energy related, agricultural or other ventures we believe fit our investment criteria. We can make no assurances that we will be successful in our efforts to find such opportunities.

Through a wholly owned subsidiary REX I.P., LLC, we have entered into a joint venture with Hytken HPGP LLC to file and defend patents for eSteam technology relating to heavy oil and oil sands production methods, and to commercially exploit the technology to generate license fees, royalty income and development opportunities. The patented technology is an enhanced method of heavy oil recovery involving zero emissions downhole steam generation. We own 60%, and Hytken HPGP owns 40% of the entity named Future Energy, LLC (“Future Energy”), an Ohio limited liability company. Future Energy is managed by a board of three managers, two appointed by us and one by Hytken HPGP. The owner of Hytken HPGP has been retained as a consultant.

We have agreed to fund direct patent expenses relating to patent applications and defense, annual annuity fees and maintenance on a country by country basis, with the right to terminate funding and transfer related patent rights to Hytken HPGP. We may also fund, through loans, all costs relating to new intellectual property, consultants, and future research and development, pilot field tests and equipment purchases for commercialization stage of the patents. To date, we have paid approximately \$1.0 million for our ownership interest, patent and other expenses. Results of the formation and year to date operations of Future Energy were immaterial to the Consolidated Financial Statements.

Additional information regarding our business segments is presented below and in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) in this Form 10-K. See Note 18 of the Notes to the Consolidated Financial Statements for information regarding the net sales and revenues and operating results for each of our business segments for the fiscal years ended January 31, 2014, 2013 and 2012.

Fiscal Year

All references in this report to a particular fiscal year are to REX’s fiscal year ended January 31. For example, “fiscal year 2013” means the period February 1, 2013 to January 31, 2014. We refer to our fiscal year by reference to the year immediately preceding the January 31 fiscal year end date.

Alternative Energy Overview

As part of our efforts to diversify and increase our earnings, we began investing in the ethanol industry during fiscal year 2006. We seek to identify quality ethanol plant opportunities located near adequate feedstock supply with good transportation capabilities or other economically beneficial attributes, and that utilize leading ethanol production technology.

We follow a flexible model for our investments in ethanol plants, taking both minority and majority ownership positions. The form and structure of our investments is tailored to the specific needs and goals of each project and the local farmer group or investor with whom we are partnering. We generally participate in the management of our projects through our membership on the board of managers of the limited liability companies that own the plants.

Ethanol Investments

We have invested in four entities as of January 31, 2014, utilizing equity investments. The following table is

a summary of our ethanol investments at January 31, 2014 (gallons in millions):

Entity	Trailing 12 Months Ethanol Gallons Shipped	REX's Current Ownership Interest	Current Effective Ownership of Trailing 12 Months Ethanol Gallons Shipped
One Earth Energy, LLC	113.2	74%	83.8
NuGen Energy, LLC	114.0	99%	112.9
Patriot Holdings, LLC	120.6	27%	32.6
Big River Resources W Burlington, LLC	104.1	10%	10.4
Big River Resources Galva, LLC	112.5	10%	11.3
Big River United Energy, LLC	116.8	5%	5.8
Big River Resources Boyceville, LLC	55.5	10%	5.6
Total	736.7		262.4

One Earth Energy, LLC

On October 30, 2007, we acquired 74% of the outstanding membership units of One Earth Energy, LLC, or One Earth, for \$50.8 million. We consolidate One Earth with our financial results and include them in our alternative energy segment. One Earth completed construction and commenced operations in the second quarter of fiscal year 2009 of its ethanol production facility in Gibson City, Illinois.

NuGen Energy, LLC

Effective July 1, 2010, we acquired a 48% equity interest in NuGen Energy, LLC, or NuGen, which operates an ethanol producing facility in Marion, South Dakota. We consolidate NuGen with our financial results and include them in our alternative energy segment. Our investment included \$2,410,000 paid at closing to the then sole shareholder of NuGen and \$6,805,000 contributed directly to NuGen. An additional \$6,451,000 was due based upon cash distributions from NuGen ("Contingent Consideration"). On November 1, 2011, we acquired an additional 50% equity interest in NuGen. Following the purchase, we owned all of the outstanding Class A membership interest units in NuGen, representing a 100% voting interest and a 98% equity interest in NuGen. The purchase price, which included settlement of our remaining Contingent Consideration liability, was \$12,678,000. We also contributed an additional \$7,000,000 to NuGen at closing. During fiscal year 2012, NuGen repurchased units from certain members, which has resulted in REX owning a 99% equity interest in NuGen.

Patriot Holdings, LLC

We have invested approximately \$18.0 million in Patriot Holdings, LLC, or Patriot, for a 27% ownership interest. Patriot commenced production operations in the second quarter of fiscal year 2008. The plant is located in Annawan, Illinois.

Big River Resources, LLC

We have invested \$20 million in Big River Resources, LLC, or Big River, for a 10% ownership interest. Big River is a holding company for several entities including Big River Resources West Burlington, LLC which operates an ethanol plant in West Burlington, Iowa. Big River completed construction in the second quarter of fiscal year 2009 of its second plant which is located in Galva, Illinois. In August 2009, Big River

acquired a 50.5% interest in an ethanol production facility which is located in Dyersville, Iowa. Reflecting REX's 10% ownership interest in Big River, we have an effective 5% ownership interest in this entity. In December 2011, Big River acquired a 100% interest in an ethanol production facility which is located in Boyceville, Wisconsin. Big River also operates five agricultural elevators with a storage capacity of 10 million bushels. During fiscal year 2013, Big River invested in a zein protein plant.

Ethanol Industry

Ethanol is a renewable fuel source produced by processing corn and other biomass through a fermentation process that creates combustible alcohol that can be used as an additive or replacement to fossil fuel based gasoline. The majority of ethanol produced in the United States is made from corn because of its wide availability and ease of convertibility from large amounts of carbohydrates into glucose, the key ingredient in producing alcohol that is used in the fermentation process. Ethanol production can also use feedstocks such as grain sorghum, switchgrass, wheat, barley, potatoes and sugarcane as carbohydrate sources. Most ethanol plants have been located near large corn production areas, such as Illinois, Indiana, Iowa, Minnesota, Nebraska, Ohio and South Dakota. Railway access and interstate access are vital for ethanol facilities due to the large amount of raw materials and finished goods required to be shipped to and from the ethanol plant facilities.

According to the Renewable Fuels Association, or RFA, the United States ethanol industry produced an estimated 13.3 billion gallons of ethanol in 2013. According to the RFA, as of January 2014, the United States ethanol industry has grown to 210 plants (192 operating) in 28 states with an annual nameplate capacity of approximately 14.9 billion gallons (approximately 14.0 billion gallons at operating plants) of ethanol production.

On December 19, 2007, the Energy Independence and Security Act of 2007 (the "Energy Act of 2007") was enacted. The Energy Act of 2007 established new levels of renewable fuel mandates, including two different categories of renewable fuels: conventional biofuels and advanced biofuels. Corn-based ethanol is considered conventional biofuels which was subject to a renewable fuel standard ("RFS") of at least 13.8 billion gallons per year in 2013. The RFS was scheduled to increase to 14.4 billion gallons in 2014 and 15.0 billion gallons thereafter. Advanced biofuels include ethanol derived from cellulose, hemicellulose or other non-corn starch sources; biodiesel; and other fuels derived from non-corn starch sources. Advanced biofuels RFS levels are set to reach at least 21.0 billion gallons per year, resulting in a total RFS from conventional and advanced biofuels of at least 36.0 billion gallons per year by 2022. The Environmental Protection Agency has proposed to reduce the mandates for 2014 to approximately 13.0 billion gallons from conventional biofuels and approximately 2.2 billion gallons from advanced biofuels. The reduced mandates for 2014 were subject to a public comment period which ended in January 2014 and final regulations are expected to be established later in 2014. Presently, there have been no changes proposed for years beyond 2014.

Ethanol Production

The plants we have invested in are designed to use the dry milling method of producing ethanol. In the dry milling process, the entire corn kernel is first ground into flour, which is referred to as "meal," and processed without separating out the various component parts of the grain. The meal is processed with enzymes, ammonia and water, and then placed in a high-temperature cooker. It is then transferred to fermenters where yeast is added and the conversion of sugar to ethanol begins. After fermentation, the resulting liquid is transferred to distillation columns where the ethanol is separated from the remaining "stillage" for fuel uses. The anhydrous ethanol is then blended with denaturant, such as natural gasoline, to render it undrinkable and thus not subject to beverage alcohol tax. With the starch elements of the corn consumed in the above

described process, the principal co-product produced by the dry milling process is dry distillers grains with solubles, or DDGS. DDGS is sold as a protein used in animal feed and recovers a significant portion of the corn cost not absorbed in ethanol production. During fiscal year 2012, we began generating revenues from non-food grade corn oil at our One Earth and NuGen facilities. Non-food grade corn oil is sold to the animal feed market, as well as biodiesel and other chemical markets.

The Primary Uses of Ethanol

Blend component. Today, much of the ethanol blending in the U.S. is done for the purpose of extending the volume of fuel sold at the gas pump and to meet the RFS. Blending ethanol allows refiners to produce more fuel from a given barrel of oil. Currently, ethanol is blended into approximately 96% of the gasoline sold in the United States, the majority as E-10 (a blend of 10% ethanol and 90% gasoline), according to the RFA. Going forward, the industry is attempting to expand the E-85 market, as well as to raise the federal cap on ethanol blend above the current 10% for most vehicles in use. The U.S. Environmental Protection Agency approved the use of 15% ethanol in gasoline for cars, SUV's and light duty trucks made in 2001 and later. Despite this, it will take time for this measure to be implemented and is still being met with great resistance.

Clean air additive. Ethanol is employed by the refining industry as a fuel oxygenate, which when blended with gasoline, allows engines to combust fuel more completely and reduce emissions from motor vehicles. Ethanol contains 35% oxygen, which results in more complete combustion of the fuel in the engine cylinder. Oxygenated gasoline is used to help meet certain federal and air emission standards.

Octane enhancer. Ethanol increases the octane rating of gasoline with which it is blended. As such, ethanol is used by gasoline suppliers as an octane enhancer both for producing regular grade gasoline from lower octane blending stocks and for upgrading regular gasoline to premium grades.

Legislation

The United States ethanol industry is highly dependent upon federal and state legislation. See Item 1A. Risk Factors for a discussion of legislation affecting the U.S. ethanol industry.

Synthetic Fuel Partnerships

We had invested in three limited partnerships which owned facilities producing synthetic fuel. The partnerships earned federal income tax credits under Section 29/45K of the Internal Revenue Code based upon the tonnage and content of solid synthetic fuel produced and sold to unrelated parties. We received a final payment of approximately \$2.9 million in fiscal year 2011 related to the sale of one of the partnerships. The Section 29/45K tax credit program expired on December 31, 2007. As such, we will not receive additional income from these investments.

Real Estate Operations

At January 31, 2014, we had lease agreements, as landlord, for four owned former retail stores (51,000 square feet). We have seven owned former retail stores (86,000 square feet), that are vacant at January 31, 2014. We are marketing these vacant properties to lease or sell.

A typical lease agreement has an initial term of five to twenty years with renewal options. Most of our lessees are responsible for a portion of maintenance, taxes and other executory costs. We require our lessees to maintain adequate levels of insurance. We recognized lease revenue of approximately \$466,000 and \$472,000 during fiscal years 2013 and 2012, respectively.

Retail

When we operated retail stores, we offered extended service contracts to our customers which typically provided, inclusive of manufacturers' warranties, one to five years of warranty coverage. All such service contracts have expired as of January 31, 2014. We recognized the associated deferred income and expenses, including the cost to repair or replace covered products, over the remaining life of the contracts. We have classified as discontinued operations all retail related activities, including those activities associated with extended service plans, in the Consolidated Statements of Operations for all periods presented.

Facilities

At January 31, 2014, we own four former retail store properties that are leased to outside, unrelated parties, and seven vacant former retail store properties that we are attempting to either lease or sell. We also own the office building (approximately 7,500 square feet) our corporate headquarters are located in. Our consolidated ethanol entities own a combined 408 acres of land and two facilities with an annual nameplate capacity of 100 million gallons of ethanol each.

Employees

At January 31, 2014, we had 105 employees at our two consolidated ethanol plants and at our corporate headquarters. None of our employees are represented by a labor union. We expect this employment level to remain relatively stable. We consider our relationship with our employees to be good.

Service Marks

We have registered the service marks "REX", and "Farmers Energy", with the United States Patent and Trademark Office. We are not aware of any adverse claims concerning our service marks.

Item 1A. Risk Factors

We encourage you to carefully consider the risks described below and other information contained in this report when considering an investment decision in REX common stock. Any of the events discussed in the risk factors below may occur. If one or more of these events do occur, our results of operations, financial condition or cash flows could be materially adversely affected. In this instance, the trading price of REX stock could decline, and investors might lose all or part of their investment.

We have concentrations of cash deposits at financial institutions that exceed federal insurance limits.

We generally have cash deposits that exceed federal insurance limits. Should the financial institutions we deposit our cash at experience insolvency or other financial difficulty, our access to cash deposits could be limited. In extreme cases, we could lose our cash deposits entirely. This would negatively impact our liquidity and results of operations.

The current interest rate environment has resulted in lower yields on our excess cash.

We have experienced lower yields on our excess cash compared to historical yields. Should the present economic conditions result in a sustained period of historically low interest rates, our interest income would be negatively impacted.

Risks Related to our Income Tax Benefits

We may not be able to generate sufficient taxable income to realize our deferred tax assets.

We have approximately \$19.8 million of alternative minimum tax (“AMT”) credit carryforwards recorded as deferred tax assets on our consolidated financial statements. Should future results of operations or other factors cause us to determine that it is not more likely than not that we will generate sufficient taxable income to fully utilize our deferred tax assets, we would then be required to establish a valuation allowance against such deferred tax assets. We would increase our income tax expense by the amount of the tax benefit we do not expect to realize. This would negatively impact our net income (loss) and could have a material adverse effect on our results of operations and our financial position.

Risks Related to our Alternative Energy Business

The ethanol industry is changing rapidly which could result in unexpected developments that could negatively impact our operations.

According to the RFA, the ethanol industry has grown from approximately 1.5 billion gallons of annual ethanol production in 1999 to approximately 13.3 billion gallons of annual ethanol production in 2013. Thus, there have been significant changes in the supply and demand of ethanol over a relatively short period of time which could lead to difficulty in maintaining profitable operations at our ethanol plants.

If cash flow from operations of our ethanol plants is not sufficient to service debt, the plants could fail and we could lose our entire investment.

The ethanol companies we have invested in have varying levels of long term debt. The ability of each company owning the plant to repay borrowings incurred will depend upon the plant’s financial and operating performance. The cash flows and capital resources of an ethanol plant may be insufficient to repay its debt obligations. If a plant cannot service its debt, it may be forced to reduce or delay capital expenditures, sell assets, restructure its indebtedness or seek additional capital. If unable to do so, the value of our investment could decline significantly.

The institutional senior lenders to the companies which own and operate our ethanol plants hold liens on the plant’s assets. If a company fails to make its debt service payments, the senior lender will have the right to repossess the plant’s assets in addition to other remedies, which are superior to our rights as an equity investor. Such action could have a material adverse impact on our investment in the ethanol plant.

We operate in a capital intensive industry. Limitations to external financing could adversely affect our financial performance.

We may need to incur additional financing to fund growth of our business or in times of increasing liquidity requirements (such as increases in raw material costs). Any delays to obtain additional financing, or our inability to do so, could have a material adverse impact on our financial results.

The financial returns on our ethanol investments are highly dependent on commodity prices, which are subject to significant volatility and uncertainty, and the availability of supplies, so our results could fluctuate substantially.

The financial returns on our ethanol investments are highly dependent on commodity prices, especially prices for corn or other feedstock, natural gas, ethanol and unleaded gasoline. As a result of the volatility of

the prices for these items, the returns may fluctuate substantially and our investments could experience periods of declining prices for their products and increasing costs for their raw materials, which could result in operating losses at our ethanol plants.

Our returns on ethanol investments are highly sensitive to grain prices. Corn is the principal raw material our ethanol plants use to produce ethanol and co-products. As a result, changes in the price of corn can significantly affect their businesses. Rising corn prices result in higher costs of ethanol and co-products. Because ethanol competes with non-corn-based fuels, our ethanol plants may not be able to pass along increased grain costs to their customers. At certain levels, grain prices may make ethanol uneconomical to produce.

The price of corn is influenced by weather conditions and other factors affecting crop yields, transportation costs, farmer planting decisions, exports, the value of the U.S. dollar and general economic, market and regulatory factors. These factors include government policies and subsidies with respect to agriculture and international trade and global and local demand and supply. The significance and relative effect of these factors on the price of corn is difficult to predict. Any event that tends to negatively affect the supply of corn, such as adverse weather or crop disease, could increase corn prices and potentially harm the business of our ethanol plants. Increasing domestic ethanol capacity could boost the demand for corn and result in increased corn prices. Much of the Midwestern United States experienced drought conditions during 2012 which led to a smaller harvest of corn and increased corn prices. Our ethanol plants may also have difficulty, from time to time, in physically sourcing corn on economical terms due to supply shortages. Such a shortage could require our ethanol plants to suspend operations which would have a material adverse effect on our consolidated results of operations.

The spread between ethanol and corn prices can vary significantly. The gross margin at our ethanol plants depends principally on the spread between ethanol and corn prices. Fluctuations in the spread are likely to continue to occur. A sustained narrow or negative spread, whether as a result of sustained high or increased corn prices or sustained low or decreased ethanol prices, would adversely affect the results of operations at our ethanol plants.

Our risk management strategies may be ineffective and may expose us to decreased profitability and liquidity. In an attempt to partially offset the impact of volatility of commodity prices, we enter into forward contracts to sell a portion of our ethanol and distillers grains production and to purchase a portion of our corn and natural gas requirements. The financial impact of these risk management activities is dependent upon, among other items, the prices involved and our ability to receive or deliver the commodities involved. Risk management activities can result in financial loss when positions are purchased in a declining market or when positions are sold in an increasing market. We vary the amount of risk management techniques we utilize, and we may choose not to engage in any risk management activities. Should we fail to properly manage the inherent volatility of commodities prices, our results of operations and financial condition may be adversely affected.

The market for natural gas is subject to market conditions that create uncertainty in the price and availability of the natural gas that our ethanol plants use in their manufacturing process. Our ethanol plants rely upon third parties for their supply of natural gas, which is consumed as fuel in the production of ethanol. The prices for and availability of natural gas are subject to volatile market conditions. These market conditions often are affected by factors beyond the ethanol plants' control, such as weather conditions, overall economic conditions and foreign and domestic governmental regulation and relations. Significant disruptions in the supply of natural gas could impair the ethanol plants' ability to economically manufacture ethanol for their customers. Furthermore, increases in natural gas prices or changes in our

natural gas costs relative to natural gas costs paid by competitors may adversely affect results of operations and financial position at our ethanol plants.

Fluctuations in the selling price of commodities may reduce profit margins at our ethanol plants. Ethanol is marketed as a fuel additive to reduce vehicle emissions from gasoline, as an octane enhancer to improve the octane rating of gasoline with which it is blended and, to a lesser extent, as a gasoline substitute. As a result, ethanol prices are influenced by the supply and demand for gasoline and our ethanol plants' results of operations and financial position may be materially adversely affected if gasoline demand decreases.

Distillers grains compete with other protein based animal feed products. The price of distillers grains may decrease when the prices of competing feed products decrease. The prices of competing animal feed products are based in part on the prices of the commodities from which their products are made. Historically, sales prices for distillers grains have tracked along with the price of corn. However, there have been instances when the price increase for distillers grains has lagged price increases in corn prices.

The production of distillers grains has increased as a result of increases in dry mill ethanol production in the United States. This could lead to price declines in what we can sell our distillers grains for in the future. Such declines could have an adverse material effect on our results of operations.

Increased ethanol production or decreases in demand for ethanol may result in excess production capacity in the ethanol industry, which may cause the price of ethanol, distillers grains and non-food grade corn oil to decrease.

According to the RFA, domestic ethanol production nameplate capacity is approximately 14.9 billion gallons per year at January 2014. The RFA estimates that, as of January 2014, approximately 167 million gallons per year of additional production capacity is under construction or expansion. Current ethanol production capacity exceeds the proposed 2014 RFS requirement which can be satisfied by corn based ethanol (13.0 billion gallons). Excess capacity in the ethanol industry could have an adverse effect on the results of our ethanol operations. In a manufacturing industry with excess capacity, producers have an incentive to manufacture additional products for so long as the price exceeds the marginal cost of production (i.e., the cost of producing only the next unit, without regard for interest, overhead or fixed costs). This incentive could result in the reduction of the market price of ethanol to a level that is inadequate to generate sufficient cash flow to cover costs.

Excess capacity may also result from decreases in the demand for ethanol, which could result from a number of factors, including, but not limited to, regulatory developments and reduced U.S. gasoline consumption. Reduced gasoline consumption could occur as a result of increased prices for gasoline or crude oil, which could cause businesses and consumers to reduce driving or acquire vehicles with more favorable gasoline mileage or acquire hybrid vehicles.

In addition, because ethanol production produces distillers grains and non-food grade corn oil as co-products, increased ethanol production will also lead to increased supplies of distillers grains and non-food grade corn oil. An increase in the supply of distillers grains and non-food grade corn oil, without corresponding increases in demand, could lead to lower prices or an inability to sell our ethanol plants' distillers grains and non-food grade corn oil production. A decline in the price of distillers grains or non-food grade corn oil could have a material adverse effect on the results of our ethanol operations.

Trade restrictions on ethanol exports could reduce the demand for ethanol.

The European Union began imposing a tariff, on ethanol imported from the United States, of \$83.03 per metric ton effective February 23, 2013. If producers and exporters of ethanol are subject to trade restrictions, or additional duties are imposed on exports, it may make it uneconomical to export ethanol. This could result in an oversupply of ethanol in the United States which could have a material adverse effect on the results of our ethanol operations.

We depend on our partners to operate certain of our ethanol investments.

Our investments currently represent both majority and minority equity positions. Day-to-day operating control of minority owned plants generally remains with the local farmers' cooperative or investor group that has promoted the plant. We may not have the ability to directly modify the operations of these plants in response to changes in the business environment or in response to any deficiencies in local operations of the plants. In addition, local plant operators, who also represent the primary suppliers of corn and other crops to the plants, may have interests, such as the price and sourcing of corn and other crops, that may differ from our interest, which is based solely on the operating profit of the plant. The limitations on our ability to control day-to-day plant operations could adversely affect plant results of operations.

We may not successfully acquire or develop additional ethanol investments.

The growth of our ethanol business depends on our ability to identify and develop new ethanol investments. Our ethanol development strategy depends on referrals, and introductions, to new investment opportunities from industry participants, such as ethanol plant builders, financial institutions, marketing agents and others. We must continue to maintain favorable relationships with these industry participants, and a material disruption in these sources of referrals would adversely affect our ability to expand our ethanol investments.

Any expansion strategy will depend on prevailing market conditions for the price of ethanol and the costs of corn and natural gas and the expectations of future market conditions. There is increasing competition for suitable sites for ethanol plants. Even if suitable sites or opportunities are identified, we may not be able to secure the services and products from contractors, engineering firms, construction firms and equipment suppliers necessary to build or expand ethanol plants on a timely basis or on acceptable economic terms. Construction costs associated with expansion may increase to levels that would make a new plant too expensive to complete or unprofitable to operate. Additional financing may also be necessary to implement any expansion strategy, which may not be accessible or available on acceptable terms.

Our ethanol plants may be adversely affected by technological advances and efforts to anticipate and employ such technological advances may prove unsuccessful.

The development and implementation of new technologies may result in a significant reduction in the costs of ethanol production. For instance, any technological advances in the efficiency or cost to produce ethanol from inexpensive, cellulosic sources such as wheat, oat or barley straw could have an adverse effect on our ethanol plants, because those facilities are designed to produce ethanol from corn, which is, by comparison, a raw material with other high value uses. We cannot predict when new technologies may become available, the rate of acceptance of new technologies by competitors or the costs associated with new technologies. In addition, advances in the development of alternatives to ethanol could significantly reduce demand for or eliminate the need for ethanol.

Any advances in technology which require significant unanticipated capital expenditures to remain competitive or which reduce demand or prices for ethanol would have a material adverse effect on the results of our ethanol operations.

In addition, alternative fuels, additives and oxygenates are continually under development. Alternative fuel additives that can replace ethanol may be developed, which may decrease the demand for ethanol. It is also possible that technological advances in engine and exhaust system design and performance could reduce the use of oxygenates, which would lower the demand for ethanol, and the results of our ethanol operations may be materially adversely affected.

The U.S. ethanol industry is highly dependent upon a myriad of federal and state legislation and regulation and any changes in legislation or regulation could materially and adversely affect our results of operations and financial position.

The Energy Independence and Security Act of 2007 (EISA) established RFS II, which modified the renewable fuel standard from prior legislation. EISA increased the amount of renewable fuel required to be blended into gasoline and required a minimum usage of corn derived renewable fuels of 12.0 billion gallons in 2010, increasing annually by 600 million gallons to 15.0 billion gallons in 2015. The EPA has the authority to assign the mandated amounts of renewable fuels to be blended into transportation fuel to individual fuel blenders. RFS II has been a primary factor in the growth of ethanol usage. On April 10, 2013, the Renewable Fuel Standard Elimination Act was introduced as H.R. 1461 to target the repeal of RFS II. Also introduced on April 10, 2013 was the RFS Reform Bill, H.R. 1462, which would prohibit more than ten percent ethanol in gasoline and reduce the RFS II required volume of renewable fuel. On May 14, 2013, the Domestic Alternatives Fuels Act of 2013 was introduced in the United States House of Representatives as H.R. 1959 to permit ethanol produced from natural gas to be used to meet the RFS II mandate. All of these bills were assigned to congressional committees, which will consider them before sending any legislation to Congress.

Under EISA, the EPA has the authority to waive the mandated RFS II requirements in whole or in part. In order to grant a waiver, the EPA administrator must determine in consultation with the Secretaries of Agriculture and Energy, that one of the following two conditions has been met: i) there is inadequate domestic renewable fuel supply or ii) implementation of the requirement would severely harm the economy or environment of a state, region or the country. During fiscal year 2013, several waiver requests were submitted to the EPA based on drought conditions, which were subsequently denied by the EPA.

The RFS II mandate increased to 14.4 billion gallons of corn derived renewable fuel for 2014 and increases to 15.0 billion gallons in 2015. In November of 2013, the EPA released a proposal that includes several approaches for establishing the 2014 standards. The proposal seeks comment on a range of total renewable fuel volumes for 2014 and proposes a level within that range of 15.2 billion gallons, including approximately 13.0 billion gallons of corn derived renewable fuel. The proposal addresses two constraints of RFS II: i) limitations in the volume of ethanol that can be consumed in gasoline given the practical constraints on the supply of higher ethanol blends to the vehicles that can use them and ii) limitations in the ability of the industry to produce sufficient volumes of qualifying renewable fuel. If the EPA reduces the 2014 mandate levels for conventional biofuels or grants a waiver in the future, our ethanol business could be adversely affected.

To document compliance with RFS II, renewable identification numbers (“RINs”), are generated and attached to renewable fuels, and detached when the renewable fuel is blended into the transportation fuel supply. Detached RINs may be retired by obligated parties to demonstrate compliance with RFS II or may be separately traded in the market. The market price of detached RINs may affect the price of ethanol in certain U.S. markets as obligated parties may factor these costs into their purchasing decisions. Moreover, at certain price levels for various types of RINs, it becomes more economical to import foreign sugar cane ethanol. If changes to RFS II result in significant changes in the price of various types of RINs, it could negatively affect the price of ethanol and our ethanol business.

Changes in corporate average fuel economy standards could adversely impact ethanol prices. Flexible fuel vehicles receive preferential treatment in meeting federally mandated corporate average fuel economy (“CAFE”) standards for automobiles manufactured by car makers. High blend ethanol fuels such as E-85 result in lower fuel efficiencies. Absent the CAFE preferences, car makers would not likely build flexible-fuel vehicles. Any change in CAFE preferences could reduce the growth of E-85 markets and result in lower ethanol prices.

Various studies have criticized the efficiency of ethanol, in general, and corn-based ethanol in particular, which could lead to the reduction or repeal of incentives and tariffs that promote the use and domestic production of ethanol or otherwise negatively impact public perception and acceptance of ethanol as an alternative fuel.

Although many trade groups, academics and governmental agencies have supported ethanol as a fuel additive that promotes a cleaner environment, others have criticized ethanol production as consuming considerably more energy and emitting more greenhouse gases than other biofuels and as potentially depleting water resources. Other studies have suggested that corn-based ethanol is less efficient than ethanol produced from switchgrass or wheat grain and that it negatively impacts consumers by causing prices for dairy, meat and other foodstuffs from livestock that consume corn to increase. If these views gain acceptance, support for existing measures promoting use and domestic production of corn-based ethanol could decline, leading to reduction or repeal of these measures. These views could also negatively impact public perception of the ethanol industry and acceptance of ethanol as an alternative fuel.

Federal support of cellulosic ethanol may result in reduced incentives to corn-derived ethanol producers.

The American Recovery and Reinvestment Act of 2009 and EISA provide funding opportunities in support of cellulosic ethanol obtained from biomass sources such as switchgrass and poplar trees. The amended RFS mandates an increasing level of production of non-corn derived biofuels. These federal policies may suggest a long-term political preference for cellulosic processes using alternative feedstocks such as switchgrass, silage or wood chips. Cellulosic ethanol has a smaller carbon footprint and is unlikely to divert foodstuff from the market. Several cellulosic ethanol plants are under development and there is a risk that cellulosic ethanol could displace corn ethanol. Our plants are designed as single-feedstock facilities, located in corn production areas with limited alternative feedstock nearby, and would require significant additional investment to convert to the production of cellulosic ethanol. The adoption of cellulosic ethanol as the preferred form of ethanol could have a significant adverse effect on our ethanol business.

Our ethanol business is affected by environmental and other regulations which could impede or prohibit our ability to successfully operate our plants.

Our ethanol production facilities are subject to extensive air, water and other environmental regulations. We have had to obtain numerous permits to construct and operate our plants. Regulatory agencies could impose conditions or other restrictions in the permits that are detrimental or which increase our costs. More stringent federal or state environmental regulations could be adopted which could significantly increase our operating costs or require us to expend considerable resources.

Our ethanol plants emit various airborne pollutants as by-products of the ethanol production process, including carbon dioxide. In 2007, the U.S. Supreme Court classified carbon dioxide as an air pollutant under the Clean Air Act in a case seeking to require the EPA to regulate carbon dioxide in vehicle emissions. In February 2010, the EPA released its final regulations on the Renewable Fuel Standard program. We believe our plants are grandfathered at their current operating capacity, but plant expansion will need to meet

a 20% threshold reduction in greenhouse gas (GHG) emissions from a 2005 baseline measurement to produce ethanol eligible for the RFSII mandate. To expand our plant capacity, we may be required to obtain additional permits, install advanced technology equipment, or reduce drying of certain amounts of distillers grains. We may also be required to install carbon dioxide mitigation equipment or take other steps in order to comply with future laws or regulations. Compliance with future laws or regulations of carbon dioxide, or if we choose to expand capacity at certain of our plants, compliance with then-current regulations of carbon dioxide, could be costly and may prevent us from operating our plants as profitably, which may have a negative impact on our financial performance.

The California Air Resources Board (“CARB”) has adopted a Low Carbon Fuel Standard (“LCFS”) requiring a 10% reduction in GHG emissions from transportation fuels by 2020. An Indirect Land Use Charge is included in this lifecycle GHG emission calculation. After a series of rulings that temporarily prevented CARB from enforcing these regulations, the State of California Office of Administrative Law approved the LCFS on November 26, 2012 and revised LCFS regulations took effect in January 2013. This standard could have an adverse impact on the market for corn-based ethanol in California if corn-based ethanol fails to achieve lifecycle GHG emission reductions. This could have a negative impact on our financial performance.

Our ethanol business may become subject to various environmental and health and safety and property damage claims and liabilities.

Operations of our ethanol business will expose the business to the risk of environmental and health and safety claims and property damage claims, such as failure to comply with environmental regulations. These types of claims could also be made against our ethanol business based upon the acts or omissions of other persons. Serious claims could have a material negative impact on our results of operations, financial position and future cash flows.

Our business is not significantly diversified.

Our financial results depend heavily on our ability to operate our ethanol plants profitably. We do not have significant other lines of business or other sources of revenue to depend upon if we are unable to operate our ethanol plants profitably. Such lack of significant diversification could have a material negative impact on our results of operations, financial position and future cash flows should our ethanol plants operate unprofitably.

Our revenue from the sale of distillers grains depends upon its continued market acceptance as an animal feed.

Distillers grains is a co-product from the fermentation of corn to produce ethanol. Antibiotics may be used during the fermentation process to control bacterial contamination; therefore antibiotics may be present in small quantities in distillers grains marketed as animal feed. The U. S. Food and Drug Administration’s, or FDA’s, Center for Veterinary Medicine has expressed concern about potential animal and human health hazards from the use of distillers grains as an animal feed due to the possibility of antibiotic residues. If the public became concerned about the impact of distillers grains in the food supply or as an acceptable animal feed, the market for distillers grains could be negatively impacted, which would have a negative impact on our results of operations.

Exports of distillers grains produced in the United States have been increasing in recent years. The price of distillers grains has benefitted from the increased exports of the product, with China being the largest importer. In 2013, China rejected certain shipments of distillers grains due to the presence of unapproved

genetically modified organisms. If shipments to China or other countries are rejected or delayed, the market price for distillers grains would be negatively impacted, which would have a negative impact on our ethanol results of operations.

At certain of our plants, we extract and sell non-food grade corn oil immediately prior to the production of distillers grains. Several studies are trying to determine how non-food grade corn oil extraction may impact the nutritional value of the resulting distillers grains. If it is determined that non-food grade corn oil extraction adversely impacts the energy content of distillers grains, the value of the distillers grains we sell may be negatively impacted, which would have a negative impact on our results of operations.

The price of distillers grains may decline as a result of restrictions or duties on distillers grains exports from the United States.

Exports of distiller grains produced in the United States have been increasing in recent years. However, the export market may be jeopardized if foreign governments impose trade barriers or other measures to protect the foreign local markets. If producers and exporters of distillers grains are subjected to trade barriers when selling distillers grains to foreign customers, there may be a reduction in the price of distillers grains in the United States. Declines in the price we receive for our distillers grains could lead to decreased revenues and may result in our inability to operate our ethanol plants profitably.

We face significant competition in the ethanol industry.

We face significant competition for new ethanol investment opportunities. There are varied enterprises seeking to participate in the ethanol industry. Some enterprises provide financial and management support similar to our business model. Other enterprises seek to acquire or develop plants which they will directly own and operate. Many of our competitors are larger and have greater financial resources and name recognition than we do. We must compete for investment opportunities based on our strategy of supporting and enhancing local development of ethanol plant opportunities. We may not be successful in competing for investment opportunities based on our strategy.

The ethanol industry is primarily comprised of smaller entities that engage exclusively in ethanol production and large integrated grain companies that produce ethanol along with their base grain business. Several large oil companies have entered the ethanol production market. If these companies increase their ethanol plant ownership or other oil companies seek to engage in direct ethanol production, there would be less of a need to purchase ethanol from independent producers like our ethanol plants.

Larger firms offer efficiencies and economies of scale, resulting in lower costs of production. In addition, plants sold as part of a bankruptcy proceeding may have significantly lower fixed costs than our ethanol plants. Absent significant growth and diversification, our ethanol plants may not be able to operate profitably in a more competitive environment. No assurance can be given that our ethanol plants will be able to compete successfully or that competition from larger companies with greater financial resources will not have a materially adverse impact on the results of our ethanol operations.

We may face competition from foreign companies.

There is a risk of foreign competition in the ethanol industry. Brazil is presently the second largest producer of ethanol in the world. Brazil's ethanol production is sugarcane based, and, depending on feedstock prices, may be cheaper to produce. Under the RFS, certain parties were obligated to meet an advanced biofuel standard. In recent years, sugarcane based ethanol imported from Brazil has been one of the most economical means for obligated parties to comply with this standard.

If significant additional foreign ethanol production capacity is created, such facilities could create excess supplies of ethanol, which may result in lower prices of ethanol. In addition, foreign ethanol producers may be able to produce ethanol at costs lower than ours. These risks could have significant adverse effects on our financial performance.

In addition, the tariff that protected the U.S. ethanol industry expired at the end of 2011. The expiration of the tariff could lead to increases in the import of ethanol produced outside of the U.S.

We are exposed to credit risk from our sales of ethanol and distillers grains to customers.

The inability of a customer to make payments to us for our accounts receivable may cause us to experience losses and may adversely impact our liquidity and our ability to make our payments when due.

We may not be able to hire and retain qualified personnel to operate our ethanol plants.

Our ability to attract and retain competent personnel has a significant impact on operating efficiencies and plant profitability. Competition for key plant employees in the ethanol industry can be intense, and we may not be able to attract and retain qualified employees. Failure to do so could have a negative impact on our financial results at individual plants.

Our plants depend on an uninterrupted supply of energy and water to operate. Unforeseen plant shutdowns could harm our business.

Our plants require a significant and uninterrupted supply of natural gas, electricity and water to operate. We generally rely on third parties to provide these resources. If there is an interruption in the supply of energy or water for any reason, such as supply, delivery or mechanical problems and we are unable to secure an adequate alternative supply to sustain plant operations, we may be required to stop production. A production halt for an extended period of time could result in material losses.

Potential business disruption from factors outside our control, including natural disasters, severe weather conditions, accidents, strikes, unexpected equipment failures and unforeseen plant shutdowns, could adversely affect our cash flow and operating results.

The debt agreements for the ethanol plants contain restrictive financial and performance covenants.

Our subsidiaries that operate ethanol plants (“ethanol subsidiaries”) have debt agreements that contain covenants with several financial and performance restrictions. A breach of any of these covenants could result in a default under the applicable agreement. If a default were to occur, the ethanol subsidiary would likely seek a waiver of that default, attempt to reset the covenant, or refinance the instrument and accompanying obligations. If the ethanol subsidiary was unable to obtain this relief, the default could result in the acceleration of the total due related to that debt obligation. If a default were to occur, the ethanol subsidiary may not be able to pay its debts or borrow sufficient funds to refinance them. In addition, certain lease agreements could also be in default if a default of the debt agreement occurs.

In the past, we have received waivers from our lenders for failure to meet certain financial covenants and have amended our subsidiary loan agreements to change these covenants. No assurance can be given that, if we are unable to comply with these covenants in the future, we will be able to obtain the necessary waivers or amend our subsidiary loan agreements to prevent a default.

Any of these events, if they occur, could materially adversely affect our results of operations, financial condition, and cash flows.

The debt agreements for the ethanol plants limit, or otherwise restrict the amount of dividends and other payments the ethanol subsidiaries can transfer to their members.

We are dependent on dividends from our ethanol subsidiaries to generate cash flow. Presently, all of our ethanol subsidiaries have debt agreements that limit payments to members. Therefore, these companies cannot distribute all of the cash they generate to their members. Furthermore, we may not be able to use the excess cash flow from one subsidiary to fund corporate needs or needs of another operating ethanol subsidiary.

We rely on information technology in our operations and financial reporting and any material failure, inadequacy, interruption or security breach of that technology could harm our ability to efficiently operate our business and report our financial results accurately and timely.

We rely heavily on information technology systems across our operations, including for management of inventory, purchase orders, production, invoices, shipping, accounting and various other processes and transactions. Our ability to effectively manage our business, coordinate the production, distribution and sale of our products and ensure the timely and accurate recording and disclosure of financial information depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems through a cyber-attack or otherwise could cause delays in product sales, reduced efficiency of our operations and delays in reporting our financial results. Significant capital investments could be required to remediate any such problem. Security breaches of employee information or other confidential or proprietary data could also adversely impact our reputation, and could result in litigation against us or the imposition of penalties.

We are exposed to potential business disruption from factors outside our control, including natural disasters, severe weather conditions, accidents, and unforeseen operational failures any of which could negatively affect our transportation operations and could adversely affect our cash flows and operating results.

Potential business disruption in available transportation due to natural disasters, significant track damage resulting from a train derailment, strikes or other interruptions by our transportation providers could result in delays in procuring and supplying raw materials to our ethanol facilities, or transporting ethanol and distillers grains to our customers. Such business disruptions may result in our inability to meet customer demand or contract delivery requirements, as well as the potential loss of customers.

Risks Related to the Exit of our Retail business and Risks Related to our Real Estate Segment.

We have vacant retail space after the completion of the wind down of our retail business.

At January 31, 2014, we own seven former retail store properties comprising approximately 86,000 square feet of vacant real estate. We are currently marketing these facilities for lease or sale. In addition, we have four former retail store locations with leases in place to tenants. We may not be able to successfully lease or sell these properties which could result in lost opportunities for revenue or future impairment charges related to the carrying value of the associated assets. We also have costs related to the vacant properties such as property taxes and utilities that we would have to bear without any revenue from such properties.

Risks Related to our eSteam investments and operations.

eSteam may not be commercially viable technology.

During fiscal year 2013, we invested in eSteam, a new technology utilizing steam to extract deep heavy oil. We spent approximately \$1.0 million on this technology during fiscal year 2013. eSteam is a patented but unproven technology. If we cannot demonstrate that the technology is commercially feasible, we may incur additional losses.

Our eSteam technology may be subject to patent challenges.

We could be required to spend considerable time and resources defending our technology from patent challenges.

Operations utilizing our eSteam technology may be subject to stringent environmental regulations.

These operations will require significant amounts of water and energy. If we are unable to obtain the proper permits and sources of water and energy, then we may not be able to operate the new technologies, and thus, generate any revenue.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The information required by this Item 2 is set forth in Item 1 of this report under “Ethanol Investments”, “Real Estate Operations” and “Facilities” and is incorporated herein by reference.

Item 3. Legal Proceedings

We are involved in various legal proceedings incidental to the conduct of our business. We believe that these proceedings will not have a material adverse effect on our financial condition or results of operations.

Executive Officers of the Company.

Set forth below is certain information about each of our executive officers.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stuart Rose	59	Chairman of the Board and Chief Executive Officer*
Douglas Bruggeman	53	Vice President-Finance, Chief Financial Officer and Treasurer
Edward Kress	64	Secretary*
Zafar Rizvi	64	President and Chief Operating Officer

*Also serves as a director.

Stuart Rose has been our Chairman of the Board and Chief Executive Officer since our incorporation in 1984 as a holding company to succeed to the ownership of Rex Radio and Television, Inc., Kelly & Cohen Appliances, Inc. and Stereo Town, Inc. Prior to 1984, Mr. Rose was Chairman of the Board and Chief Executive Officer of Rex Radio and Television, Inc., which he founded in 1980 to acquire the stock of a corporation which operated four retail stores.

Douglas Bruggeman has been our Vice President–Finance and Treasurer since 1989 and was elected Chief Financial Officer in 2003. From 1987 to 1989, Mr. Bruggeman was our Manager of Corporate Accounting. Mr. Bruggeman was employed with the accounting firm of Ernst & Young prior to joining us in 1986.

Edward Kress has been our Secretary since 1984 and a director since 1985. Mr. Kress has been a partner of the law firm of Dinsmore & Shohl LLP (formerly Chernesky, Heyman & Kress P.L.L.), our legal counsel, since 1988. Mr. Kress has practiced law in Dayton, Ohio since 1974.

Zafar Rizvi was elected President and Chief Operating Officer in 2010. Previously, he had been our Vice President, and has been President of Farmers Energy Incorporated, our alternative energy investment subsidiary, since 2006. From 1991 to 2006, Mr. Rizvi was our Vice President – Loss Prevention. From 1986 to 1991, Mr. Rizvi was employed in the video retailing industry in a variety of management positions.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

SHAREHOLDER INFORMATION

Common Share Information and Quarterly Share Prices

Our common stock is traded on the New York Stock Exchange under the symbol REX.

<u>Fiscal Quarter Ended</u>	<u>High</u>	<u>Low</u>
April 30, 2012	\$ 33.95	\$ 24.61
July 31, 2012	28.05	16.22
October 31, 2012	19.59	17.12
January 31, 2013	21.98	14.43
April 30, 2013	\$ 25.38	\$ 17.12
July 31, 2013	41.00	18.45
October 31, 2013	37.20	26.70
January 31, 2014	49.93	28.22

As of April 8, 2014, there were 106 holders of record of our common stock, including shares held in nominee or street name by brokers.

Dividend Policy

We did not pay dividends in the current or prior years. We currently have no restrictions on the payment of dividends. Our ethanol subsidiaries have certain restrictions on their ability to pay dividends to members (including REX). One Earth paid dividends to REX of approximately \$4.4 million, \$4.1 million and \$5.1 million during fiscal years 2013, 2012 and 2011, respectively. NuGen paid dividends to REX of

approximately \$5.0 million and \$1.3 million during fiscal years 2013 and 2011, respectively. NuGen paid no dividends to REX in fiscal year 2012.

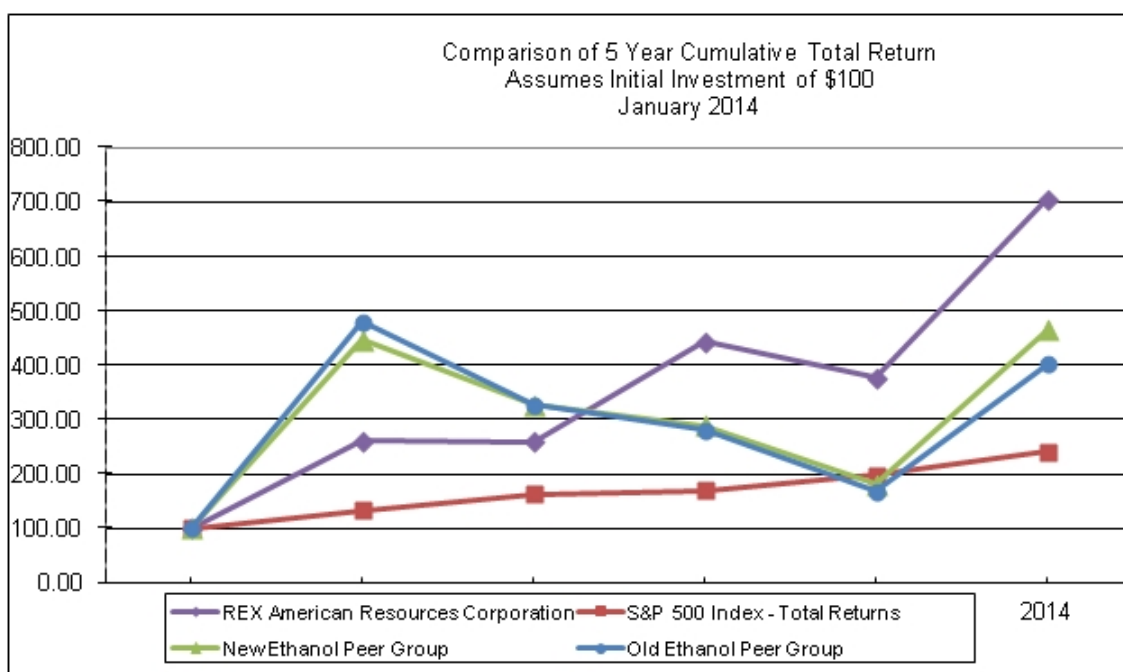
Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
November 1-30, 2013	14,135	\$ 28.80	14,135	280,006
December 1-31, 2013	—	\$ —	—	280,006
January 1-31, 2014	—	\$ —	—	280,006
Total	14,135	\$ 28.80	14,135	280,006

(1) On August 2, 2012, our Board of Directors increased our share repurchase authorization by an additional 500,000 shares. At January 31, 2014, a total of 280,006 shares remained available to purchase under this authorization.

Performance Graph

The following graph compares the yearly percentage change in the cumulative total shareholder return on our Common Stock against the cumulative total return of the S&P 500 Stock Index and a peer group comprised of selected publicly traded ethanol producers (*) for the period commencing January 31, 2009 and ended January 31, 2014. The graph assumes an investment of \$100 in our Common Stock and each index on January 31, 2009 and reinvestment of all dividends.



* The peer group is comprised of Pacific Ethanol, Inc. and Green Plains Renewable Energy, Inc. In prior years, the peer group included BioFuel Energy Corporation; which has ceased ethanol operations, and has been removed from the peer group.

Item 6. Selected Financial Data

The following statements of operations and balance sheet data have been derived from our consolidated financial statements and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related Notes. Prior period amounts applicable to the statement of operations have been adjusted to recognize the reclassification of the results of our former retail segment, certain real estate assets and the financial information associated with Levelland Hockley to discontinued operations. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of net sales and revenue and gross profit, income from ethanol investments, derivative financial instruments, and long-term debt. These items have fluctuated significantly in recent years and may affect comparability of years.

Five Year Financial Summary

(In Thousands, Except Per Share Amounts)

<u>Years Ended January 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net sales and revenue (a)	\$ 666,091	\$ 656,639	\$ 409,879	\$ 234,737	\$ 98,423
Net income attributable to noncontrolling interests	\$ (5,156)	\$ (707)	\$ (5,428)	\$ (3,673)	\$ (3,900)
Income (loss) from continuing operations attributable to REX common shareholders, net of tax (a)	\$ 33,919	\$ (2,902)	\$ 27,129	\$ 18,477	\$ 4,472
Net income (loss) attributable to REX common shareholders (b)	\$ 35,073	\$ (2,295)	\$ 28,270	\$ 5,069	\$ 8,652
Basic income (loss) per share from continuing operations attributable to REX common shareholders (a)	\$ 4.17	\$ (0.35)	\$ 2.97	\$ 1.91	\$ 0.48
Diluted income (loss) per share from continuing operations attributable to REX common shareholders (a)	\$ 4.15	\$ (0.35)	\$ 2.95	\$ 1.88	\$ 0.47
Basic net income (loss) per share attributable to REX common shareholders (b)	\$ 4.31	\$ (0.28)	\$ 3.10	\$ 0.53	\$ 0.93
Diluted net income (loss) per share attributable to REX common shareholders (b)	\$ 4.29	\$ (0.28)	\$ 3.08	\$ 0.52	\$ 0.91
Total assets	\$ 427,868	\$ 405,330	\$ 438,049	\$ 375,722	\$ 451,505
Long-term debt and capital lease obligations, net of current maturities	\$ 63,500	\$ 91,306	\$ 108,527	\$ 70,973	\$ 126,689

- a) Amounts differ from those previously reported as the results of our former retail segment and certain alternative energy and real estate operations have been reclassified into discontinued operations. See Note 16 of the Notes to the Consolidated Financial Statements for further discussion and analysis of discontinued operations.

- b) The results for the year ended January 31, 2011 include a significant expense for loss on deconsolidation of Levelland Hockley and related impairment charges.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Historically, we were a specialty retailer in the consumer electronics and appliance industry serving small to medium-sized towns and communities. In addition, we have been an investor in various alternative energy entities beginning with synthetic fuel partnerships in 1998 and later ethanol production facilities beginning in 2006.

In fiscal year 2007, we began to evaluate strategic alternatives for our retail segment with a focus on closing unprofitable or marginally profitable retail stores and monetizing our retail-related real estate assets. We did not believe that we were generating an adequate return from our retail business due to the competitive nature of the consumer electronics and appliance industry and the overall economic conditions in the United States. We completed our exit of the retail business as of July 31, 2009. Subsequent to that date, our only retail related activities consisted of the administration of extended service plans we previously sold and the payment of related claims. As of January 31, 2014, all of these extended service plans have expired. All activities related to extended service plans are classified as discontinued operations.

At January 31, 2014, we had lease agreements for all or parts of four former retail properties and had seven vacant former retail properties. We are marketing the vacant properties to lease or sell. Should our marketing efforts result in additional tenants to whom we lease property, we would expect to execute leases with a term of five to twenty years.

We currently have equity investments in four ethanol production entities, two of which we have a majority ownership interest in. We may make additional investments in the alternative energy segment during fiscal year 2014.

Our ethanol operations are highly dependent on commodity prices, especially prices for corn, ethanol, distillers grains, non-food grade corn oil and natural gas. As a result of price volatility for these commodities, our operating results can fluctuate substantially. The price and availability of corn is subject to significant fluctuations depending upon a number of factors that affect commodity prices in general, including crop conditions, weather, federal policy and foreign trade. Because the market price of ethanol is not always directly related to corn prices, at times ethanol prices may lag movements in corn prices and, in an environment of higher prices, reduce the overall margin structure at the plants. As a result, at times, we may operate our plants at negative or marginally positive operating margins.

We expect our ethanol plants to produce approximately 2.8 gallons of denatured ethanol for each bushel of grain processed in the production cycle. We refer to the difference between the price per gallon of ethanol and the price per bushel of grain (divided by 2.8) as the "crush spread." Should the crush spread decline, our ethanol plants are likely to generate operating results that do not provide adequate cash flows for sustained periods of time. In such cases, production at the ethanol plants may be reduced or stopped altogether in order to minimize variable costs at individual plants.

We attempt to manage the risk related to the volatility of grain and ethanol prices by utilizing forward grain purchase and forward ethanol and distillers grain sale contracts. We attempt to match quantities of ethanol and distillers grains sale contracts with an appropriate quantity of grain purchase contracts over a given period of time when we can obtain an adequate gross margin resulting from the crush spread inherent in the

contracts we have executed. However, the market for future ethanol sales contracts is not a mature market. Consequently, we generally execute fixed price contracts for no more than four months into the future at any given time. As a result of the relatively short period of time our fixed price contracts cover, we generally cannot predict the future movements in the crush spread for more than four months; thus, we are unable to predict the likelihood or amounts of future income or loss from the operations of our ethanol facilities.

The crush spread realized in 2013 was subject to significant volatility. For calendar year 2013, the average CBOT near-month corn price was approximately \$5.45 per bushel, ranging from a low of approximately \$4.12 per bushel in November 2013 to a high of approximately \$7.36 per bushel in February 2013. Corn prices were high at the beginning of 2013 as a result of the drought condition experienced in the Midwest in 2012 and decreased later in 2013 as a result of the much improved corn harvest in 2013. Ethanol prices had significant fluctuations ranging from approximately \$1.61 per gallon in November 2013 to approximately \$2.74 per gallon in May 2013. Ethanol and corn prices have tended to trade in the same direction but with varying spreads. In 2013, the CBOT crush spread (excludes any impact from variations in local corn and ethanol prices due to basis paid or charged) ranged from a low of approximately negative \$0.16 per gallon in February 2013 to a high of approximately \$0.70 per gallon in August 2013. The actual crush spreads we realized varied from the published CBOT crush spreads as we paid higher than normal basis for corn for much of 2013 resulting from the 2012 drought and our risk management practices.

We reported segment profit (before income taxes and noncontrolling interests) from our alternative energy segment of approximately \$63.2 million in fiscal year 2013 compared to a segment loss of approximately \$1.0 million in fiscal year 2012. The increase in profitability primarily resulted from higher crush spreads (compared to the prior year) experienced in the ethanol industry for a majority of fiscal year 2013 and lower corn prices in the second half of fiscal year 2013 are a result of the improved 2013 corn harvest. We expect that future operating results, from our consolidated plants, will be based upon combined annual production of between 200 and 230 million gallons of ethanol, which assumes that our consolidated ethanol plants will operate at or near nameplate capacity. However, due to the inherent volatility of the crush spread, we cannot predict the likelihood of future operating results being similar to the fiscal year 2013 results.

We plan to seek and evaluate various investment opportunities including energy related, agricultural or other ventures we believe fit our investment criteria. We can make no assurances that we will be successful in our efforts to find such opportunities.

Through a wholly owned subsidiary REX I.P., LLC, we have entered into a joint venture with Hytken HPGP LLC to file and defend patents for technology relating to heavy oil and oil sands production methods, and to commercially exploit the technology to generate license fees, royalty income and development opportunities. The patented technology is an enhanced method of heavy oil recovery involving zero emissions downhole steam generation. We own 60%, and Hytken HPGP owns 40% of the entity named Future Energy, LLC, an Ohio limited liability company. Future Energy is managed by a board of three managers, two appointed by us and one by Hytken HPGP. The owner of Hytken HPGP has been retained as a consultant.

We have agreed to fund direct patent expenses relating to patent applications and defense, annual annuity fees and maintenance on a country by country basis, with the right to terminate funding and transfer related patent rights to Hytken HPGP. We may also fund, through loans, all costs relating to new intellectual property, consultants, and future research and development, pilot field tests and equipment purchases for commercialization stage of the patents. To date, we have paid approximately \$1.0 million for our ownership interest, patent and other expenses. Results of the formation and year to date operations of Future Energy, LLC were immaterial to the Consolidated Financial Statements.

Ethanol Investments

In fiscal year 2006, we entered the alternative energy industry by investing in several entities organized to construct and, subsequently operate, ethanol producing plants. We are currently invested in four entities as of January 31, 2014, utilizing equity investments.

The following table is a summary of our ethanol investments at January 31, 2014 (gallons in millions):

Entity	Trailing 12 Months Ethanol Gallons Shipped	REX's Current Ownership Interest	Current Effective Ownership of Trailing 12 Months Ethanol Gallons Shipped
One Earth Energy, LLC	113.2	74%	83.8
NuGen Energy, LLC	114.0	99%	112.9
Patriot Holdings, LLC	120.6	27%	32.6
Big River Resources W Burlington, LLC	104.1	10%	10.4
Big River Resources Galva, LLC	112.5	10%	11.3
Big River United Energy, LLC	116.8	5%	5.8
Big River Resources Boyceville, LLC	55.5	10%	5.6
Total	736.7		262.4

Investment in Synthetic Fuel Partnerships

We had invested in three limited partnerships which owned facilities producing synthetic fuel. The partnerships earned federal income tax credits under Section 29/45K of the Internal Revenue Code based upon the tonnage and content of solid synthetic fuel produced and sold to unrelated parties. The Section 29/45K tax credit program expired on December 31, 2007. During fiscal year 2005, we sold our membership interest in a limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. In addition to certain other payments, the Company was eligible to receive \$1.50 per ton of "qualified production" produced by the facility and sold through December 2007. The plant was subsequently sold and during fiscal year 2006, the Company modified its agreement with the owners and operators of the synthetic fuel facility. During fiscal year 2011, a final payment of \$2.9 million was received with respect to the "qualified production". Income related to this payment was recognized during fiscal year 2011, as collectability of the amount became assured. We will not receive additional payments, or recognize additional income, from this investment.

Real Estate Operations

At January 31, 2014, we have lease agreements, as landlord, for four owned former retail stores (51,000 square feet). We have seven owned former retail stores (86,000 square feet) that are vacant at January 31, 2014. We are marketing these vacant properties to lease or sell. During fiscal year 2013, we sold our single largest property for approximately \$5.5 million, which was a former distribution center (when we operated our retail segment) and was partially leased, partially vacant and partially occupied by our corporate office personnel.

Results of Operations

For a detailed analysis of period to period changes, see the segment discussion that follows this section as this is how management views and monitors our business.

Comparison of Fiscal Years Ended January 31, 2014 and 2013

Net Sales and Revenue – Net sales and revenue in fiscal year 2013 were approximately \$666.1 million, a 1.4% increase from approximately \$656.6 million in fiscal year 2012. Net sales and revenue do not include sales from operations classified as discontinued operations. This increase was primarily caused by higher sales in our alternative energy segment of approximately \$9.5 million. Net sales and revenue from our real estate segment were consistent with the prior year. The following table reflects the approximate percent of net sales and revenue for each product and service group for the periods presented:

Product or Service Category	Fiscal Year		
	2013	2012	2011
Ethanol	75%	75%	82%
Dried distillers grains	19	18	17
Modified distillers grains	3	4	1
Other	3	3	—
Total	100%	100%	100%

Gross Profit – Gross profit was approximately \$64.2 million in fiscal year 2013, or 9.6% of net sales and revenue, versus approximately \$13.6 million in fiscal year 2012 or 2.1% of net sales and revenue. This represents an increase of approximately \$50.5 million. Gross profit for fiscal year 2013 increased by approximately \$50.4 million from the prior year as a result of operations in the alternative energy segment. Gross loss for fiscal year 2013 decreased by approximately \$0.1 million compared to the prior year from our real estate segment.

Selling, General and Administrative Expenses – Selling, general and administrative expenses for fiscal year 2013 were approximately \$17.8 million (2.7% of net sales and revenue), an increase of approximately \$5.3 million or 42.2% from approximately \$12.5 million (1.9% of net sales and revenue) for fiscal year 2012. Compared to the prior year, these expenses increased approximately \$4.5 million and \$0.8 million in the alternative energy segment and corporate and other category, respectively.

Equity in Income of Unconsolidated Ethanol Affiliates – During fiscal years 2013 and 2012, we recognized income of approximately \$17.2 million and \$0.6 million, respectively, from our equity investments in Big River, and Patriot. Big River has an effective ownership of ethanol gallons shipped in the trailing twelve months ended January 31, 2014 of approximately 331 million gallons. Patriot has one plant which shipped approximately 121 million gallons of ethanol in the trailing 12 months ended January 31, 2014.

Income from Big River was approximately \$8.8 million and \$0.3 million in fiscal years 2013 and 2012, respectively. Income from Patriot was approximately \$8.4 million and \$0.4 million in fiscal years 2013 and 2012, respectively. Big River's and Patriot's results in the current year were favorably impacted from the increased crush spread experienced in the ethanol industry.

Overall, we expect the trends in crush spread margins described in the "Overview" section to be generally consistent with the operating experience of Big River and Patriot as their results are dependent on the same key drivers (ethanol, corn and natural gas pricing).

Due to the inherent volatility of the crush spread, we cannot predict the likelihood of future operating results from Big River and Patriot being similar to the fiscal year 2013 results.

Interest Income – Interest income of approximately \$0.1 million for fiscal year 2013 was consistent with the fiscal year 2012 amount.

Interest Expense – Interest expense decreased to approximately \$3.9 million for fiscal year 2013 from approximately \$4.8 million for fiscal year 2012. This decrease was primarily attributable to the alternative energy segment as scheduled and accelerated principal repayments have reduced our debt levels. Based on current interest rates and debt levels, we expect interest expense to be in the range of \$2.2 million to \$2.9 million in fiscal year 2014.

Other Income – Other income of approximately \$0.1 million for fiscal year 2013 was consistent with the fiscal year 2012 amount. We do not expect other income to be significant in future periods.

Loss on Disposal of Real Estate and Property and Equipment, net – We recognized losses of approximately \$0.5 million in fiscal year 2012, which was primarily the result of certain equipment being disposed of in our alternative energy segment.

Loss on Derivative Financial Instruments – We recognized losses of approximately \$39,000 and approximately \$370,000 during fiscal years 2013 and 2012, respectively, related to a forward interest rate swap that One Earth entered into during fiscal year 2007. As the swap expires in July 2014, we do not expect any future gains or losses to be significant. In general, declining interest rates have a negative effect on our interest rate swaps as our swaps fixed the interest rate of variable rate debt. As interest rates declined during fiscal years 2013 and 2012, we incurred losses on the interest rate swap.

Income Taxes – Our effective tax rate was 34.6% and 42.6% for fiscal years 2013 and 2012, respectively. Our effective rate is impacted by the noncontrolling interests of the companies we consolidate, as we recognize 100% of their income or loss in continuing operations before income taxes and noncontrolling interests. However, we only provide an income tax provision or benefit for our portion of the subsidiaries' income or loss with a noncontrolling interest. In addition, our effective rate was favorably impacted by approximately 1.5% during fiscal year 2013 as a result of domestic production activities deductions resulting from operations at certain of our ethanol plants.

Income or Loss from Continuing Operations – As a result of the foregoing, income from continuing operations was approximately \$39.1 million for fiscal year 2013 versus a loss of approximately \$2.2 million for fiscal year 2012.

Discontinued Operations – During fiscal year 2009, we closed our remaining retail store and warehouse operations and reclassified all retail related results as discontinued operations. As a result, we had income from discontinued operations, net of taxes, of approximately \$0.4 million in fiscal year 2013 compared to approximately \$0.5 million in fiscal year 2012. This income includes the amortization of deferred income related to extended service contracts sold when we operated the former retail segment. Gain on sale, net of taxes, of approximately \$0.7 million was recognized for eight properties classified as discontinued operations during fiscal year 2013. Six properties were sold and classified as discontinued operations in fiscal year 2012, resulting in a gain, net of taxes of approximately \$0.1 million. We expect income from discontinued operations to decline in future periods as our extended service plan activities ended in fiscal year 2013.

Noncontrolling Interests– (Income) or loss related to noncontrolling interests was approximately \$(5.2) million and \$(0.7) million during fiscal years 2013 and 2012, respectively, and represents the owners' (other than us) share of the (income) or loss of One Earth and NuGen. Noncontrolling interests of One Earth and NuGen were approximately \$(5.4) million and \$(0.2) million, respectively, during fiscal year 2013. Noncontrolling interests of One Earth and NuGen were approximately \$(0.7) million and \$25,000,

respectively, during fiscal year 2012. The loss related to noncontrolling interests of Future Energy was approximately \$0.4 million during fiscal year 2013. As Future Energy was formed during fiscal year 2013, there was no related noncontrolling interests for prior years.

Net Income or Loss Attributable to REX Common Shareholders – As a result of the foregoing, net income attributable to REX common shareholders was approximately \$35.1 million for fiscal year 2013 compared to a loss of \$2.3 million for fiscal year 2012.

Business Segment Results

We have two segments: alternative energy and real estate. The real estate segment was formerly included in the retail segment. For closed former retail stores and warehouses where we have a retained interest in the related real estate, operations are presented in the real estate segment. Historical results from retail store operations have been reclassified as discontinued operations for all periods presented.

The following sections discuss the results of operations for each of our business segments and corporate and other. As discussed in Note 18, our chief operating decision maker (as defined by Accounting Standards Codification (“ASC”) 280 “*Segment Reporting*”) evaluates the operating performance of our business segments using a measure we call segment profit. Segment profit excludes income taxes, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with accounting principles generally accepted in the United States of America. Management believes these are useful financial measures; however, they should not be construed as being more important than other comparable GAAP measures.

Items excluded from segment profit generally result from decisions made by corporate executives. Financing, divestiture and tax structure decisions are generally made by corporate executives. Excluding these items from our business segment performance measure enables us to evaluate business segment operating performance based upon current economic conditions. Amounts in the corporate category below include business activities that are not separately reportable (amounts in thousands):

	Years Ended January 31,		
	2014	2013	2012
Net sales and revenues:			
Alternative energy	\$ 665,625	\$ 656,167	\$ 408,635
Real estate	466	472	244
Total net sales and revenues	<u>\$ 666,091</u>	<u>\$ 656,639</u>	<u>\$ 408,879</u>
Segment gross profit (loss):			
Alternative energy	\$ 64,261	\$ 13,830	\$ 35,179
Real estate	(110)	(228)	(348)
Total gross profit	<u>\$ 64,151</u>	<u>\$ 13,602</u>	<u>\$ 34,831</u>

Segment profit (loss):			
Alternative energy segment	\$ 63,228	\$ (1,027)	\$ 48,580
Real estate	(358)	(497)	(603)
Corporate expenses, net	(3,100)	(2,298)	(2,048)
Income from synthetic fuel investments	—	—	2,883
Income (loss) from continuing operations before income taxes	<u>\$ 59,770</u>	<u>\$ (3,822)</u>	<u>\$ 48,812</u>

Alternative Energy

The alternative energy segment includes the consolidated financial results of One Earth and NuGen, our other investments in ethanol facilities, the income or loss related to those investments and certain administrative expenses. One Earth began limited production operations late in the second quarter of fiscal year 2009 and became fully operational during the third quarter of fiscal year 2009. Effective November 1, 2011, we obtained a controlling financial interest in NuGen. Thus, we began consolidating the results of NuGen prospectively as of the acquisition date. Prior to November 1, 2011, we used the equity method of accounting to account for the results of NuGen.

The following table summarizes sales from One Earth and NuGen, by product group (amounts in thousands):

	Years Ended January 31,	
	2014	2013
Ethanol	\$ 500,203	\$ 495,249
Dried distillers grains	125,575	114,732
Modified distillers grains	18,998	27,463
Other	20,849	18,723
Total	<u>\$ 665,625</u>	<u>\$ 656,167</u>

The following table summarizes selected operating data from One Earth and NuGen:

	Years Ended January 31,	
	2014	2013
Average selling price per gallon of ethanol	\$ 2.20	\$ 2.23
Average selling price per ton of dried distillers grains	\$ 233.27	\$ 235.56
Average selling price per ton of modified distillers grains	\$ 114.91	\$ 117.89
Average cost per bushel of grain	\$ 6.27	\$ 7.14
Average cost of natural gas (per mmbtu)	\$ 4.54	\$ 3.75

Net sales and revenue for the current year increased approximately \$9.5 million over the prior year to approximately \$665.6 million. Ethanol sales increased from approximately \$495.2 million in the prior year to approximately \$500.2 million in the current year. The average selling price per gallon of ethanol decreased from \$2.23 in the prior year to \$2.20 in the current year. Our ethanol sales were based upon

approximately 227.2 million gallons in the current year compared to approximately 222.0 million gallons in the prior year. Our dried distillers grains sales increased from approximately \$114.7 million in the prior year to approximately \$125.6 million in the current year. The average selling price per ton of dried distillers grains decreased from \$235.56 in the prior year to \$233.27 in the current year. Our dried distillers grains sales were based upon approximately 538,000 tons in the current year compared to approximately 487,000 tons in the prior year. Our modified distillers grains sales decreased from approximately \$27.5 million in the prior year to approximately \$19.0 million in the current year. The average selling price per ton of modified distillers grains decreased from \$117.89 in the prior year to \$114.91 in the current year. Our modified distillers grains sales were based upon approximately 165,000 tons in the current year compared to approximately 233,000 tons in the prior year. Non-food grade corn oil sales increased from approximately \$16.0 million in the prior year to approximately \$18.8 million in the current year.

We expect that sales of One Earth and NuGen in future periods will be based upon the following:

<u>Product</u>	<u>Annual Sales Quantity</u>
Ethanol	200 million to 230 million gallons
Dried distillers grains	600,000 to 650,000 tons
Modified distillers grains	80,000 to 130,000 tons
Non-food grade corn oil	40 million to 60 million pounds

This expectation assumes that One Earth and NuGen will continue to operate at or above capacity, which is dependent upon the crush spread realized.

Gross profit from alternative energy segment sales was approximately \$64.3 million during the current year compared to approximately \$13.8 million during the prior year. The crush spread for fiscal year 2013 was approximately \$(0.04) per gallon of ethanol sold compared to fiscal year 2012 which was approximately \$(0.32) per gallon of ethanol sold. Grain accounted for approximately 84% (\$504.1 million) of our cost of sales during fiscal year 2013 compared to approximately 86% (\$554.8 million) during fiscal year 2012. Natural gas accounted for approximately 5% (\$28.1 million) of our cost of sales during fiscal year 2013 compared to approximately 4% (\$23.5 million) during fiscal year 2012. Given the inherent volatility in ethanol, distillers grains, non-food grade corn oil, grain and natural gas prices, we cannot predict the likelihood that the spread between ethanol, distillers grains, non-food grade corn oil and grain prices in future periods will be consistent compared to historical periods.

We attempt to match quantities of ethanol, distillers grains and non-food grade corn oil sale contracts with an appropriate quantity of grain purchase contracts over a given period of time when we can obtain an adequate margin resulting from the crush spread inherent in the contracts we have executed. However, the market for future ethanol sales contracts is not a mature market. Consequently, we generally execute fixed price contracts for no more than four months into the future at any given time. As a result of the relatively short period of time our fixed price contracts cover, we generally cannot predict the future movements in the crush spread for more than four months. Approximately 10% of our forecasted ethanol, approximately 26% of our forecasted distillers grains and approximately 11% of our forecasted non-food grade corn oil production during the next 12 months have been sold under fixed-price contracts. The effect of a 10% adverse change in the price of ethanol, distillers grains and non-food grade corn oil from the current pricing would result in a decrease in annual revenues in fiscal year 2014 of approximately \$46.6 million. Similarly, approximately 8% of our estimated corn usage for the next 12 months was subject to fixed-price contracts. The effect of a 10% adverse change in the price of corn from current pricing would result in an increase in annual cost of goods sold in fiscal year 2014 of approximately \$32.3 million.

Selling, general and administrative expenses were approximately \$14.5 million in fiscal year 2013, a \$4.6 million increase from approximately \$9.9 million in fiscal year 2012. The increase is primarily a result of increases in incentive compensation related to the higher segment profitability in fiscal year 2013 and an increase in the rates for rail car leases. We expect selling, general and administrative expenses to remain consistent with fiscal year 2013 results in future periods, assuming overall corporate profitability remains relatively consistent.

Income from equity method investments in Big River and Patriot increased from approximately \$0.6 million in the prior year to approximately \$17.2 million in the current year.

We recognized approximately \$8.8 million of income from Big River in fiscal year 2013 which is approximately \$8.5 million higher than the prior year amount of approximately \$0.3 million. Big River's results in the current year were positively impacted from the increased crush spread experienced in the ethanol industry.

We recognized approximately \$8.4 million of income from Patriot in fiscal year 2013, which is approximately \$8.0 million higher than the prior year amount of approximately \$0.4 million. Patriot's results in the current year were positively impacted from the increased crush spread experienced in the ethanol industry.

Given the inherent volatility in the factors that affect the crush spread, we cannot predict the likelihood that the trend with respect to income from equity method investments will continue in future periods.

Interest expense decreased approximately \$0.9 million from the prior year to approximately \$3.9 million in the current year. This decrease was primarily a result of reduced debt levels from scheduled and accelerated principal repayments. Based on current interest rates and debt levels, we expect interest expense to be in the range of \$2.2 million to \$2.9 million in fiscal year 2014.

Other income of approximately \$0.1 million in fiscal year 2013 was consistent compared to the prior year. We do not expect other income to be significant in future periods.

Losses on derivative financial instruments held by One Earth were approximately \$39,000 in the current year compared to approximately \$0.4 million in the prior year. As the swap expires in July 2014, we do not expect any future gains or losses to be significant.

As a result of the factors discussed above, segment results increased to a profit of approximately \$63.2 million in the current year from a loss of approximately \$1.0 million in the prior year.

Real Estate

The real estate segment includes all owned and sub-leased real estate including those previously used as retail store operations, our real estate leasing activities and certain administrative expenses. It excludes results from discontinued operations.

At January 31, 2014, we have lease agreements, as landlord, for four owned former retail stores (51,000 square feet). We have seven owned former retail stores (86,000 square feet) that are vacant at January 31, 2014. We are marketing these vacant properties to lease or sell.

Net sales and revenue of approximately \$0.5 million for the current year were consistent with the prior year amount. We expect lease revenue for future periods to be consistent with the fiscal year 2013 amount based upon leases currently executed. Gross loss from this segment was approximately \$0.1 million during the

current year compared to approximately \$0.2 million during the prior year. We expect gross profit or loss for fiscal year 2013 to be insignificant based upon leases currently executed.

Selling, general and administrative expenses were approximately \$0.2 million in fiscal year 2013, consistent with the approximately \$0.3 million in fiscal year 2012. We expect selling, general and administrative expenses in future periods to remain consistent with comparable historical periods.

As a result of the factors discussed above, segment loss was approximately \$0.4 million in the current year compared to approximately \$0.5 million in the prior year. Excluding any property sales that may occur in fiscal year 2014, we expect to generate another segment loss in fiscal year 2014 based upon the current number of vacant properties.

Corporate and Other

Corporate and other includes certain administrative expenses of the corporate headquarters, the results of Future Energy operations, interest expense and interest income not directly allocated to the alternative energy or real estate segments.

Selling, general and administrative expenses were approximately \$3.1 million in the current year, an increase of approximately \$0.8 million over the approximately \$2.3 million of expenses in the prior year. A majority of the increase is a result of the research and development activities of Future Energy. We expect selling, general and administrative expenses in future periods to be consistent with current year levels.

Comparison of Fiscal Years Ended January 31, 2013 and 2012

Net Sales and Revenue – Net sales and revenue in fiscal year 2012 were approximately \$656.6 million, a 60.6% increase from approximately \$408.9 million in fiscal year 2011. Net sales and revenue do not include sales from operations classified as discontinued operations. This increase was primarily caused by higher sales in our alternative energy segment of approximately \$247.5 million. The increase in alternative energy segment sales was primarily a result of consolidating NuGen for the full year in fiscal year 2012. We accounted for the results of NuGen using the equity method of accounting until the fourth quarter of fiscal year 2011, at which time we obtained a controlling financial interest in NuGen, and thus, began consolidating the results. Net sales and revenue from our real estate segment increased \$0.2 million over the prior year to approximately \$0.5 million.

Gross Profit – Gross profit was approximately \$13.6 million in fiscal year 2012, or 2.1% of net sales and revenue, versus approximately \$34.8 million in fiscal year 2011 or 8.5% of net sales and revenue. This represents a decrease of approximately \$21.2 million. Gross profit for fiscal year 2012 decreased by approximately \$21.3 million from the prior year as a result of operations in the alternative energy segment. Gross loss for fiscal year 2012 decreased by approximately \$0.1 million compared to the prior year from our real estate segment.

Selling, General and Administrative Expenses– Selling, general and administrative expenses for fiscal year 2012 were approximately \$12.5 million (1.9% of net sales and revenue), an increase of approximately \$2.1 million or 20.9% from approximately \$10.4 million (2.5% of net sales and revenue) for fiscal year 2011. Compared to the prior year, these expenses increased approximately \$2.1 million in the alternative energy segment.

Equity in Income of Unconsolidated Ethanol Affiliates – During fiscal years 2012 and 2011, we recognized income of approximately \$0.6 million and \$21.5 million, respectively, from our equity investments in Big River, Patriot and NuGen. Effective November 1, 2011, we acquired an additional 50% equity interest in

NuGen. As of November 1, 2011, we ceased using the equity method of accounting for NuGen and began consolidating their results prospectively.

Income from Big River and Patriot in fiscal year 2012 was significantly lower than fiscal year 2011 levels. Income from Big River was approximately \$0.3 million and \$6.9 million in fiscal years 2012 and 2011, respectively. Income from Patriot was approximately \$0.4 million and \$5.3 million in fiscal years 2012 and 2011, respectively. Big River's and Patriot's results in fiscal year 2012 were negatively impacted from the decreased crush spread experienced in the ethanol industry. Income from NuGen was approximately \$9.3 million in fiscal year 2011.

Bargain purchase gain, net – On November 1, 2011, we acquired 50% of the outstanding membership units of NuGen, which resulted in us owning approximately 98% of the outstanding membership units in NuGen. We applied acquisition accounting for this business combination achieved in stages, and recognized a loss of approximately \$5.4 million by remeasuring the fair value of our equity method investment at the acquisition date and a bargain purchase gain of approximately \$8.9 million related to the fair value of the assets acquired less liabilities assumed exceeding our consideration given for such net assets. This resulted in a bargain purchase gain, net, of approximately \$3.5 million.

Income from Synthetic Fuel Investments– During fiscal year 2011 we received approximately \$2.9 million as final payment related to the sale of our membership interest in a limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. We will not receive nor recognize any additional income from the sale of our membership interest.

Interest Income – Interest income of approximately \$0.1 million for fiscal year 2012 was approximately \$0.3 million lower than interest income for fiscal year 2011. Interest income declined primarily as a result of lower levels of excess cash invested and yields earned on such excess cash.

Interest Expense – Interest expense increased to approximately \$4.8 million for fiscal year 2012 from approximately \$3.4 million for fiscal year 2011. This increase is primarily a result of consolidating NuGen beginning November 1, 2011 versus using the equity method of accounting for NuGen prior to November 1, 2011.

Loss on Early Termination of Debt – During fiscal year 2011, we completed the early payoff of mortgage debt prior to maturity. As a result, we expensed certain unamortized financing costs and prepayment penalties of approximately \$1,000 during fiscal year 2011, as loss on early termination of debt.

Other Income – Other income was approximately \$0.1 million and \$0.6 million in fiscal years 2012 and 2011, respectively. Non recurring income recognized by NuGen related to dividends paid by a co-operative during the fiscal year 2011 is the primary reason for the decrease.

Loss on Disposal of Real Estate and Property and Equipment, net – We recognized losses of approximately \$0.5 million in fiscal year 2012, which was primarily the result of certain equipment being disposed of in our alternative energy segment.

Losses on Derivative Financial Instruments – We recognized losses of approximately \$0.4 million and \$1.1 million during fiscal years 2012 and 2011, respectively, related to forward interest rate swaps that One Earth entered into during fiscal year 2007. In general, declining interest rates have a negative effect on our interest rate swaps as our swaps fixed the interest rate of variable rate debt. As interest rates declined during fiscal years 2012 and 2011, we incurred losses on the interest rate swap.

Income Taxes— Our effective tax rate was 42.6% and 33.3% for fiscal years 2012 and 2011, respectively. Our effective rate is impacted by the noncontrolling interests of the companies we consolidate, as we recognize 100% of their income or loss in continuing operations before income taxes and noncontrolling interests. However, we only provide an income tax provision or benefit for our portion of the subsidiaries' income or loss with a noncontrolling interest. In addition, our effective rate was favorably impacted by approximately 3% during fiscal year 2011 as a result of domestic production activities deductions resulting from operations at certain of our ethanol plants.

Loss or Income from Continuing Operations — As a result of the foregoing, loss from continuing operations was approximately \$2.2 million for fiscal year 2012 versus income of approximately \$32.6 million for fiscal year 2011.

Discontinued Operations — During fiscal year 2009, we closed our remaining retail store and warehouse operations and reclassified all retail related results as discontinued operations. As a result, we had income from discontinued operations, net of taxes, of approximately \$0.5 million in fiscal year 2012 compared to approximately \$0.7 million in fiscal year 2011. This income includes the amortization of deferred income related to extended service contracts sold when we operated the former retail segment. Six properties classified as discontinued operations were sold during fiscal year 2012, resulting in a gain, net of taxes, of approximately \$0.1 million. We sold or disposed of eight former retail store locations classified as discontinued operations in fiscal year 2011; as a result, we had a gain from disposal of discontinued operations, net of taxes, of approximately \$0.4 million in fiscal year 2011.

Noncontrolling Interests — (Income) or loss related to noncontrolling interests was approximately \$(0.7) million and \$(5.4) million during fiscal years 2012 and 2011, respectively, and represents the owners' (other than us) share of the income or loss of One Earth (full year of fiscal year 2012 and 2011) and NuGen (full year of fiscal year 2012 and fourth quarter of fiscal year 2011). Noncontrolling interests of One Earth and NuGen were approximately \$(0.7) million and \$25,000, respectively, during fiscal year 2012. Noncontrolling interests of One Earth and NuGen were approximately \$(5.2) million and \$(0.2) million, respectively, during fiscal year 2011.

Net Loss or Income Attributable to REX Common Shareholders— As a result of the foregoing, net loss attributable to REX common shareholders was approximately \$2.3 million for fiscal year 2012 compared to net income of \$28.3 million for fiscal year 2011.

In addition to the information discussed above, the following sections discuss the results of operations for each of our business segments and corporate and other.

Alternative Energy

The alternative energy segment includes the consolidated financial statements of One Earth and NuGen, our other investments in ethanol facilities, the income related to those investments and certain administrative expenses.

The following table summarizes sales from One Earth and NuGen by product group (amounts in thousands):

	Years Ended January 31,	
	2013	2012
Ethanol	\$ 495,249	\$ 333,599
Dried distillers grains	114,732	71,663
Modified distillers grains	27,463	2,276
Other	18,723	1,097
Total	\$ 656,167	\$ 408,635

The following table summarizes selected operating data from One Earth and NuGen during periods of consolidation:

	Years Ended January 31,	
	2013	2012
Average selling price per gallon of ethanol	\$ 2.23	\$ 2.49
Average selling price per ton of dried distillers grains	\$ 235.56	\$ 196.46
Average selling price per ton of modified distillers grains	\$ 117.89	\$ 93.42
Average cost per bushel of grain	\$ 7.14	\$ 6.66
Average cost of natural gas (per mmbtu)	\$ 3.75	\$ 4.88

Net sales and revenue for fiscal year 2012 increased approximately \$247.5 million over the prior year to approximately \$656.2 million, primarily a result of consolidating NuGen for the full year in fiscal year 2012. We accounted for the results of NuGen using the equity method of accounting until the fourth quarter of fiscal year 2011, at which time we obtained a controlling financial interest in NuGen, and thus, began consolidating the results. Ethanol sales increased from approximately \$333.6 million in the prior year to approximately \$495.2 million in fiscal year 2012. The average selling price per gallon of ethanol decreased from \$2.49 in the prior year to \$2.23 in fiscal year 2012. Our ethanol sales were based upon approximately 222.0 million gallons in fiscal year 2012 compared to approximately 134.0 million gallons in the prior year. Our dried distillers grains sales increased from approximately \$71.7 million in the prior year to approximately \$114.7 million in fiscal year 2012. The average selling price per ton of dried distillers grains increased from \$196.46 in the prior year to \$235.56 in fiscal year 2012. Our dried distillers grains sales were based upon approximately 487,000 tons in fiscal year 2012 compared to approximately 327,000 tons in the prior year. The average selling price per ton of modified distillers grains increased from \$93.42 in the prior year to \$117.89 in fiscal year 2012. Our modified distillers grains sales were based upon approximately 233,000 tons in fiscal year 2012 compared to approximately 24,000 tons in the prior year. Non-food grade corn oil sales were approximately \$16.0 million in fiscal year 2012. Fiscal year 2012 was the first year that our consolidated plants produced and sold non-food grade corn oil. The increase in gallons of ethanol sold, tons of dried distillers grains sold and tons of modified distillers grains sold resulted primarily from including the results of NuGen for the full year in fiscal year 2012 but only the fourth quarter in the prior year.

Gross profit from alternative energy segment sales was approximately \$13.8 million during fiscal year 2012 compared to approximately \$35.2 million during fiscal year 2011. The crush spread for fiscal year 2012 was approximately (\$0.32) per gallon of ethanol sold compared to approximately \$0.11 per gallon of ethanol sold during fiscal year 2011. Grain accounted for approximately 87% (\$558.4 million) of our cost of sales during fiscal year 2012 compared to approximately 85% (\$316.0 million) during fiscal year 2011. Natural gas

accounted for approximately 4% (\$23.5 million) of our cost of sales during fiscal year 2012 compared to approximately 5% (\$18.6 million) during fiscal year 2011.

Selling, general and administrative expenses were approximately \$9.9 million in fiscal year 2012, a \$2.1 million increase from approximately \$7.8 million in fiscal year 2011. The increase is primarily a result of including the results of NuGen for the full year in fiscal year 2012 but only the fourth quarter in fiscal year 2011, which resulted in approximately \$4.7 million of increased expenses in fiscal year 2012 compared to fiscal year 2011. This increase was partially offset by a decrease in incentive compensation of approximately \$2.5 million, a result of decreased segment profitability.

Income from equity method investments in Big River, Patriot and NuGen decreased from approximately \$21.5 million in fiscal year 2011 to approximately \$0.6 million in the fiscal year 2012.

We recognized approximately \$0.3 million of income from Big River in fiscal year 2012 which is approximately \$6.6 million lower than the fiscal year 2011 amount of approximately \$6.9 million. Big River's results in fiscal year 2012 were negatively impacted from the decreased crush spread experienced in the ethanol industry.

We recognized approximately \$0.4 million of income from Patriot in fiscal year 2012, which is approximately \$4.9 million lower than the fiscal year 2011 amount of approximately \$5.3 million. Patriot's results in fiscal year 2012 were negatively impacted from the decreased crush spread experienced in the ethanol industry.

We recognized approximately \$9.3 million of income pursuant to the equity method of accounting from NuGen in fiscal year 2011. Effective November 1, 2011, we ceased using the equity method of accounting for NuGen and began consolidating the results of NuGen.

On November 1, 2011, we acquired 50% of the outstanding membership units of NuGen, which resulted in us owning approximately 98% of the outstanding membership units in NuGen. We applied acquisition accounting for this business combination achieved in stages, and recognized a loss of approximately \$5.4 million by remeasuring the fair value of our equity method investment at the acquisition date and a bargain purchase gain of approximately \$8.9 million related to the fair value of the assets acquired less liabilities assumed exceeding our consideration given for such net assets. This resulted in a bargain purchase gain, net, of approximately \$3.5 million.

Interest expense increased approximately \$1.4 million in fiscal year 2012 compared to fiscal year 2011 to approximately \$4.8 million. This increase is primarily a result of consolidating NuGen beginning November 1, 2011, versus using the equity method of accounting for NuGen prior to November 1, 2011.

Other income decreased to approximately \$0.1 million in fiscal year 2012 compared to approximately \$0.6 million in fiscal year 2011. Non recurring income recognized by NuGen related to dividends paid by a co-operative during the prior year is the primary reason for the decrease.

Losses on derivative financial instruments held by One Earth were approximately \$0.4 million in fiscal year 2012 compared to approximately \$1.1 million in fiscal year 2011. The losses in both fiscal year 2012 and 2011, were primarily a function of the movement in interest rates in those respective years.

As a result of the factors discussed above, segment profit decreased to a loss of approximately \$1.0 million in fiscal year 2012 from segment profit of approximately \$48.6 million in fiscal year 2011.

Real Estate

The real estate segment includes all owned real estate including those previously used as retail store and distribution center operations, our real estate leasing activities and certain administrative expenses. It excludes results from discontinued operations.

At January 31, 2013, we had lease agreements, as landlord, for six owned former retail stores (77,000 square feet). We had 11 owned former retail stores (139,000 square feet) that were vacant at January 31, 2013. In addition, one former distribution center was partially leased (356,000 square feet), partially occupied by our corporate office personnel (10,000 square feet) and partially vacant (111,000 square feet).

Net sales and revenue for fiscal year 2012 increased approximately \$0.2 million over the fiscal year 2011 amount to approximately \$0.5 million. The increase in revenue is primarily a result of leases for two properties that were leased during fiscal year 2011.

Gross loss from this segment was approximately \$0.2 million during fiscal year 2012 consistent with approximately \$0.3 million during fiscal year 2011.

Selling, general and administrative expenses were approximately \$0.3 million in fiscal year 2012, consistent with the amount in fiscal year 2011.

As a result of the factors discussed above, segment loss was approximately \$0.5 million in fiscal year 2012 compared to approximately \$0.6 million in fiscal year 2011.

Corporate and Other

Selling, general and administrative expenses were approximately \$2.3 million in fiscal year 2012 consistent with expenses in fiscal year 2011.

Interest expense of approximately \$44,000 in fiscal year 2012 was consistent with fiscal year 2011.

Interest income of approximately \$0.1 million in fiscal year 2012 is approximately \$0.2 million lower than the fiscal year 2011 income. Interest income declined primarily as a result of lower levels of excess cash invested and yields earned on such excess cash.

Liquidity and Capital Resources

Our primary sources of cash have been income from operations, dividends from ethanol investments and sales of real estate. Our primary uses of cash have been capital expenditures at our ethanol plants, long term debt repayments and stock repurchases.

Outlook – Our cash balance of approximately \$105.1 million includes approximately \$41.8 million held by One Earth and NuGen. Pursuant to their debt agreements, One Earth and NuGen are limited with respect to paying dividends. Thus, we expect that One Earth and NuGen will use a majority of their cash for working capital and debt service needs. All of our ethanol investments have long term debt and we expect these organizations to limit the payment of dividends based upon working capital needs, debt service requirements and the requirements of their respective loan agreements. Debt service payments in excess of scheduled amounts related to ethanol debt is the result of excess cash sweeps that are required pursuant to the respective ethanol plant's debt agreement and are based upon percentages of profitability. In addition, principal payments in excess of scheduled payments have been made based on the permission of the lending institution and our desire to reduce the debt balances.

We continue to investigate investment opportunities in various companies and industries. Another possible use of our excess cash is to repurchase our common stock. We typically repurchase our common stock when our stock price is trading at prices we deem to be a discount to the underlying value of our net assets. Historically, we have not incurred additional borrowings to fund repurchases of our common stock. We also plan to seek and evaluate other various investment opportunities including energy related, agricultural or other ventures we believe fit our investment criteria. We can make no assurances that we will be successful in our efforts to find such opportunities.

The ethanol industry has experienced favorable crush spreads to date during fiscal year 2014. This is a result of continued lower corn prices that occurred during the latter half of fiscal year 2013 and strong pricing for ethanol. These positive factors have been partially offset by higher natural gas costs resulting from demand spikes as regions of the United States experienced unusually cold temperatures this past winter. We expect corn pricing to remain favorable during the first half of fiscal year 2014.

We do not have combined significant commitments for capital expenditures at January 31, 2014. We expect capital expenditures to be in the range of approximately \$4 million to \$8 million in fiscal year 2014 and expect to fund such capital expenditures with available cash at our ethanol plant subsidiaries.

Operating Activities – Net cash provided by operating activities was approximately \$64.4 million for fiscal year 2013 compared to approximately \$17.0 million in fiscal year 2012. During fiscal year 2013, operating cash flow was provided by net income of approximately \$40.2 million including adjustments to net income of approximately \$13.4 million, which consist of depreciation and amortization, income from equity method investments, derivative financial instruments, gain on disposal of real estate and property and equipment and the deferred income tax provision. Big River and Patriot paid dividends to REX of approximately \$5.8 million during fiscal year 2013. Additionally, refundable income taxes decreased approximately \$1.5 million resulting from tax overpayments in prior years being used to pay the current year liability. Accounts receivable increased approximately \$4.9 million, primarily a result of the timing of products shipped and the receipt of customer payments at One Earth and NuGen. Inventory decreased approximately \$5.5 million, primarily a result of the decline in corn costs during fiscal year 2013. Other liabilities increased approximately \$2.6 million, primarily a result of increased accrued incentive compensation expenses associated with the increase in profitability in the current year. Prepaid expenses and other assets increased approximately \$2.6 million, primarily a result of increased payment for refundable real estate taxes. Accounts payable increased approximately \$1.7 million, primarily a result of inventory receipts and timing of vendor payments.

Net cash provided by operating activities was approximately \$17.0 million for fiscal year 2012. During fiscal year 2012, operating cash flow was used by net loss of approximately \$1.6 million including real estate impairment charges of approximately \$0.6 million and other adjustments to net income of approximately \$14.4 million, which consist of depreciation and amortization, income from equity method ethanol investments, derivative financial instruments, loss on disposal of real estate and property and equipment, deferred income and the deferred income tax provision. Big River paid dividends to REX of approximately \$2.2 million during fiscal year 2012. Additionally, cash was provided by a refund on income taxes of approximately \$0.7 million resulting from tax overpayments in prior years. Accounts receivable decreased approximately \$1.2 million, primarily a result of the timing of products shipped and the receipt of customer payments at One Earth and NuGen. Inventory decreased approximately \$5.4 million, primarily a result of focused inventory management in the crush spread environment occurring during fiscal year 2012. Other liabilities decreased approximately \$4.9 million, primarily a result of decreased accrued incentive compensation expenses associated with the decrease in profitability in fiscal year 2012. Accounts payable decreased approximately \$1.5 million, primarily a result of inventory receipts and timing of vendor payments.

Investing Activities – Net cash provided by investing activities was approximately \$6.8 million during fiscal year 2013 compared to approximately \$25,000 during fiscal year 2012. Capital expenditures in fiscal year 2013 totaled approximately \$3.5 million, the majority of which was for improvements at the NuGen ethanol plant. Cash of approximately \$8.9 million was provided by proceeds from the sale of real estate and property and equipment. We received payments of approximately \$0.7 million during fiscal year 2013, to pay off a loan we had in connection with the sale of real estate. We received payments of approximately \$1.3 million as refunds or reductions of restricted investments and deposits from governmental agencies.

Net cash provided by investing activities was approximately \$25,000 during fiscal year 2012. Capital expenditures in fiscal year 2012 totaled approximately \$3.7 million, the majority of which was for improvements at the One Earth ethanol plant. Cash of approximately \$2.9 million was provided by proceeds from the sale of real estate and property and equipment. Cash of approximately \$0.9 million was provided as we received payments for a portion of the balance of our restricted investments which was a result of our outstanding extended service contracts declining.

Financing Activities – Net cash used in financing activities was approximately \$35.2 million during fiscal year 2013 compared to approximately \$23.0 million for fiscal year 2012. During fiscal year 2013, repayments of debt were approximately \$31.2 million. The increase in repayments of debt resulted primarily from payments of \$11.0 million based on NuGen's and One Earth's excess cash flows as required by their loan agreements. In addition, the refinancing of One Earth's debt in fiscal year 2013 required principal payments on the existing debt of approximately \$2.8 million. Stock option exercises in fiscal year 2013 generated cash of approximately \$1.1 million. We used cash of approximately \$1.6 million to purchase shares from and pay dividends to noncontrolling members of One Earth and NuGen. We do not expect such payments to noncontrolling members of One Earth and NuGen to increase significantly in fiscal year 2014. During fiscal year 2013, we purchased approximately 137,000 shares of our common stock for approximately \$3.5 million in open market transactions.

Net cash used in financing activities was approximately \$23.0 million during fiscal year 2012. During fiscal year 2012, repayments of debt were approximately \$16.8 million. The decrease in repayments of debt resulted primarily from the refinancing of NuGen's debt in fiscal year 2011 which required significant payments on the existing debt of approximately \$22.0 million. Stock option exercises in fiscal year 2012 generated cash of approximately \$0.3 million. We used cash of approximately \$2.1 million to purchase shares from and pay dividends to noncontrolling members of One Earth and NuGen. During fiscal year 2012, we purchased approximately 245,000 shares of our common stock for approximately \$4.4 million in open market transactions. At January 31, 2014, we had a remaining authorization from our Board of Directors to purchase approximately 280,000 shares of our common stock. We plan to hold all acquired shares in treasury for possible future use.

At January 31, 2014, we had approximately \$75.7 million of debt outstanding at a weighted average interest rate of approximately 3.6%, with maturities from October 2016 to October 2018. During fiscal year 2013, we made principal payments of approximately \$31.2 million on long-term debt from scheduled repayments, accelerated repayments and excess cash flow payments as defined in One Earth's and NuGen's loan agreements. During fiscal year 2012, we made principal payments of approximately \$16.8 million on long-term debt from scheduled repayments and early payoffs.

One Earth Subsidiary Level Debt

In September 2007, One Earth entered into a \$111,000,000 financing agreement consisting of a construction loan agreement for \$100,000,000 together with a \$10,000,000 annually renewable revolving loan and a \$1,000,000 letter of credit with First National Bank of Omaha ("the Bank"). The construction loan was converted into a term loan on July 31, 2009. On September 3, 2013, One Earth entered into an amendment

of its loan agreement with the Bank. The amendment included a refinance amount of approximately \$44,101,000 (the remaining balance of the original loan) which bears interest at LIBOR plus 300 basis points (3.2% at January 31, 2014). Quarterly principal payments of approximately \$2.0 million are due beginning January 8, 2014 and ending October 8, 2018. Principal payments equal to 20% of annual excess cash flows are also due. Such payments cannot exceed \$6 million in a year or \$18 million in the aggregate. This amendment did not change requirements regarding financial covenants.

The loan is secured by all property of One Earth and is recourse only to One Earth and not to REX American Resources Corporation or any of its other subsidiaries. As of January 31, 2014, approximately \$39.1 million was outstanding on the term loan. One Earth is also subject to certain financial covenants under the loan agreement. The specific covenant requirements, descriptions and calculated ratios and amounts at January 31, 2014 are as follows:

- Maintain a fixed charge coverage ratio, measured on an annual basis, of at least 1.10 to 1.0.

This ratio is computed by dividing adjusted EBITDA (EBITDA less taxes, capital expenditures and distributions paid to members) by scheduled principal and interest payments. For the fiscal year ended January 31, 2014, the fixed charge coverage ratio was 1.8 to 1.00.

- Maintain working capital of at least \$10 million.

Working capital is defined as total current assets (less investments in or other amounts due from any member, manager, employee or any other person or entity related to or affiliated with One Earth) less total current liabilities. At January 31, 2014, working capital was approximately \$26.4 million.

- Capital expenditures are limited to \$3.0 million annually.

For the fiscal year ended January 31, 2014, capital expenditures were approximately \$637,000.

One Earth was in compliance with all covenants, as applicable, at January 31, 2014. On March 13, 2013, One Earth entered into an amendment of its loan agreement with the First National Bank of Omaha. This amendment included:

- 1) a permanent waiver, by the lender, of the requirement to maintain the fixed charge coverage ratio at December 31, 2012 and
- 2) a modification of the covenant regarding maintenance of the fixed charge coverage ratio to a requirement that One Earth maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 to be met annually beginning December 31, 2013.

Based on our forecasts, which are primarily based on estimates of plant production, prices of ethanol, corn, distillers grains, non-food grade corn oil and natural gas as well as other assumptions management believes to be reasonable, management believes that One Earth will be able to maintain compliance with the covenants pursuant to its loan agreement with the First National Bank of Omaha for the next 12 months. Management also believes that cash flow from operating activities together with working capital will be sufficient to meet One Earth's liquidity needs. However, if a material adverse change in the financial position of One Earth should occur, or if actual sales or expenses are substantially different than what has been forecasted, One Earth's liquidity, and ability to fund future operating and capital requirements and compliance with debt covenants, could be negatively impacted.

One Earth paid approximately \$1.4 million in costs related to obtaining its financing arrangement. These costs are recorded as prepaid loan fees and are being amortized over the loan term. At January 31, 2014, our

proportionate share of restricted net assets related to One Earth was approximately \$86.9 million. Such assets may not be paid in the form of dividends or advances to the parent company or other members of One Earth per the terms of the loan agreement with First National Bank of Omaha.

One Earth had no outstanding borrowings on the \$10,000,000 revolving loan as of January 31, 2014 and 2013.

NuGen Subsidiary Level Debt

In November 2011, NuGen entered into a \$65,000,000 financing agreement consisting of a term loan agreement for \$55,000,000 and a \$10,000,000 revolving loan with First National Bank of Omaha. The term loan bears interest at a variable interest rate of LIBOR plus 325 basis points, subject to a 4% floor. Beginning with the first quarterly payment on February 1, 2012, payments are due in 19 quarterly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (October 31, 2016) for the remaining unpaid principal balance with accrued interest. Principal payments equal to 40% of annual excess cash flows are also due. Such payments cannot exceed \$5 million in a year. This debt is recourse only to NuGen and not to REX American Resources Corporation or any of its other subsidiaries.

Borrowings are secured by all property of NuGen. As of January 31, 2014, approximately \$36.6 million was outstanding on the term loan. NuGen is also subject to certain financial covenants under the loan agreement. The specific covenant requirements, descriptions and calculated ratios and amounts are as follows:

- Maintain a fixed charge coverage ratio, measured on an annual basis of at least 1.10 to 1.0.

This ratio is computed by dividing adjusted EBITDA (EBITDA less taxes, capital expenditures and distributions paid to members) by scheduled principal and interest payments. For the fiscal year ended January 31, 2014, the fixed charge coverage ratio was 4.0 to 1.00.

- Maintain working capital of at least \$10 million.

Working capital is defined as total current assets (less investments in or other amounts due from any member, manager, employee or any other person or entity related to or affiliated with NuGen) less total current liabilities. At January 31, 2014, working capital was approximately \$28.8 million.

- Capital expenditures are limited to \$2.5 million annually except that for the fiscal year ending January 31, 2015, capital expenditures are limited to \$8.5 million.

For the fiscal year ended January 31, 2014, capital expenditures were approximately \$1.4 million.

NuGen was in compliance with all covenants, as applicable, at January 31, 2014. On March 13, 2013, NuGen entered into an amendment of its loan agreement with the First National Bank of Omaha. This amendment includes:

- 1) a permanent waiver, by the lender, of the requirement to maintain the fixed charge coverage ratio at January 31, 2013 and
- 2) a modification of the covenant regarding maintenance of the fixed charge coverage ratio to a requirement that NuGen maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 to be met annually beginning January 31, 2014 and
- 3) a modification of the covenant regarding maintenance of working capital levels to a requirement that NuGen maintain minimum working capital of not less than \$7.5 million

measured at its quarters ending April 30, 2013, July 31, 2013 and October 31, 2013. As of January 31, 2014 and thereafter, NuGen shall maintain minimum working capital of not less than \$10.0 million.

Based on our forecasts, which are primarily based on estimates of plant production, prices of ethanol, corn, distillers grains, non-food grade corn oil and natural gas as well as other assumptions management believes to be reasonable, management believes that NuGen will be able to maintain compliance with the covenants pursuant to its loan agreement with the First National Bank of Omaha for the next 12 months. Management also believes that cash flow from operating activities together with working capital will be sufficient to meet NuGen's liquidity needs. However, if a material adverse change in the financial position of NuGen should occur, or if actual sales or expenses are substantially different than what has been forecasted, NuGen's liquidity, and ability to fund future operating and capital requirements and compliance with debt covenants, could be negatively impacted.

NuGen paid approximately \$0.6 million in costs related to obtaining its financing arrangement. These costs are recorded as prepaid loan fees and are being amortized over the loan term. At January 31, 2014, our proportionate share of restricted net assets related to NuGen was approximately \$66.1 million. Such assets may not be paid in the form of dividends or advances to the parent company or other members of NuGen per the terms of the loan agreement with First National Bank of Omaha.

NuGen had no outstanding borrowings on the \$10,000,000 revolving loan as of January 31, 2014 and 2013. NuGen has issued letters of credit totaling \$500,000 at January 31, 2014. There were no issued letters of credit outstanding at January 31, 2013.

On a consolidated basis, approximately 73.3% of our net assets (including equity method investees) are restricted pursuant to the terms of various loan agreements as of January 31, 2014. Including only our consolidated subsidiaries, approximately 54.8% of our net assets are restricted as of January 31, 2014.

Off Balance Sheet Arrangements

None.

Tabular Disclosure of Contractual Obligations

In the ordinary course of business, we enter into agreements under which we are obligated to make legally enforceable future cash payments. These agreements include obligations related to purchasing inventory, long term debt and interest rate management.

The following table summarizes by category expected future cash outflows associated with contractual

obligations in effect as of January 31, 2014 (amounts in thousands):

Contractual Obligations	Payment due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	\$ 75,726	\$ 12,226	\$ 48,500	\$ 15,000	\$ —
Interest on variable rate debt (a)	6,591	2,679	3,386	526	—
Other (b)	39,354	7,381	12,299	10,089	9,585
Total (c)	<u>\$ 121,671</u>	<u>\$ 22,286</u>	<u>\$ 64,185</u>	<u>\$ 25,615</u>	<u>\$ 9,585</u>

- (a) The interest rates effective as of January 31, 2014 for variable rate loans were used to calculate future payments of interest on variable rate debt.
- (b) Amounts represent primarily payments due for rail car usage and grain contracts at One Earth and NuGen.
- (c) We are not able to determine the likely settlement period for uncertain tax positions, accordingly, approximately \$1.8 million of uncertain tax positions and related interest and penalties have been excluded from the table above. We are not able to determine the likely settlement for forward basis corn purchase contracts which do not contain a determinable fixed price; accordingly, payments for such contracts have been excluded from the table above.

Seasonality and Quarterly Fluctuations

We experienced seasonality in our ethanol business during fiscal year 2011 as we had higher sales, gross margins and operating profits during the fourth quarter of fiscal year 2011. This trend was not experienced in fiscal years 2013 or 2012 and we believe this trend is unlikely to continue into future years with the expiration of the Volumetric Ethanol Excise Tax Credit as of December 31, 2011. We believe the expiration of the tax credit created an increase in ethanol demand during the fourth quarter of fiscal year 2011.

Impact of Inflation

The impact of inflation has not been material to our results of operations for the past three fiscal years.

Critical Accounting Policies

We believe the application of the following accounting policies, which are important to our financial position and results of operations, require significant assumptions, judgments and estimates on the part of management. We base our assumptions, judgments, and estimates on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented in accordance with generally accepted accounting principles (GAAP). However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Further, if different assumptions, judgments and estimates had been used, the results could have been different and such differences could be material. For a summary of all of our accounting policies, including the accounting policies discussed below, see Note 1 of the Notes to the Consolidated Financial

Statements. Management believes that the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results, and they require management's most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Revenue Recognition – We recognize sales from ethanol, distillers grains and non-food grade corn oil when title transfers to customers, upon shipment from our plant. Shipping and handling charges billed to ethanol, distillers grains and non-food grade corn oil customers are included in net sales and revenue.

We include income from our real estate leasing activities in net sales and revenue. We account for these leases as operating leases. Accordingly, minimum rental revenue is recognized on a straight-line basis over the term of the lease.

We sold, prior to our exit of the retail business, retail product service contracts covering periods beyond the normal manufacturers' warranty periods, usually with terms of coverage (including manufacturers' warranty periods) of between 12 to 60 months. Contract revenues and sales commissions are deferred and amortized on a straight-line basis over the life of the contracts after the expiration of applicable manufacturers' warranty periods. We retain the obligation to perform warranty service and such costs are charged to operations as incurred. All related revenue and expense is classified in discontinued operations.

Investments –The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which we are the primary beneficiary. The evaluation of consolidation under ASC 810 "Consolidation" is complex and requires judgments to be made. We consolidate the results of two majority owned subsidiaries, One Earth and NuGen. The results of One Earth are included on a delayed basis of one month. The Company accounts for investments in limited liability companies in which it may have a less than 20% ownership interest, using the equity method of accounting when the factors discussed in ASC 323 "Investments-Equity Method and Joint Ventures" are met. The excess of the carrying value over the underlying equity in the net assets of equity method investees is allocated to specific assets and liabilities. Any unallocated excess is treated as goodwill and is recorded as a component of the carrying value of the equity method investee. Investments in businesses that the Company does not control but for which it has the ability to exercise significant influence over operating and financial matters are accounted for using the equity method. Investments in which the Company does not have the ability to exercise significant influence over operating and financial matters are accounted for using the cost method. The Company accounts for its investments in Big River Resources, LLC ("Big River") and Patriot Holdings, LLC ("Patriot") using the equity method of accounting and includes the results of these entities on a delayed basis of one month.

We periodically evaluate our investments for impairment due to declines in market value considered to be other than temporary. Such impairment evaluations include, in addition to persistent, declining market prices, general economic and company-specific evaluations. If we determine that a decline in market value is other than temporary, then a charge to earnings is recorded in the accompanying Consolidated Statements of Operations for all or a portion of the unrealized loss and a new cost basis in the investment is established.

Inventory – Inventory is recorded at the lower of cost or market. The market value of inventory is often dependent upon fluctuating commodity prices. If these estimates are inaccurate, we may be exposed to market conditions that require an additional reduction in the value of certain inventories affected. We provide for a permanent write down of inventory, for inventory items that have a cost greater than net realizable value. There was no write down of inventory at January 31, 2014. The write down of inventory was \$466,000 at January 31, 2013. Fluctuations in the write down of inventory generally relate to the levels

and composition of such inventory at a given point in time. The assumptions we currently use include our estimates of the selling prices of ethanol, distillers grains and non-food grade corn oil.

Financial Instruments – Forward grain purchase and ethanol and distillers grains sales contracts are accounted for under the “normal purchases and normal sales” scope exemption of ASC 815, “*Derivatives and Hedging*” (“ASC 815”) because these arrangements are for purchases of grain and sales of ethanol and distillers grains that will be delivered in quantities expected to be used by us over a reasonable period of time in the normal course of business. We use derivative financial instruments to manage our balance of fixed and variable rate debt. We do not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. Our swap agreement was not designated for hedge accounting pursuant to ASC 815. The interest rate swap is recorded at fair value and the change in fair value is recorded as gain or loss on derivative financial instruments in the accompanying Consolidated Statements of Operations. The most significant factor that impacts the fair value calculation is the estimate of future interest rates over the remaining life of the swap agreement. Changes to the estimate could impact the fair value calculation materially.

Accounting for Business Combinations – In accounting for business combinations, we apply the accounting requirements of ASC 805, “*Business Combinations*,” (“ASC 805”), which requires the recording of net assets of acquired businesses at fair value. In developing estimates of fair value of acquired assets and assumed liabilities, we analyze a variety of factors including market data, estimated future cash flows of the acquired operations, industry growth rates and assumptions for certain future commodity prices. Such a valuation requires management to make significant estimates and assumptions, especially with respect to the future commodity prices.

In determining the fair value of the Company’s assets associated with the purchase of NuGen on November 1, 2011, we utilized two valuation methods:

- **Market approach:** This method estimates fair value based on market prices in actual transactions and on asking prices for assets currently available for sale. This valuation process is essentially that of comparison and correlation between other similar assets and those of NuGen.
- **Income approach:** This method estimates fair value based upon the present value of cash flows we expect to generate from NuGen’s operations over NuGen’s remaining useful life. We used the discounted cash flow method.

See Note 3 of the Notes to the Consolidated Financial Statements for a further discussion of the acquisition of NuGen.

Income Taxes – Income taxes are recorded based on the current year amounts payable or refundable, as well as the consequences of events that give rise to deferred tax assets and liabilities based on differences in how those events are treated for tax purposes, net of valuation allowances. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and other expectations about future outcomes. Changes in existing regulatory tax laws and rates and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. We have established valuation allowances for certain state net operating loss carryforwards and other deferred tax assets. We determined that it is more likely than not that we will be able to generate sufficient taxable income in future years to allow for the full utilization of the federal AMT credit carryforward and other deferred tax assets other than those reserved. In determining the need for a valuation allowance, we have assumed that our ethanol plants and real estate assets will generate future taxable income. We are projecting that the future operations of One Earth and

NuGen will be profitable. We are assuming that we will be relatively successful in our real estate marketing efforts. In addition, we have considered the fact that our AMT credit carryforward has an indefinite life. In general, we have used approximately \$35.0 million as the assumed average of future years' pre-tax income. We believe our assumed target level of earnings is reasonable based upon historical experience and expectations of real estate rental income and ethanol plant operating income. In addition, we considered other factors in our assessment. Although during fiscal years 2009, 2010 and 2012 we realized a taxable loss, we generated taxable income in fiscal years 2013 and 2011 through our ethanol and real estate operations. Furthermore, the taxable loss is attributable, in large part, to accelerated depreciation deductions for income tax purposes. Such deductions are not expected to continue at levels we have seen in the last three years as evidenced by the net deferred tax liability of approximately \$17.5 million recorded at January 31, 2014. In addition, we have significant financial resources to deploy in future income producing activities.

A valuation allowance of approximately \$2.0 million and approximately \$1.9 million was recorded at January 31, 2014 and January 31, 2013, respectively which is primarily for capital loss carryforwards, certain state net operating loss carryforwards and other deferred tax assets. Should estimates of future income differ significantly from our prior estimates, we could be required to make a material change to our deferred tax valuation allowance. The primary assumption used to estimate the valuation allowance has been estimates of future state taxable income. Such estimates can have material variations from year to year based upon expected levels of income from our ethanol plants, leasing income and gains on real estate sales. Factors that could negatively affect future taxable income include adverse changes in the commercial real estate market and the ethanol crush spread. Our accounting for deferred tax consequences represents management's best estimate of future events that can be appropriately reflected in the accounting estimates.

As of January 31, 2014, total unrecognized tax benefits were approximately \$1.5 million, and accrued penalties and interest were approximately \$0.4 million. If we were to prevail on all unrecognized tax benefits recorded, the impact of penalties and interest would benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months; however, we do not expect the change to have a material effect on results of operations or financial position. On a quarterly and annual basis, we accrue for the effects of open uncertain tax positions and the related potential penalties and interest. Should future estimates of open uncertain tax positions differ from our current estimates, we could be required to make a material change to our accrual for uncertain tax positions. In addition, new income tax audit findings could also require us to make a material change to our accrual for uncertain tax positions.

Recoverability of Long-Lived Assets – Given the nature of our business, events and changes in circumstances include, but are not limited to, a significant decline in our estimated future cash flows, a sustained decline in market prices for similar assets, or a significant adverse change in legal or regulatory factors or the business climate. A significant decline in our estimated future cash flows is represented by a greater than 25% annual decline in expected future cash flows (for asset groups in our real estate reportable segment) or a change in the spread between ethanol and grain prices that would indicate or result in greater than six consecutive months of estimated or actual negative cash flows (for asset groups in our alternative energy reportable segment).

We test for recoverability of an asset group by comparing its carrying amount to its estimated undiscounted future cash flows. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, we recognize an impairment charge for the amount by which the asset group's carrying amount exceeds its fair value, if any. We generally determine the fair value of the asset group using a discounted cash flow model based on market participant assumptions (for income producing asset groups) or by

obtaining appraisals based on the market approach and comparable market transactions (for non-income producing asset groups).

In our real estate reportable segment, each individual real estate property represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. As such, we separately test individual real estate properties for recoverability. Our real estate reportable segment includes both income producing and non-income producing asset groups.

In our alternative energy reportable segment, each individual ethanol plant represents the lowest level for which identifiable cash flows are independent of the cash flows of other assets and liabilities. As such, we separately test individual ethanol plants for recoverability. In addition to the general events and changes in circumstances noted above that indicate that an asset group may not be recoverable, we also consider the following events as indicators: the decision to suspend operations at a plant for at least a six month period, or an expected or actual failure to maintain compliance with debt covenants at our ethanol plants. Our alternative energy reportable segment includes only income producing asset groups.

New Accounting Pronouncements

Effective February 1, 2013, we adopted the amended guidance in ASC Topic 210, Balance Sheet. The amended guidance addresses disclosure of offsetting financial assets and liabilities. It requires entities to add disclosures showing both gross and net information about instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The updated disclosures were implemented retrospectively and did not impact our financial position, results of operations or cash flows.

There were no other new accounting standards issued during fiscal year 2013 that had or are expected to have a material impact on our financial position, results of operations, or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to the impact of market fluctuations associated with interest rates and commodity prices as discussed below.

Interest Rate Risk

We are exposed to market risk from changes in interest rates. Exposure to interest rate risk results primarily from holding term and revolving loans that bear variable interest rates. Specifically, we have approximately \$75.7 million in variable-rate debt as of January 31, 2014. Of this amount, approximately \$33.4 million is fixed by an interest rate swap, which matures on July 8, 2014. Interest rates on our variable-rate debt are determined based upon the market interest rate of LIBOR plus 300 – 325 basis points. A 10% adverse change (for example from 3.0% to 3.3%) in market interest rates would increase our interest cost on such debt by approximately \$0.3 million over the term of the debt. However, this change would be greater should LIBOR rates plus 325 basis points exceed 4.0%, which is the floor interest rate of the NuGen subsidiary level long term debt.

Commodity Price Risk

We manage a portion of our risk with respect to the volatility of commodity prices inherent in the ethanol industry by using forward purchase and sale contracts. At January 31, 2014, One Earth and NuGen combined have purchase commitments for approximately 9.7 million bushels of corn, the principal raw material for their ethanol plants. One Earth and NuGen expect to take delivery of the corn by March 2014.

One Earth and NuGen have combined sales commitments for approximately 51.6 million gallons of ethanol, 164,000 tons of distillers grains and 5.4 million pounds of non-food grade corn oil. One Earth and NuGen expect to deliver the ethanol, distillers grains and non-food grade corn oil by June 2014. Approximately 10% of our forecasted ethanol sales during the next 12 months have been sold under fixed-price contracts. As a result, the effect of a 10% adverse move in the price of ethanol from the current pricing would result in a decrease in annual revenues of approximately \$34.8 million for the remaining forecasted ethanol sales. Approximately 26% of our forecasted distillers grains sales during the next 12 months have been sold under fixed-price contracts. As a result, the effect of a 10% adverse move in the price of distillers grains from the current pricing would result in a decrease in annual revenues of approximately \$10.5 million for the remaining forecasted distillers grains sales. Approximately 11% of our forecasted non-food grade corn oil sales during the next 12 months have been sold under fixed-price contracts. As a result, the effect of a 10% adverse move in the price of non-food grade corn oil from the current pricing would result in a decrease in annual revenues of approximately \$1.4 million for the remaining forecasted non-food grade corn oil sales. Similarly, approximately 8% of our estimated corn usage for the next 12 months was subject to fixed-price contracts. As a result, the effect of a 10% adverse move in the price of corn from current pricing would result in an increase in annual cost of goods sold of approximately \$32.3 million for the remaining forecasted corn usage. Approximately 3% of our estimated natural gas usage for the next 12 months was subject to fixed-price contracts. As a result, the effect of a 10% adverse move in the price of natural gas from current pricing would result in an increase in annual cost of goods sold of approximately \$4.0 million for the remaining forecasted natural gas usage.

Item 8. Financial Statements and Supplementary Data
REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	January 31,	
	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 105,149	\$ 69,073
Restricted cash	500	—
Accounts receivable - net	16,486	11,567
Inventory	19,370	24,919
Refundable income taxes	268	1,347
Prepaid expenses and other	4,891	4,091
Deferred taxes - net	2,146	3,930
Total current assets	<u>148,810</u>	<u>114,927</u>
Property and equipment - net	202,258	223,180
Other assets	5,388	6,761
Equity method investments	71,189	59,959
Restricted investments and deposits	223	503
TOTAL ASSETS	<u><u>\$ 427,868</u></u>	<u><u>\$ 405,330</u></u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long term debt	\$ 12,226	\$ 15,623
Accounts payable – trade	6,626	4,655
Derivative financial instruments	1,141	1,859
Accrued expenses and other current liabilities	12,147	9,322
Total current liabilities	<u>32,140</u>	<u>31,459</u>
LONG TERM LIABILITIES:		
Long term debt	63,500	91,306
Deferred taxes	19,613	7,141
Derivative financial instruments	—	930
Other long term liabilities	1,862	211
Total long term liabilities	<u>84,975</u>	<u>99,588</u>
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
REX shareholders' equity:		
Common stock, 45,000 shares authorized, 29,853 shares issued at par	299	299
Paid in capital	144,051	143,575
Retained earnings	357,101	322,028
Treasury stock, 21,753 and 21,701 shares, respectively	(222,170)	(219,550)
Total REX shareholders' equity	<u>279,281</u>	<u>246,352</u>
Noncontrolling interests	31,472	27,931
Total equity	<u>310,753</u>	<u>274,283</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$ 427,868</u></u>	<u><u>\$ 405,330</u></u>

See notes to consolidated financial statements.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in Thousands, Except Per Share Amounts)

	Years Ended January 31,		
	2014	2013	2012
Net sales and revenue	\$ 666,091	\$ 656,639	\$ 408,879
Cost of sales	601,940	643,037	374,048
Gross profit	64,151	13,602	34,831
Selling, general and administrative expenses	(17,846)	(12,546)	(10,376)
Equity in income of unconsolidated ethanol affiliates	17,175	627	21,532
Bargain purchase gain, net	—	—	3,541
Income from synthetic fuel investments	—	—	2,883
Interest income	136	124	367
Interest expense	(3,902)	(4,849)	(3,433)
Loss on early termination of debt	(5)	—	(1)
Other income	100	80	616
Loss on disposal of real estate and property and equipment, net	—	(490)	—
Loss on derivative financial instruments	(39)	(370)	(1,148)
Income (loss) from continuing operations before income taxes	59,770	(3,822)	48,812
(Provision) benefit for income taxes	(20,695)	1,627	(16,255)
Income (loss) from continuing operations	39,075	(2,195)	32,557
Income from discontinued operations, net of tax	413	471	700
Gain on disposal of discontinued operations, net of tax	741	136	441
Net income (loss)	40,229	(1,588)	33,698
Net income attributable to noncontrolling interests	(5,156)	(707)	(5,428)
Net income (loss) attributable to REX common shareholders	<u>\$ 35,073</u>	<u>\$ (2,295)</u>	<u>\$ 28,270</u>
Weighted average shares outstanding – basic	<u>8,137</u>	<u>8,272</u>	<u>9,117</u>
Basic income (loss) per share from continuing operations attributable to REX common shareholders	\$ 4.17	\$ (0.35)	\$ 2.97
Basic income per share from discontinued operations attributable to REX common shareholders	0.05	0.06	0.08
Basic income per share on disposal of discontinued operations attributable to REX common shareholders	<u>0.09</u>	<u>0.01</u>	<u>0.05</u>
Basic net income (loss) per share attributable to REX common shareholders	<u>\$ 4.31</u>	<u>\$ (0.28)</u>	<u>\$ 3.10</u>
Weighted average shares outstanding – diluted	<u>8,180</u>	<u>8,272</u>	<u>9,187</u>
Diluted income (loss) per share from continuing operations attributable to REX common shareholders	\$ 4.15	\$ (0.35)	\$ 2.95
Diluted income per share from discontinued operations attributable to REX common shareholders	0.05	0.06	0.08
Diluted income per share on disposal of discontinued operations attributable to REX common shareholders	<u>0.09</u>	<u>0.01</u>	<u>0.05</u>
Diluted net income (loss) per share attributable to REX common shareholders	<u>\$ 4.29</u>	<u>\$ (0.28)</u>	<u>\$ 3.08</u>
Amounts attributable to REX common shareholders:			
Income (loss) from continuing operations, net of tax	\$ 33,919	\$ (2,902)	\$ 27,129
Income from discontinued operations, net of tax	1,154	607	1,141
Net income (loss)	<u>\$ 35,073</u>	<u>\$ (2,295)</u>	<u>\$ 28,270</u>

See notes to consolidated financial statements.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JANUARY 31, 2014, 2013 AND 2012
(Amounts in Thousands)

	REX Shareholders							Total Equity
	Common Shares Issued		Treasury		Paid-in Capital	Retained Earnings	Noncontrolling Interest	
	Shares	Amount	Shares	Amount				
Balance at January 31, 2011	29,853	299	20,461	(193,713)	142,293	296,053	25,032	269,964
Net income						28,270	5,428	33,698
Treasury stock acquired			1,519	(25,662)				(25,662)
Acquisition of business							956	956
Noncontrolling interests distribution and other							(2,084)	(2,084)
Stock options and related tax effects	—	—	(457)	4,270	701	—	—	4,971
Balance at January 31, 2012	29,853	299	21,523	(215,105)	142,994	324,323	29,332	281,843
Net (loss) income						(2,295)	707	(1,588)
Treasury stock acquired			278	(5,445)				(5,445)
Noncontrolling interests distribution and other							(2,108)	(2,108)
Stock options and related tax effects	—	—	(100)	1,000	581	—	—	1,581
Balance at January 31, 2013	29,853	299	21,701	(219,550)	143,575	322,028	27,931	274,283
Net income						35,073	5,156	40,229
Treasury stock acquired			137	(3,486)				(3,486)
Noncontrolling interests distribution and other							(1,615)	(1,615)
Stock options and related tax effects	—	—	(85)	866	476	—	—	1,342
Balance at January 31, 2014	<u>29,853</u>	<u>\$ 299</u>	<u>21,753</u>	<u>\$ (222,170)</u>	<u>\$ 144,051</u>	<u>\$ 357,101</u>	<u>\$ 31,472</u>	<u>\$ 310,753</u>

See notes to consolidated financial statements.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended January 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 40,229	\$ (1,588)	\$ 33,698
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	17,284	16,602	12,086
Impairment charges on real estate	55	562	1,227
Income from equity method investments	(17,175)	(627)	(21,532)
Dividends received from equity method investments	5,804	2,206	4,918
Bargain purchase gain, net	—	—	(3,541)
Income from synthetic fuel investments	—	—	(2,883)
Derivative financial instruments	(1,648)	(1,446)	(1,288)
(Gain) loss on disposal of real estate and property and equipment	(1,015)	357	(683)
Deferred income tax	15,987	(504)	14,667
Excess tax benefit from stock option exercises	(64)	—	—
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	(4,919)	1,217	4,216
Inventory	5,549	5,430	(14,039)
Prepaid expenses and other assets	(1,490)	498	1,059
Income taxes refundable	1,480	719	7,852
Accounts payable-trade	1,721	(1,448)	1,191
Accrued expenses and other liabilities	2,637	(4,930)	(2,052)
Net cash provided by operating activities	<u>64,435</u>	<u>17,048</u>	<u>34,896</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(3,518)	(3,684)	(7,342)
Proceeds from synthetic fuel investments	—	—	2,883
Purchase of investments	—	—	(1,947)
Acquisition of business, net of cash acquired	—	—	12,293
Repayment of note receivable	681	—	—
Proceeds from sale of real estate and property and equipment	8,876	2,849	4,445
Restricted cash	(500)	—	—
Restricted investments and deposits	1,293	860	237
Net cash provided by investing activities	<u>6,832</u>	<u>25</u>	<u>10,569</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments of long term debt	(31,203)	(16,820)	(35,653)
Stock options exercised	1,072	265	362
Payments for loan fees	—	—	(627)
Payments to noncontrolling interests holders	(1,638)	(2,085)	(2,084)
Excess tax benefit from stock option exercises	64	—	—
Repayments of contingent consideration liability	—	—	(1,251)
Treasury stock acquired	(3,486)	(4,373)	(22,218)
Net cash used in financing activities	<u>(35,191)</u>	<u>(23,013)</u>	<u>(61,471)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,076	(5,940)	(16,006)
CASH AND CASH EQUIVALENTS-Beginning of year	69,073	75,013	91,019
CASH AND CASH EQUIVALENTS-End of year	<u>\$ 105,149</u>	<u>\$ 69,073</u>	<u>\$ 75,013</u>
Non cash financing activities-Cashless exercises of stock options	\$ —	\$ 1,071	\$ 3,444
Non cash investing activities-Accrued capital expenditures	\$ 250	\$ —	\$ 882
Non cash financing activities-Accrued noncontrolling interest holders payments	\$ —	\$ 23	\$ —

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The accompanying financial statements consolidate the operating results and financial position of Rex American Resources Corporation and its wholly-owned and majority owned subsidiaries (the “Company” or “REX”). All intercompany balances and transactions have been eliminated. As of January 31, 2014, the Company maintains ownership interests in four ethanol entities and manages a portfolio of real estate located in six states. The Company operates in two reportable segments, alternative energy and real estate. The Company completed the exit of its retail business during fiscal year 2009 and recognizes, in discontinued operations, revenue and expense associated with administering extended service policies.

Fiscal Year – All references in these consolidated financial statements to a particular fiscal year are to the Company’s fiscal year ended January 31. For example, “fiscal year 2013” means the period February 1, 2013 to January 31, 2014. The Company refers to its fiscal year by reference to the year immediately preceding the January 31 fiscal year end date.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents – Cash equivalents are principally short-term investments with original maturities of less than three months. The carrying amount of cash equivalents approximates fair value.

Concentrations of Risk –The Company maintains cash and cash equivalents in accounts with financial institutions which exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company does not believe there is significant credit risk related to its cash and cash equivalents. During fiscal years 2013 (four customers), 2012 (four customers) and 2011 (three customers), accounted for approximately 82%, 81% and 78%, respectively, of the Company’s net sales and revenue. At January 31, 2014 and 2013, these customers represented approximately 91% and 80%, respectively, of the Company’s accounts receivable balance. These customers (in fiscal year 2013) were Archer Daniels Midland, Biourja Trading, LLC, CHS, Inc. and United Bio Energy.

Inventory – Inventories are carried at the lower of cost or market on a first-in, first-out basis. Inventory includes direct production costs and certain overhead costs such as depreciation, property taxes and utilities related to producing ethanol and related by products. Inventory is permanently written down for instances when cost exceeds estimated net realizable value; such write-downs are based primarily upon commodity prices as the market value of inventory is often dependent upon changes in commodity prices. There was no write-down of inventory at January 31, 2014. The write down of inventory was \$466,000 at January 31, 2013. Fluctuations in the write-down of inventory generally relate to the levels and composition of such inventory at a given point in time and commodity prices.

The components of inventory at January 31, 2014, and January 31, 2013 are as follows (amounts in thousands):

	<u>2014</u>	<u>2013</u>
Ethanol and other finished goods	\$ 3,517	\$ 7,306
Work in process	3,017	4,414
Grain and other raw materials	<u>12,836</u>	<u>13,199</u>
Total	<u>\$ 19,370</u>	<u>\$ 24,919</u>

Property and Equipment – Property and equipment is recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives are 15 to 40 years for buildings and improvements, and 3 to 20 years for fixtures and equipment. The components of property and equipment at January 31, 2014 and 2013 are as follows (amounts in thousands):

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 21,543	\$ 23,980
Buildings and improvements	28,297	38,056
Machinery, equipment and fixtures	223,544	221,638
Construction in progress	<u>693</u>	<u>39</u>
	274,077	283,713
Less: accumulated depreciation	<u>(71,819)</u>	<u>(60,533)</u>
	<u>\$ 202,258</u>	<u>\$ 223,180</u>

In accordance with ASC 360-05 “Impairment or Disposal of Long-Lived Assets”, the carrying value of long-lived assets is assessed for recoverability by management when changes in circumstances indicate that the carrying amount may not be recoverable, based on an analysis of undiscounted future expected cash flows from the use and ultimate disposition of the asset. The Company recorded an impairment charge of \$55,000 in fiscal year 2013, all of which is included in cost of sales in the Consolidated Statements of Operations. The Company recorded an impairment charge of \$562,000 in fiscal year 2012, of which \$133,000 is included in cost of sales and \$429,000 is classified as discontinued operations in the Consolidated Statements of Operations. The Company recorded an impairment charge of \$1,227,000 in fiscal year 2011, of which \$11,000 is included in cost of sales and \$1,216,000 is classified as discontinued operations in the Consolidated Statements of Operations. The impairment charges classified as cost of sales in fiscal years 2013, 2012 and 2011 relate to individual properties in the Company’s real estate segment. The impairment charges in fiscal years 2012 and 2011 classified as discontinued operations relate to individual properties that have been sold that were previously included in the Company’s real estate segment. These impairment charges are primarily related to unfavorable changes in real estate conditions in local markets. Impairment charges result from the Company’s management performing cash flow analysis and represent management’s estimate of the excess of net book value over fair value. Fair value is estimated using expected future cash flows on a discounted basis or appraisals of specific properties as appropriate. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Given the nature of the Company’s business, events and changes in circumstances include, but are not limited to, a significant decline in estimated future cash flows, a sustained decline in market prices for similar assets, or a significant adverse change in legal or regulatory factors or the business climate. A significant decline in estimated future cash flows is represented by a greater than 25% annual decline in expected future cash flows (for asset groups in the real estate reportable segment) or a change in the

spread between ethanol and grain prices that would result in greater than six consecutive months of estimated or actual significant negative cash flows (for asset groups in the alternative energy reportable segment).

The Company tests for recoverability of an asset group by comparing its carrying amount to its estimated undiscounted future cash flows. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, the Company recognizes an impairment charge for the amount by which the asset group's carrying amount exceeds its fair value, if any. The Company generally determines the fair value of the asset group using a discounted cash flow model based on market participant assumptions (for income producing asset groups) or by obtaining appraisals based on the market approach and comparable market transactions (for non-income producing asset groups).

In the real estate reportable segment, each individual real estate property represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. As such, the Company separately tests individual real estate properties for recoverability. The real estate reportable segment includes both income producing and non-income producing asset groups.

In the alternative energy reportable segment, each individual ethanol plant represents the lowest level for which identifiable cash flows are independent of the cash flows of other assets and liabilities. As such, the Company separately tests individual ethanol plants for recoverability. In addition to the general events and changes in circumstances noted above that indicate that an asset group may not be recoverable, the Company also considers the following events as indicators: (i) the decision to suspend operations at a plant for at least a six month period; or (ii) an expected or actual failure to maintain compliance with debt covenants at our ethanol plants. The alternative energy reportable segment includes only income producing asset groups.

Depreciation expense was approximately \$16,915,000, \$16,081,000 and \$11,721,000 in fiscal years 2013, 2012 and 2011, respectively.

Investments and Deposits – The method of accounting applied to long-term investments, whether consolidated, equity or cost, involves an evaluation of the significant terms of each investment that explicitly grant or suggest evidence of control or influence over the operations of the investee and also includes the identification of any variable interests in which the Company is the primary beneficiary. The Company consolidates the results of two majority owned subsidiaries, One Earth and NuGen. The results of One Earth are included on a delayed basis of one month lag as One Earth has a fiscal year end of December 31. NuGen has the same fiscal year as the parent, and therefore, there is no lag in reporting the results of NuGen. The Company accounts for investments in limited liability companies in which it may have a less than 20% ownership interest, using the equity method of accounting when the factors discussed in ASC 323 “*Investments-Equity Method and Joint Ventures*” are met. The excess of the carrying value over the underlying equity in the net assets of equity method investees is allocated to specific assets and liabilities. Any unallocated excess is treated as goodwill and is recorded as a component of the carrying value of the equity method investee. Investments in businesses that the Company does not control but for which it has the ability to exercise significant influence over operating and financial matters are accounted for using the equity method. Investments in which the Company does not have the ability to exercise significant influence over operating and financial matters are accounted for using the cost method.

The Company periodically evaluates its investments for impairment due to declines in market value considered to be other than temporary. Such impairment evaluations include, in addition to persistent, declining market prices, general economic and company-specific evaluations. If the Company

determines that a decline in market value is other than temporary, then a charge to earnings is recorded in the Consolidated Statements of Operations and a new cost basis in the investment is established.

Revenue Recognition – The Company recognizes sales from the production of ethanol, distillers grains and non-food grade corn oil when title transfers to customers, upon shipment from the ethanol plant. Shipping and handling charges billed to customers are included in net sales and revenue.

The Company includes income from its real estate leasing activities in net sales and revenue. The Company accounts for these leases as operating leases. Accordingly, minimum rental revenue is recognized on a straight-line basis over the term of the lease.

The Company sold, prior to its exit of the retail business, extended service policies covering periods beyond the normal manufacturers' warranty periods, usually with terms of coverage (including manufacturers' warranty periods) of between 12 to 60 months. Contract revenues and sales commissions were deferred and amortized on a straight-line basis over the life of the contracts after the expiration of applicable manufacturers' warranty periods. The Company retained the obligation to perform warranty service and such costs are charged to operations as incurred. All related revenue and expense is classified as discontinued operations. All of the extended service policy contracts have expired as of January 31, 2014.

Costs of Sales – Alternative energy cost of sales includes depreciation, costs of raw materials, inbound freight charges, purchasing and receiving costs, inspection costs, shipping costs, other distribution expenses, warehousing costs, plant management, certain compensation costs, and general facility overhead charges.

Real estate cost of sales includes depreciation, real estate taxes, insurance, repairs and maintenance and other costs directly associated with operating the Company's portfolio of real property.

Selling, General and Administrative Expenses –The Company includes non-production related costs from its alternative energy segment such as professional fees and certain payroll in selling, general and administrative expenses.

The Company includes costs not directly related to operating its portfolio of real property from its real estate segment such as certain payroll and related costs, professional fees and other general expenses in selling, general and administrative expenses.

Interest Cost – Cash paid for interest in fiscal years 2013, 2012 and 2011 was approximately \$3,492,000, \$4,449,000 and \$3,174,000, respectively.

Deferred Financing Costs – Direct expenses and fees associated with obtaining long-term debt are capitalized and amortized to interest expense over the life of the loan using the effective interest method.

Financial Instruments – The Company uses derivative financial instruments to manage its balance of fixed and variable rate debt. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. The swap agreements were not designated for hedge accounting pursuant to ASC 815. The interest rate swaps are recorded at their fair values and the changes in fair values are recorded as gain or loss on derivative financial instruments in the Consolidated Statements of Operations. The

Company paid settlements of interest rate swaps of approximately \$1,687,000, \$1,816,000 and \$2,436,000 in fiscal years 2013, 2012 and 2011, respectively.

Forward grain purchase and ethanol and distillers grains sale contracts are accounted for under the “normal purchases and normal sales” scope exemption of ASC 815, because these arrangements are for purchases of grain that will be delivered in quantities expected to be used and sales of ethanol in quantities expected to be produced over a reasonable period of time in the normal course of business.

Stock Compensation – The Company has stock-based compensation plans under which stock options have been granted to directors, officers and key employees at the market price on the date of the grant. No options were granted in the fiscal years ended January 31, 2014, January 31, 2013 or January 31, 2012. The following table summarizes options granted, exercised and canceled or expired during the fiscal year ended January 31, 2014:

	Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding—Beginning of year	169	\$ 12.46		
Granted	—	—		
Exercised	(85)	12.55		
Canceled or expired	—	—		
Outstanding and exercisable—End of year	<u>84</u>	<u>\$ 12.37</u>	<u>0.3</u>	<u>\$ 2,382</u>

The total intrinsic value of options exercised in the fiscal years ended January 31, 2014, 2013 and 2012, was approximately \$1.1 million, \$1.8 million and \$3.2 million, respectively, resulting in tax deductions to realize benefits of approximately \$0.4 million, \$0.2 million and \$1.2 million, respectively. At January 31, 2014, there was no unrecognized compensation cost related to nonvested stock options. See Note 13 for a further discussion of stock options.

Income Taxes – The Company provides for deferred tax liabilities and assets for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. The Company provides for a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Discontinued Operations – The Company classifies sold real estate assets in discontinued operations when the operations and cash flows of the real estate assets have been (or will be) eliminated from ongoing operations and when the Company will not have any significant continuing involvement in the operation of the real estate after disposal. To determine if cash flows had been or would be eliminated from ongoing operations, the Company evaluates a number of qualitative and quantitative factors. For purposes of reporting the operations of real estate assets meeting the criteria for discontinued operations, the Company reports net sales and revenue, gross profit and related selling, general and administrative expenses that are specifically identifiable to those assets as discontinued operations. Certain corporate level charges, such as general office expense, certain interest expense, and other “fixed” expenses are not allocated to discontinued operations because the Company believes that these expenses were not specific to components’ operations.

Comprehensive Income – The Company has no components of other comprehensive income, and therefore, comprehensive income equals net income.

New Accounting Pronouncements – Effective February 1, 2013, the Company adopted the amended guidance in ASC Topic 210, Balance Sheet. The amended guidance addresses disclosure of offsetting financial assets and liabilities. It requires entities to add disclosures showing both gross and net information about instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The updated disclosures were implemented retrospectively and did not impact the Company’s financial position, results of operations or cash flows.

2. INVESTMENTS AND DEPOSITS

The Company’s equity investments are accounted for under ASC 323 “*Investments-Equity Method and Joint Ventures*”. The following table summarizes equity method investments at January 31, 2014 and 2013 (amounts in thousands):

Entity	Ownership Percentage	Carrying Amount January 31, 2014	Carrying Amount January 31, 2013
Big River Resources, LLC	10%	\$ 40,042	\$ 32,438
Patriot Holdings, LLC	27%	31,147	27,521
Total Equity Method Investments		\$ 71,189	\$ 59,959

The Company invested \$20 million in Big River, a holding company for several entities, for a 10% ownership interest. Big River Resources West Burlington, LLC, a wholly owned subsidiary of Big River, operates an ethanol manufacturing plant in West Burlington, Iowa. During fiscal year 2013, the plant shipped 104 million gallons of ethanol. The plant has been in operation since 2004. Big River Resources Galva, LLC, a wholly owned subsidiary of Big River, operates an ethanol manufacturing plant in Galva, Illinois. During fiscal year 2013, the plant shipped 113 million gallons of ethanol. The plant has been in operation since 2009. Big River Resources United Energy, LLC, a 50.5% owned subsidiary of Big River, operates an ethanol manufacturing plant in Dyersville, Iowa. During fiscal year 2013, the plant shipped 117 million gallons of ethanol. Big River acquired its interest in this plant in 2009. Big River Resources Boyceville, LLC, a wholly owned subsidiary of Big River operates an ethanol manufacturing plant in Boyceville, Wisconsin. During fiscal year 2013, the plant shipped 56 million gallons of ethanol. Big River acquired its interest in this plant in 2011. The Company recorded income of approximately \$8.8 million, \$0.3 million and \$6.9 million as its share of earnings from Big River during fiscal years 2013, 2012 and 2011, respectively. The Company received dividends of approximately \$1.2 million, \$2.2 million and \$2.0 million from Big River during fiscal years 2013, 2012 and 2011, respectively. At January 31, 2014, the carrying value of the investment in Big River is approximately \$40.0 million; the amount of underlying equity in the net assets of Big River is approximately \$38.7 million. The excess of the carrying value of the investment over the underlying equity in the net assets is accounted for as goodwill and is recorded within equity method investments on the accompanying Consolidated Balance Sheets.

The Company invested \$16 million in Patriot for a 27% ownership interest. Patriot operates an ethanol manufacturing plant in Annawan, Illinois. During fiscal year 2013, the plant shipped 121 million gallons of ethanol. The plant has been in operation since 2008. The Company recorded income of approximately \$8.4 million, \$0.4 million and \$5.3 million as its share of earnings from Patriot during fiscal years 2013, 2012 and 2011, respectively. The Company received no dividends from Patriot during fiscal year 2012. The Company received dividends of approximately \$4.6 million and \$1.6 million from Patriot during fiscal years 2013 and 2011, respectively. At January 31, 2014, the carrying value of the investment in Patriot is approximately \$31.1 million; the amount of underlying equity in the net assets of Patriot is approximately \$30.2 million. The excess of the carrying value of the investment over the underlying equity in the net assets is accounted for as goodwill and capitalized interest and is recorded within equity method investments on the accompanying Consolidated Balance Sheets. Capitalized interest is amortized as a basis difference over the life of the asset.

Effective July 1, 2010, the Company purchased a 48% equity interest in NuGen which operates an ethanol producing facility in Marion, South Dakota. On November 1, 2011, the Company acquired an additional 50% equity interest in NuGen. Following the purchase, the Company owns all of the outstanding Class A membership interest units in NuGen, representing a 100% voting interest and a 99% equity interest in NuGen. The Company recorded income (under the equity method of accounting) of approximately \$9.3 million as its share of earnings from NuGen during fiscal year 2011. Effective November 1, 2011, the Company ceased using the equity method of accounting and began consolidating the results of NuGen.

Undistributed earnings of equity method investees totaled approximately \$32.6 million and \$21.2 million at January 31, 2014 and 2013, respectively.

Summarized financial information for each of the Company's equity method investees, as of their fiscal year end is presented in the following table (amounts in thousands):

As of December 31, 2013

	<u>Patriot</u>	<u>Big River</u>
Current assets	\$ 26,540	\$ 164,278
Non current assets	159,081	348,884
Total assets	<u>\$ 185,621</u>	<u>\$ 513,162</u>
Current liabilities	\$ 16,034	\$ 68,769
Long-term liabilities	57,847	12,503
Total liabilities	<u>\$ 73,881</u>	<u>\$ 81,272</u>
Noncontrolling interests	<u>\$ —</u>	<u>\$ 45,045</u>

As of December 31, 2012

	<u>Patriot</u>	<u>Big River</u>
Current assets	\$ 22,302	\$ 139,879
Non current assets	161,319	375,803
Total assets	<u>\$ 183,621</u>	<u>\$ 515,682</u>
Current liabilities	\$ 20,201	\$ 90,865
Long-term liabilities	65,867	87,301
Total liabilities	<u>\$ 86,068</u>	<u>\$ 178,166</u>
Noncontrolling interests	<u>\$ —</u>	<u>\$ 29,007</u>

Summarized financial information for each of the Company's equity method investees is presented in the following table for the years ended December 31, 2013, 2012 and 2011. The summarized information for NuGen is presented for the ten months ended October 31, 2011 (amounts in thousands):

Year Ended December 31, 2013

	<u>Patriot</u>	<u>Big River</u>
Net sales and revenue	\$ 377,532	\$ 1,292,120
Gross profit	\$ 37,411	\$ 124,327
Income from continuing operations	\$ 31,518	\$ 90,729
Net income	\$ 31,518	\$ 90,729

Year Ended December 31, 2012

	<u>Patriot</u>	<u>Big River</u>
Net sales and revenue	\$ 365,302	\$ 1,135,956
Gross profit	\$ 7,685	\$ 20,651
Income from continuing operations	\$ 1,320	\$ 2,799
Net income	\$ 1,320	\$ 2,799

Year Ended December 31, 2011 and Period from January 1, 2011 through October 31, 2011 (NuGen)

	<u>Patriot</u>	<u>Big River</u>	<u>NuGen</u>
Net sales and revenue	\$ 377,250	\$ 1,162,308	\$ 256,973
Gross profit	\$ 29,207	\$ 105,207	\$ 24,490
Income from continuing operations	\$ 22,615	\$ 71,384	\$ 18,133
Net income	\$ 22,615	\$ 71,384	\$ 18,133

Patriot and Big River have debt agreements that limit and restrict amounts the entities can pay in the form of dividends or advances to owners. The restricted net assets of Patriot and Big River combined at January 31, 2014 are approximately \$366.2 million. At January 31, 2014, the Company's proportionate share of restricted net assets of Patriot and Big River combined is approximately \$51.7 million.

3. BUSINESS COMBINATIONS

On November 1, 2011, the Company acquired an additional 50% of the outstanding membership units of NuGen. This acquisition resulted in the Company owning approximately 98% of the outstanding membership units in NuGen and also resulted in the Company obtaining a controlling financial interest in NuGen. This has been accounted for as a business combination achieved in stages. NuGen operates an ethanol production facility in Marion, South Dakota that has an annual nameplate capacity of 100 million gallons of ethanol.

The results of NuGen's operations have been included in the consolidated financial statements subsequent to the acquisition date and are included in the Company's alternative energy segment. Subsequent to the acquisition date, and during fiscal year 2011, the Company included approximately \$84.1 million of net sales and revenue and approximately \$4.0 million of net income from NuGen in its Consolidated Statement of Operations. The Company paid approximately \$10.4 million of cash for the acquisition, and the fair value of the Company's previously held equity interest in NuGen was approximately \$18.6 million.

Prior to this acquisition, the Company owned 48% of NuGen. In accordance with ASC 805, the Company accounted for this transaction as a business combination achieved in stages, and thus remeasured its previously held investment to fair value and recorded a \$5.4 million remeasurement loss, determined based on the excess of carrying value (\$24.0 million) over fair value (\$18.6 million). This fair value was determined using both a market and income approach, both of which contain significant unobservable inputs.

Under the market approach, the Company used market data of comparable historical ethanol plant sales to estimate that the fair value of the property, plant and equipment acquired, which was \$83.0 million (based on the low end of comparable pricing). The fair value of total net assets acquired (or equity value) was \$42.9 million.

Under the income approach, the Company computed the present value of estimated discrete period cash flows using a discount rate of 23%. The sum of the present values of the discrete period cash flows and the terminal value indicated a fair value of property, plant and equipment of \$74.2 million and a fair value of net assets acquired (or equity value) of \$35.6 million.

The Company gave equal weight to the values derived under the market approach and the income approach, which indicated a fair value of property, plant and equipment of \$78.6 million, and a fair value of total net assets (or equity value) of \$39.0 million. The acquisition date fair value of the Company's existing 48% equity interest in NuGen (\$18.6 million) was derived by multiplying the \$39.0 million equity value of NuGen by the Company's 48% ownership interest as of the acquisition date.

Based on the indicated fair values of consideration transferred, assets acquired and liabilities assumed,

the Company calculated a gain on bargain purchase as follows (amounts in thousands):

Consideration transferred:	
Cash	\$ 10,413
Fair value of non-controlling interest	955
Fair value of 48% equity method investment	18,642
	<u>\$ 30,010</u>
Net assets acquired:	
Cash	\$ 24,971
Accounts receivable	7,381
Inventory	8,491
Prepaid expenses and other current assets	711
Other assets	2,995
Property, plant and equipment	78,618
Current liabilities	(19,167)
Long-term debt	(65,000)
	<u>\$ 39,000</u>
Bargain purchase gain	<u>\$ 8,990</u>

Before recognizing the bargain purchase gain, the Company reassessed whether and confirmed that all of the assets acquired and all of the liabilities assumed had been correctly identified. The Company also considered various qualitative factors to evaluate if the former owners received an adequate rate of return on their investment despite the bargain purchase gain, including: 1) the seller was a farmer cooperative group primarily in the business of storing and selling corn. Prior to acquiring NuGen, the farmer cooperative group sold corn to the NuGen plant. The seller acquired NuGen in 2009 in order to preserve the farmer cooperative group's ability to sell its corn (and not out of desire to enter the ethanol industry). After recovering their initial investment in NuGen via distributions from operations, the farmer cooperative group was no longer motivated to remain in, and thus desired to exit from, the ethanol industry; 2) the \$10.4 million purchase price for an additional 50% equity interest in NuGen was determined based on an arms-length negotiation between REX management and the seller and represented a significant premium over the seller's initial investment when it purchased NuGen at a bargain out of bankruptcy; 3) the seller desired liquidity for its grain operations expansion, unrelated to NuGen; and 4) by selling an additional 50% equity interest in NuGen to REX, the seller believed that it would continue doing business with a familiar, trusted business partner.

The seller's desire to obtain liquidity on a short time frame, coupled with a keen interest in continuing to do business with a trusted business partner, contributed to the seller's decision to negotiate a transaction with REX.

The gain on bargain purchase of approximately \$8.9 million, combined with the loss related to the equity method investment remeasurement of approximately \$5.4 million is recorded as "Bargain Purchase Gain, Net" of \$3.5 million on the accompanying Consolidated Statements of Operations in fiscal year 2011.

The unaudited financial information in the table below summarizes the combined results of operations of the Company and NuGen, on a pro forma basis, as though the companies had been combined as of the

beginning of fiscal year 2011 (in thousands, except per share amounts):

	Year Ended
	January 31, 2012
Net sales and revenue	\$ 684,615
Net income	\$ 34,939
Basic net income per share	\$ 3.83
Diluted net income per share	\$ 3.80

Transaction costs related to the acquisition of NuGen were insignificant.

4. FAIR VALUE

The Company applies ASC 820, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Company determines the fair market values of its financial instruments based on the fair value hierarchy established by ASC 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values which are provided below. The Company carries certain cash equivalents, investments and derivative liabilities at fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally or corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methods, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Unobservable inputs are developed based on the best information available, which may include the Company's own data.

The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices and indices to generate pricing and volatility factors, which are used to value the position. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case interest rate, price or index scenarios are extrapolated in order to determine the fair value. The fair values of

derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality, the Company's own credit standing and other specific factors, where appropriate. The fair values of property and equipment are determined by using various models that discount future expected cash flows. Estimation risk is greater for vacant properties as the probability of expected cash flows from the use of vacant properties is difficult to predict.

To ensure the prudent application of estimates and management judgment in determining the fair value of derivative assets and liabilities and property and equipment, various processes and controls have been adopted, which include: model validation that requires a review and approval for pricing, financial statement fair value determination and risk quantification; periodic review and substantiation of profit and loss reporting for all derivative instruments. Financial assets and liabilities measured at fair value at January 31, 2014 on a recurring basis are summarized below (amounts in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Cash Equivalents	\$ 2	\$ —	\$ —	\$ 2
Money Market Mutual Fund (1)	120	—	—	120
Investment in Cooperative (1)	—	—	289	289
Total Assets	<u>\$ 122</u>	<u>\$ —</u>	<u>\$ 289</u>	<u>\$ 411</u>
Interest Rate Swap Derivative Liabilities	<u>\$ —</u>	<u>\$ 1,141</u>	<u>\$ —</u>	<u>\$ 1,141</u>

Financial assets and liabilities measured at fair value at January 31, 2013 on a recurring basis are summarized below (amounts in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Cash Equivalents	\$ 2	\$ —	\$ —	\$ 2
Money Market Mutual Fund (1)	300	—	—	300
Investment in Cooperative (1)	—	—	252	252
Total Assets	<u>\$ 302</u>	<u>\$ —</u>	<u>\$ 252</u>	<u>\$ 554</u>
Interest Rate Swap Derivative Liabilities	<u>\$ —</u>	<u>\$ 2,789</u>	<u>\$ —</u>	<u>\$ 2,789</u>

(1) The money market mutual fund is included in "Restricted investments and deposits" and the investment in cooperative is included in "Other assets" on the accompanying Consolidated Balance Sheets.

The following table provides a reconciliation of the activity related to assets measured at fair value on a

recurring basis using Level 3 inputs (amounts in thousands):

	Investment in Cooperative
Balance, January 31, 2012	\$ 219
Fair value adjustment	33
Balance, January 31, 2013	252
Fair value adjustment	37
Balance, January 31, 2014	<u>\$ 289</u>

The Company determined the fair value of the investment in cooperative by using a discounted cash flow analysis on the expected cash flows. Inputs used in the analysis include the face value of the allocated equity amount, the projected term for repayment based upon a historical trend, and a risk adjusted discount rate based on the expected compensation participants would demand because of the uncertainty of the future cash flows. The inherent risk and uncertainty associated with unobservable inputs could have a significant effect on the actual fair value of the investment.

No other financial instruments were elected to be measured at fair value in accordance with ASC 470-20-25-21.

The Company reviews its long-lived assets for impairment on at least an annual basis based on the carrying value of these assets. As a result of vacancies at owned real estate locations, the Company tested certain long-lived assets for impairment using a fair value measurement approach. The fair value measurement approach utilizes a number of significant unobservable inputs or Level 3 assumptions. These assumptions include, among others, the implied fair value of these assets using an income approach by preparing a discounted cash flow analysis and the implied fair value of these assets using recent sales data of comparable properties, and other subjective assumptions. Upon completion of its impairment analysis, which was performed at various times throughout fiscal year 2013, the Company determined that the carrying value of certain long-lived assets exceeded the fair value of these assets. Accordingly, in fiscal year 2013, the Company recorded long-lived asset impairment charges of approximately \$55,000.

Assets measured at fair value at January 31, 2014 on a non-recurring basis are summarized below (amounts in thousands):

	Year Ended January 31, 2014	Level 1	Level 2	Level 3	Total Losses
Property and equipment, net	\$ 521	\$ —	\$ —	\$ 521	\$ 55

Assets measured at fair value at January 31, 2013 on a non-recurring basis are summarized below (amounts in thousands):

	Year Ended January 31, 2013	Level 1	Level 2	Level 3	Total Losses
Property and equipment, net	\$ 2,096	\$ —	\$ —	\$ 2,096	\$ 419

5. SYNTHETIC FUEL LIMITED PARTNERSHIPS

During fiscal year 2005, the Company sold its membership interest in a limited liability company that owned a synthetic fuel facility in Gillette, Wyoming. In addition to certain other payments, the Company was eligible to receive \$1.50 per ton of “qualified production” produced by the facility and sold through December 2007. The plant was subsequently sold and during fiscal year 2006, the Company modified its agreement with the owners and operators of the synthetic fuel facility. During fiscal year 2011, a final payment of \$2.9 million was received with respect to the “qualified production”. Income related to this payment was recognized during fiscal year 2011, as collectability of the amount became assured. No income was recognized during fiscal years 2013 and 2012. The Company will not receive additional payments, or recognize additional income from this investment.

6. OTHER ASSETS

The components of other noncurrent assets at January 31, 2014 and 2013 are as follows (amounts in thousands):

	January 31,	
	2014	2013
Deferred financing costs, net	\$ 402	\$ 781
Prepaid commissions	—	164
Deposits	1,014	2,064
Real estate taxes refundable	3,644	2,614
Other	328	1,138
	<u>5,388</u>	<u>6,761</u>
Total	<u>\$ 5,388</u>	<u>\$ 6,761</u>

Deferred financing costs represent amounts paid to obtain both mortgage debt and borrowings under One Earth’s and NuGen’s debt arrangements. Such amounts are amortized as interest expense using the effective interest method. Future amortization expense is as follows (amounts in thousands):

Years Ended January 31,	Amortization
2015	188
2016	123
2017	44
2018	28
2019	15
Thereafter	4
Total	<u>\$ 402</u>

Real estate taxes refundable represent amounts due One Earth associated with refunds of previously paid taxes in connection with a tax increment financing arrangement with local taxing authorities. Deposits are with vendors and governmental authorities involved in the ethanol industry.

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The components of accrued expenses and other current liabilities at January 31, 2014 and 2013 are as follows (amounts in thousands):

	January 31,	
	2014	2013
Accrued utility charges	\$ 3,745	\$ 2,371
Accrued payroll and related items	3,122	301
Accrued real estate taxes	2,471	2,651
Other	2,809	3,999
Total	<u>\$ 12,147</u>	<u>\$ 9,322</u>

8. NET INCOME PER SHARE FROM CONTINUING OPERATIONS

The Company reports net income per share in accordance with ASC 260, "Earnings per Share". Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted net income per share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding and dilutive common share equivalents during the year. Common share equivalents for each year include the number of shares issuable upon the exercise of outstanding options, less the shares that could be purchased under the treasury stock method. For fiscal years 2013 and 2011, all shares subject to outstanding options were dilutive.

As there was a loss from continuing operations in fiscal year 2012, basic loss per share from continuing operations equals diluted loss per share from continuing operations. For fiscal year 2012, a total of 168,755 shares subject to outstanding options were not included in the common equivalent shares outstanding calculation as the effect from these shares was antidilutive. The following table reconciles the basic and diluted net income per share amounts from continuing operations computations for each year presented for fiscal years 2013 and 2011 (amounts in thousands, except per-share amounts):

	2013		
	Income	Shares	Per Share
Basic net income per share from continuing operations attributable to REX common shareholders	\$ 33,919	8,137	\$ 4.17
Effect of stock options		43	
Diluted net income per share from continuing operations attributable to REX common shareholders	<u>\$ 33,919</u>	<u>8,180</u>	<u>\$ 4.15</u>

	2011		
	<u>Income</u>	<u>Shares</u>	<u>Per Share</u>
Basic net income per share from continuing operations attributable to REX common shareholders	\$ 27,129	9,117	\$ 2.97
Effect of stock options		70	
Diluted net income per share from continuing operations attributable to REX common shareholders	<u>\$ 27,129</u>	<u>9,187</u>	<u>\$ 2.95</u>

9. LEASES

At January 31, 2014, the Company has lease agreements, as landlord, for four owned properties. All of the leases are accounted for as operating leases. The Company recognized lease revenue of approximately \$466,000, \$472,000 and \$244,000 in fiscal years 2013, 2012 and 2011, respectively. As of January 31, 2014, future minimum annual rentals on such leases are as follows (amounts in thousands):

<u>Years Ended January 31,</u>	<u>Minimum Rentals</u>
2015	\$ 343
2016	328
2017	285
2018	74
	<u>\$ 1,030</u>

10. COMMON STOCK

During fiscal years 2013, 2012 and 2011, the Company purchased 137,015 shares, 278,369 shares and 1,518,877 shares, respectively, of its common stock for approximately \$3,486,000, \$5,445,000 and \$25,662,000, respectively. Included in these amounts are shares the Company received totaling 32,935 and 213,288 for the years ended January 31, 2013 and 2012, respectively, as tenders of the exercise price of stock options exercised by certain officers and directors of the Company. The cost of these shares, determined as the fair market value on the date they were tendered, was approximately \$1,071,000 and \$3,444,000 for the years ended January 31, 2013 and, 2012, respectively. At January 31, 2014, the Company had prior authorization by its Board of Directors to purchase, in open market transactions, an additional 280,006 shares of its common stock. Information regarding the Company's common stock is as follows (amounts in thousands):

	<u>January 31, 2014</u>	<u>January 31, 2013</u>
Authorized shares	45,000	45,000
Issued shares	29,853	29,853
Outstanding shares	8,100	8,152

11. LONG-TERM DEBT AND INTEREST RATE SWAPS

Long-term debt consists of notes payable secured by certain land, buildings and equipment. Interest rates ranged from 3.15% to 8.40% in fiscal years 2013 and 2012. Principal and interest are payable periodically over terms that generally range up to five years. The following provides information on rates segregated as fixed or variable and by term:

January 31, 2014		
<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance (in thousands)</u>
3.24% - 4.00%	Variable Within five years	<u>\$ 75,726</u>
January 31, 2013		
<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance (in thousands)</u>
3.15% - 4.00%	Variable Within four years	<u>\$ 106,309</u>
8.40%	Fixed Within three years	<u>\$ 620</u>

Annual expected maturities of long-term debt are as follows (amounts in thousands):

<u>Year Ending January 31,</u>	
2015	\$ 12,226
2016	13,500
2017	35,000
2018	8,000
2019	<u>7,000</u>
	<u>\$ 75,726</u>

The fair value of the Company's long-term debt at January 31, 2014 and 2013 was approximately \$75.1 million and \$107.0 million, respectively. The fair value was estimated using a Level 2 discounted cash flow analysis and the Company's estimate of market rates of interest for similar loan agreements.

One Earth Energy Subsidiary Level Debt

During the third quarter of fiscal year 2009, pursuant to the terms of the loan agreement, One Earth converted its construction loan into a term loan. On September 3, 2013, One Earth entered into an amendment of its loan agreement with First National Bank of Omaha. The amendment included a refinance amount of approximately \$44,101,000 (the remaining balance of the original loan) which bears interest at LIBOR plus 300 basis points (3.2% at January 31, 2014). Quarterly principal payments of approximately \$2.0 million are due beginning January 8, 2014 and ending October 8, 2018.

Principal payments equal to 20% of annual excess cash flows are also due. Such payments cannot exceed \$6 million in a year or \$18 million in the aggregate. This amendment did not change requirements regarding financial covenants. Borrowings are secured by all property of One Earth. This debt is recourse only to One Earth and not to REX American Resources Corporation or any of its other subsidiaries. As of January 31, 2014 and 2013, approximately \$39.1 million and \$58.2 million, respectively, was outstanding on the term loan. One Earth is also subject to certain financial covenants under the loan agreement, including debt service coverage ratio requirements and working capital requirements.

One Earth has a \$10.0 million revolving loan facility that matures July 31, 2014. Borrowings under this facility bear interest at LIBOR plus 265 basis points. One Earth had no outstanding borrowings on the revolving loan as of January 31, 2014 or 2013.

One Earth has paid approximately \$1.4 million in financing costs. These costs are recorded as deferred financing costs and are being amortized ratably over the term of the loan. At January 31, 2014, the Company's proportionate share of restricted assets related to One Earth was approximately \$86.9 million. Such assets may not be paid in the form of dividends or advances to the parent company or other members of One Earth per the terms of the loan agreement with First National Bank of Omaha.

One Earth entered into two forward interest rate swaps in the notional amounts of \$50.0 million and \$25.0 million with the First National Bank of Omaha. The swap settlements commenced as of July 31, 2009; the \$50.0 million swap terminates on July 8, 2014 and the \$25.0 million swap terminated on July 31, 2011. The \$50.0 million swap fixed a portion of the variable interest rate of the term loan subsequent to the plant completion date at 7.9% while the \$25.0 million swap fixed the rate at 5.49%. At January 31, 2014 and 2013, One Earth recorded a liability of approximately \$1.1 million and \$2.8 million, respectively, related to the fair value of the remaining swap. The change in fair value is recorded in the Consolidated Statements of Operations.

NuGen Energy Subsidiary Level Debt

In November 2011, NuGen entered into a \$65,000,000 financing agreement consisting of a term loan agreement for \$55,000,000 and a \$10,000,000 revolving loan with First National Bank of Omaha. The term loan bears interest at a variable interest rate of LIBOR plus 325 basis points, subject to a 4% floor. Beginning with the first quarterly payment on February 1, 2012, payments are due in 19 quarterly payments of principal plus accrued interest with the principal portion calculated based on a 120 month amortization schedule. One final installment will be required on the maturity date (October 31, 2016) for the remaining unpaid principal balance with accrued interest. Principal payments equal to 40% of annual excess cash flows are also due. Such payments cannot exceed \$5 million in a year. This debt is recourse only to NuGen and not to REX American Resources Corporation or any of its other subsidiaries.

Borrowings are secured by all property of NuGen. As of January 31, 2014 and 2013, approximately \$36.6 million and \$48.1 million, respectively, was outstanding on the term loan. NuGen is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA and working capital and debt service coverage ratio requirements.

NuGen paid approximately \$0.6 million in costs related to obtaining its financing arrangement. These costs are recorded as prepaid loan fees and are being amortized over the loan term. At January 31, 2014, the Company's proportionate share of restricted assets related to NuGen was approximately \$66.1 million. Such assets may not be paid in the form of dividends or advances to the parent company or other members of NuGen per the terms of the loan agreement with First National Bank of Omaha.

NuGen had no outstanding borrowings on the \$10,000,000 revolving loan, which bears interest at LIBOR plus 300 basis points, subject to a 3.75% floor, as of January 31, 2014 or 2013.

On a consolidated basis, approximately 73.3% of the Company's net assets (including equity method investees) are restricted as of January 31, 2014. Including only consolidated subsidiaries, approximately 54.8% of the Company's net assets are restricted as of January 31, 2014.

12. FINANCIAL INSTRUMENTS

The Company uses an interest rate swap to manage its interest rate exposure at One Earth by fixing the interest rate on a portion of the variable rate debt. The Company does not engage in trading activities involving derivative contracts for which a lack of marketplace quotations would necessitate the use of fair value estimation techniques. As of January 31, 2014, the notional value of the interest rate swap was approximately \$33.4 million. At January 31, 2014, the Company has recorded a liability of approximately \$1.1 million related to the fair value of the swap. The change in fair value was recorded in the Consolidated Statements of Operations. The notional amount and fair value of the derivative, which is not designated as a cash flow hedge at January 31, 2014 is summarized in the table below (amounts in thousands):

	<u>Notional Amount</u>		<u>Fair Value Liability</u>
Interest rate swap	\$ 33,444	\$	1,141

The notional amount and fair value of the derivative, which is not designated as a cash flow hedge at January 31, 2013 is summarized in the table below (amounts in thousands):

	<u>Notional Amount</u>		<u>Fair Value Liability</u>
Interest rate swap	\$ 37,811	\$	2,789

As the interest rate swap is not designated as a cash flow hedge, the realized and unrealized gains and losses on the derivative instruments is reported in current earnings. The Company reported losses of approximately \$39,000, \$370,000 and \$1,148,000, in fiscal years 2013, 2012 and 2011, respectively.

Swap settlement payments to the counterparty totaled approximately \$1,687,000, \$1,816,000 and \$2,436,000 in fiscal years 2013, 2012 and 2011, respectively.

13. EMPLOYEE BENEFITS

Stock Option Plans – The Company maintains the REX American Resources Corporation 1995 Omnibus Stock Incentive Plan and the REX American Resources Corporation 1999 Omnibus Stock Incentive Plan (the “Omnibus Plans”). Under the Omnibus Plans, the Company may grant to officers and key employees awards in the form of non-qualified stock options, stock appreciation rights, restricted stock, other stock-based awards and cash incentive awards. The Omnibus Plans also provide for yearly grants of non-qualified stock options to directors who are not employees of the Company. The exercise price of each option must be at least 100% of the fair market value of the Company's common stock on the date of grant. A maximum of 4,500,000 shares of common stock are authorized for issuance under each of the Omnibus Plans. On January 31, 2014, 108,011 and 2,302,425 shares remain available for issuance under the 1995 and 1999 Plans, respectively. No awards under the Omnibus Plans have been awarded since fiscal year 2004.

The following summarizes stock option activity for fiscal years 2013, 2012 and 2011 (amounts in thousands, except per-share amounts):

	2013		2012		2011	
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
Outstanding—Beginning of year	169	\$ 12.46	269	\$ 13.15	726	\$ 10.16
Exercised	(85)	12.55	(100)	14.30	(457)	8.41
Canceled or expired	—	—	—	—	—	—
Outstanding—End of year	<u>84</u>	<u>\$ 12.37</u>	<u>169</u>	<u>\$ 12.46</u>	<u>269</u>	<u>\$ 13.15</u>
Exercisable—End of year	<u>84</u>	<u>\$ 12.37</u>	<u>169</u>	<u>\$ 12.46</u>	<u>269</u>	<u>\$ 13.15</u>

Price ranges and other information for stock options outstanding as of January 31, 2014 were as follows (amounts in thousands, except per share amounts):

Range of Exercise Prices	Outstanding and Exercisable		
	Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Life
\$12.18 to \$12.45	<u>84</u>	<u>\$ 12.37</u>	<u>0.3</u>

14. COMMITMENTS

One Earth and NuGen have combined forward purchase contracts for approximately 9.7 million bushels of corn, the principal raw material for their ethanol plants. They expect to take delivery of the corn through March 2014.

One Earth and NuGen have combined sales commitments for approximately 51.6 million gallons of ethanol, 164,000 tons of distillers grains and 5.4 million pounds of non-food grade corn oil. They expect to deliver the ethanol, distillers grains and corn oil through June 2014.

Forward grain purchase, ethanol, distillers grains and non-food grade corn oil sale contracts are accounted for under the “normal purchases and normal sales” scope exemption of the accounting standards because these arrangements are for purchases of grain and sales of ethanol, distillers grains and corn oil that will be delivered in quantities expected to be used by One Earth and NuGen over a reasonable period of time in the normal course of business.

One Earth has entered into an agreement with an unrelated party for the use of a portion of the party’s natural gas pipeline. The term of the agreement is 10 years, and the amount is \$4,380,000, which is paid over 120 equal installments of \$36,500. Payments began in February 2009. One Earth paid approximately \$438,000 pursuant to the lease in each of fiscal years 2013, 2012 and 2011.

One Earth has entered into agreements with unrelated parties for the lease of railcars that will be used to ship ethanol. These leases expire on various dates through May 31, 2022. One Earth pays a monthly lease amount per railcar. One Earth paid approximately \$2,055,000, \$1,723,000 and \$1,193,000 pursuant to the lease in fiscal years 2013, 2012 and 2011, respectively.

One Earth has a contract with an unrelated party (“Distillers Grains Marketer”) for distillers grains marketing services. Under the terms of the contract, the Distillers Grains Marketer will purchase all of One Earth’s distillers grains production during the term of the contract. The contract called for One Earth to pay a fee per ton of distillers grains for the Distillers Grains Marketer’s services. The contract was amended on December 6, 2010, to reduce the fee for DDGS, and the termination date was extended to July 1, 2014. One Earth incurred fees of approximately \$640,000 in fiscal year 2013 and approximately \$627,000 in each of fiscal years 2012 and 2011 for these marketing services.

One Earth has a grain origination agreement with Alliance Grain, under which it purchased 100% of its grain during fiscal years 2013, 2012 and 2011. One Earth pays to Alliance Grain a certain amount per bushel for procurement fees. The term of the agreement expires October 31, 2014, and shall renew automatically for additional one year terms, unless either party sends notice to the other party of its intent to terminate the agreement at least 180 days prior to the expiration of the then current term of the agreement.

NuGen has entered into agreements with unrelated parties for the lease of railcars that will be used to ship ethanol and distillers grains. These leases expire on various dates through September 30, 2022. NuGen pays a monthly lease amount per railcar. NuGen paid approximately \$4,350,000, \$2,714,000 and \$482,000 pursuant to the leases in fiscal years 2013, 2012 and 2011, respectively.

NuGen has a contract with an unrelated party (“Distillers Grains Marketer”) for distillers grains marketing services. Under the terms of the contract, the Distillers Grains Marketer will purchase all of NuGen’s distillers grains production during the term of the contract. The contract requires NuGen to pay a percentage of the net sales price. The company incurred fees of approximately \$838,000 \$833,000 and \$897,000 in fiscal years 2013, 2012 and 2011, respectively. The termination date of the contract is July 31, 2014.

15. INCOME TAXES

The provision (benefit) for income taxes from continuing operations for fiscal years 2013, 2012 and

2011 consists of the following (amounts in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Federal:			
Current	\$ 2,965	\$ —	\$ 417
Deferred	15,360	(1,595)	14,166
	<u>18,325</u>	<u>(1,595)</u>	<u>14,583</u>
State and Local:			
Current	2,150	—	618
Deferred	220	(32)	1,054
	<u>2,370</u>	<u>(32)</u>	<u>1,672</u>
Provision (benefit) for income taxes	<u>\$ 20,695</u>	<u>\$ (1,627)</u>	<u>\$ 16,255</u>

The tax effects of significant temporary differences representing deferred tax assets and liabilities are as follows as of January 31, 2014 and 2013 (amounts in thousands):

	<u>2014</u>	<u>2013</u>
Assets:		
Deferral of service contract income	\$ —	\$ 136
Accrued liabilities	331	46
Stock based compensation	185	338
Property and equipment, net	—	613
Federal net operating loss carryforward	—	7,625
AMT credit carryforward	19,751	23,589
Alcohol fuels tax credit	546	573
State net operating loss carryforward	2,833	3,236
Other items	396	748
Valuation allowance	<u>(2,017)</u>	<u>(1,891)</u>
Total	<u>22,025</u>	<u>35,013</u>
Liabilities:		
Basis in pass through entities, including depreciation	(39,195)	(36,489)
Other	<u>(297)</u>	<u>(1,735)</u>
Total	<u>(39,492)</u>	<u>(38,224)</u>
Net deferred tax liability	<u>\$ (17,467)</u>	<u>\$ (3,211)</u>

The Company has approximately \$19.8 million and \$23.6 million of AMT credit carryforwards as of January 31, 2014 and 2013, respectively. The AMT credit carryforwards can be used to offset future regular income tax liabilities subject to certain limitations. The AMT credit carryforwards have no

expiration date. The Company must generate approximately \$132 million in future taxable income to fully utilize the AMT credit carryforward. If the Company is not able to generate sufficient taxable income in subsequent years to allow for the utilization of the deferred tax assets, the Company would need to provide a valuation allowance for such deferred tax assets, thus increasing income tax expense.

The Company has state net operating loss carryforwards of approximately \$32.5 million, net of the federal benefit, which will begin to expire in fiscal year 2019.

The Company has a valuation allowance of approximately \$2,017,000 at January 31, 2014. The Company increased the valuation allowance by \$126,000, \$215,000 and \$434,000 in fiscal years 2013, 2012, and 2011, respectively. These adjustments to the valuation allowance are a result of estimates of realizing certain future state tax benefits and federal capital loss carryforwards.

The Company paid income taxes of approximately \$3,450,000, \$51,000 and \$1,550,000 in fiscal years 2013, 2012 and 2011, respectively. The Company received refunds of income taxes of approximately \$38,000, \$1,005,000 and \$7,208,000 in fiscal years 2013, 2012 and 2011, respectively.

The effective income tax rate on consolidated pre-tax loss or income differs from the federal income tax statutory rate for fiscal years 2013, 2012 and 2011 as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Federal income tax at statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of federal tax benefit	4.5	5.3	4.0
Net change in valuation allowance	0.2	(4.7)	1.0
Domestic production activities deduction	(1.5)	—	(3.2)
Uncertain tax positions	(0.1)	(1.4)	0.2
Noncontrolling interest	(3.4)	6.7	(4.0)
Other	(0.1)	1.7	0.3
Total	<u>34.6%</u>	<u>42.6%</u>	<u>33.3%</u>

The Company files a U.S. federal income tax return and income tax returns in various states. In general, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for fiscal years ended January 31, 2010 and prior.

The Company applies the provisions of ASC 740-10-25-5 for uncertain tax positions. As of January 31, 2014, total unrecognized tax benefits were \$1,451,000, and accrued penalties and interest were \$411,000. If the Company were to prevail on all unrecognized tax benefits recorded, approximately \$24,000 of the reserve would benefit the effective tax rate. In addition, the impact of penalties and interest would also benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense.

On a quarterly and annual basis, the Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest. It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months; however, the Company does not expect the change to have a material effect on results of operations or financial position. A reconciliation of the beginning and ending amount of unrecognized tax benefits, including interest and penalties, is as follows (dollars in thousands):

	Years Ended January 31,	
	2014	2013
Unrecognized tax benefits, beginning of year	\$ 2,157	\$ 2,484
Changes for tax positions for prior years	(295)	(327)
Changes for tax positions for current year	—	—
	<u>—</u>	<u>—</u>
Unrecognized tax benefits, end of year	<u>\$ 1,862</u>	<u>\$ 2,157</u>

16. DISCONTINUED OPERATIONS

During fiscal year 2009, the Company completed the exit of its retail business. Accordingly, all operations of the Company's former retail segment, including extended warranty revenues and costs, and certain sold properties have been classified as discontinued operations for all periods presented. Once real estate property has been sold, and no continuing involvement is expected, the Company classifies the results of the operations as discontinued operations. Below is a table reflecting certain items of the Consolidated Statements of Operations that were reclassified as discontinued operations for fiscal years 2013, 2012 and 2011 (amounts in thousands):

	2013	2012	2011
Net sales and revenue	<u>\$ 1,466</u>	<u>\$ 2,997</u>	<u>\$ 5,194</u>
Cost of sales	<u>\$ 548</u>	<u>\$ 1,621</u>	<u>\$ 2,719</u>
Income before income taxes	\$ 683	\$ 733	\$ 1,117
Provision for income taxes	(270)	(262)	(417)
Income from discontinued operations, net of tax	<u>\$ 413</u>	<u>\$ 471</u>	<u>\$ 700</u>
Gain on disposal before provision for income taxes	\$ 1,226	\$ 211	\$ 704
Provision for income taxes	(485)	(75)	(263)
Gain on disposal of discontinued operations, net of tax	<u>\$ 741</u>	<u>\$ 136</u>	<u>\$ 441</u>

17. CONTINGENCIES

The Company is involved in various legal actions arising in the normal course of business. After taking into consideration legal counsels' evaluation of such actions, management is of the opinion that their outcome will not have a material effect on the Company's consolidated financial statements. There were no liabilities recorded at January 31, 2014 or 2013 as the Company did not believe that there was a probable and reasonably estimable loss associated with any legal contingencies.

18. SEGMENT REPORTING

The Company has two segments: alternative energy and real estate. The Company evaluates the performance of each reportable segment based on segment profit. Segment profit excludes income taxes, indirect interest expense, discontinued operations, indirect interest income and certain other items that are included in net income determined in accordance with accounting principles generally accepted

in the United States of America. Amounts below include corporate activities that are not separately reportable and income from synthetic fuel investments (amounts in thousands):

	Years Ended January 31,		
	2014	2013	2012
Net sales and revenues:			
Alternative energy	\$ 665,625	\$ 656,167	\$ 408,635
Real estate	466	472	244
Total net sales and revenues	\$ 666,091	\$ 656,639	\$ 408,879
Segment gross profit (loss):			
Alternative energy	\$ 64,261	\$ 13,830	\$ 35,179
Real estate	(110)	(228)	(348)
Total gross profit	\$ 64,151	\$ 13,602	\$ 34,831
Segment profit (loss):			
Alternative energy segment profit (loss)	\$ 63,228	\$ (1,027)	\$ 48,580
Real estate segment loss	(358)	(497)	(603)
Corporate expenses, net	(3,100)	(2,298)	(2,048)
Income from synthetic fuel investments	—	—	2,883
Income (loss) from continuing operations before income taxes	\$ 59,770	\$ (3,822)	\$ 48,812
Sales of products alternative energy segment:			
Ethanol	75%	76%	82%
Dried distillers grains	19%	18%	17%
Modified distillers grains	3%	4%	1%
Other	3%	2%	—%
Total	100%	100%	100%
Sales of services real estate segment:			
Leasing	100%	100%	100%

	Years Ended January 31,		
	2014	2013	2012
Interest income:			
Alternative energy	\$ 62	\$ 37	\$ 48
Real estate	—	—	—
Corporate and other	74	87	319
Total interest income	<u>\$ 136</u>	<u>\$ 124</u>	<u>\$ 367</u>
Depreciation and amortization expense:			
Alternative energy	\$ 16,914	\$ 16,073	\$ 11,653
Real estate	131	137	103
Corporate and other	—	—	—
Total depreciation and amortization expense	<u>\$ 17,045</u>	<u>\$ 16,210</u>	<u>\$ 11,756</u>
Equity in income of unconsolidated affiliates:			
Alternative energy	\$ 17,175	\$ 627	\$ 21,532
Real estate	—	—	—
Total equity in income of unconsolidated affiliates	<u>\$ 17,175</u>	<u>\$ 627</u>	<u>\$ 21,532</u>
Additions to property and equipment:			
Alternative energy	\$ 3,374	\$ 2,802	\$ 7,276
Real estate	—	—	66
Corporate and other	394	—	—
Total additions to property and equipment	<u>\$ 3,768</u>	<u>\$ 2,802</u>	<u>\$ 7,342</u>

	January 31,		
	2014	2013	2012
Assets:			
Alternative energy	\$ 356,589	\$ 337,857	\$ 367,029
Real estate	4,722	13,326	17,458
Corporate and other	66,557	54,147	53,562
Total assets	\$ 427,868	\$ 405,330	\$ 438,049
Additions to other long lived assets:			
Alternative energy	\$ 1,030	\$ 645	\$ 2,624
Real estate	—	—	—
Total additions to other long lived assets	\$ 1,030	\$ 645	\$ 2,624
Current and long term debt:			
Alternative energy	\$ 75,726	\$ 106,309	\$ 122,678
Corporate and other	—	620	1,071
Total long term debt	\$ 75,726	\$ 106,929	\$ 123,749

Additions to other long lived assets represent primarily equity method investments and long term refundable real estate taxes.

Certain corporate costs and expenses, including information technology, employee benefits, and other shared services, are allocated to the business segments. The allocations are generally amounts agreed upon by management, which may differ from amounts that would be incurred if such services were purchased separately by the business segment. Corporate assets are primarily cash and equivalents, deferred income tax benefits and refundable income taxes.

Cash, except for cash held by One Earth and NuGen, is considered to be fungible and available for both corporate and segment use depending on liquidity requirements. Cash of approximately \$41.8 million held by One Earth and NuGen at January 31, 2014 will be used primarily to fund working capital needs for the subsidiaries.

19. QUARTERLY UNAUDITED INFORMATION

The following tables set forth the Company's net sales and revenue, gross profit (loss), net income (loss) and net income (loss) per share (basic and diluted) for each quarter during the last two fiscal

years. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

	Quarters Ended (In Thousands, Except Per Share Amounts)			
	April 30, 2013	July 31, 2013	October 31, 2013	January 31, 2014
Net sales and revenue (a)	\$ 178,424	\$ 175,389	\$ 166,188	\$ 146,090
Gross profit (a)	8,992	10,870	18,010	26,279
Net income	4,073	6,745	11,478	17,933
Net income attributable to REX common shareholders	3,507	5,825	9,867	15,874
Basic net income per share attributable to REX common shareholders (b)	\$ 0.43	\$ 0.71	\$ 1.21	\$ 1.96
Diluted net income per share attributable to REX common shareholders (b)	\$ 0.43	\$ 0.71	\$ 1.21	\$ 1.95

	Quarters Ended (In Thousands, Except Per Share Amounts)			
	April 30, 2012	July 31, 2012	October 31, 2012	January 31, 2013
Net sales and revenue (a)	\$ 150,755	\$ 152,898	\$ 178,639	\$ 174,347
Gross profit (loss) (a)	5,463	7,006	3,691	(2,558)
Net income (loss)	1,492	1,289	893	(5,262)
Net income (loss) attributable to REX common shareholders	933	806	409	(4,443)
Basic net income (loss) per share attributable to REX common shareholders (b)	\$ 0.11	\$ 0.10	\$ 0.05	\$ (0.54)
Diluted net income (loss) per share attributable to REX common shareholders (b)	\$ 0.11	\$ 0.10	\$ 0.05	\$ (0.54)

a) Amounts differ from those previously reported as a result of retail operations and certain real estate assets sold being reclassified as discontinued operations and other reclassifications.

b) The total of the quarterly net income (loss) per share amounts do not equal the annual net loss or income per share amount due to the impact of varying amounts of shares and options outstanding during the year. In addition, basic net loss per share equals diluted net loss per share in periods a net loss is reported.

20. RELATED PARTIES

During fiscal years 2013 and 2012, One Earth purchased approximately \$262.4 million and \$275.8 million, respectively, of corn from the Alliance Grain Elevator, a minority equity investor in One Earth.

* * * * *

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
REX American Resources Corporation

We have audited the accompanying consolidated balance sheets of REX American Resources Corporation and subsidiaries (the "Company") as of January 31, 2014 and 2013, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2014. Our audits also included the consolidated financial statement schedules at Item 15(a)(2)(i). These consolidated financial statements and consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated financial statement schedules based on our audits. We did not audit the financial statements of Patriot Holdings, LLC, an equity method investment for which the Company's equity method investment of \$31,147,000 and \$27,521,000 as of January 31, 2014 and 2013, respectively, and equity in income of unconsolidated affiliates of \$8,368,000, \$353,000, and \$5,274,000 for the years ended January 31, 2014, 2013, and 2012, respectively, are included in the accompanying consolidated financial statements. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Patriot Holdings, LLC, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of REX American Resources Corporation and subsidiaries as of January 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As disclosed in Note 1 and Note 16, the consolidated financial statements have been adjusted for the retrospective presentation of discontinued operations. Additionally, as discussed in Note 3, the Company acquired a majority ownership position in an existing equity method investment effective November 1, 2011.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 31, 2014, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992) and our report dated April 9, 2014, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Cincinnati, Ohio

April 9, 2014

**Schedule I – CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
 REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES
 CONDENSED BALANCE SHEETS PARENT COMPANY ONLY
 (Amounts in Thousands)**

	January 31,	
	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 63,322	\$ 47,744
Accounts receivable - net	118	280
Refundable income taxes	268	1,347
Prepaid expenses and other	207	259
Deferred taxes - net	2,146	3,930
Total current assets	66,061	53,560
Property and equipment - net	4,203	12,365
Other assets	24	1,045
Equity method investments	234,786	189,012
Restricted investments and deposits	223	503
TOTAL ASSETS	\$ 305,297	\$ 256,485
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long term debt	\$ —	\$ 187
Accounts payable – trade	8	40
Accrued expenses and other current liabilities	4,648	2,307
Total current liabilities	4,656	2,534
LONG TERM LIABILITIES:		
Long term debt	—	433
Deferred taxes	19,498	6,955
Other long term liabilities	1,862	211
Total long term liabilities	21,360	7,599
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
REX shareholders' equity:		
Common stock, 45,000 shares authorized, 29,853 shares issued at par	299	299
Paid in capital	144,051	143,575
Retained earnings	357,101	322,028
Treasury stock, 21,753 and 21,701 shares, respectively	(222,170)	(219,550)
Total shareholders' equity	279,281	246,352
TOTAL LIABILITIES AND EQUITY	\$ 305,297	\$ 256,485

See notes to condensed financial information of parent company.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES
CONDENSED STATEMENTS OF OPERATIONS PARENT COMPANY ONLY
(Amounts in Thousands)

	Years Ended January 31,		
	2014	2013	2012
Net sales and revenue	\$ 466	\$ 472	\$ 244
Cost of sales	577	700	592
Gross loss	(111)	(228)	(348)
Selling, general and administrative expenses	(5,400)	(2,898)	(6,052)
Equity in income (loss) of consolidated and unconsolidated ethanol affiliates	60,187	(1,451)	43,100
Bargain purchase gain, net	—	—	3,541
Income from synthetic fuel investments	—	—	2,883
Interest income	74	87	320
Interest expense	(27)	(44)	(59)
Loss on early termination of debt	(5)	—	(1)
Income (loss) from continuing operations before income taxes	54,718	(4,534)	43,384
(Provision) benefit for income taxes	(20,799)	1,632	(16,255)
Income (loss) from continuing operations	33,919	(2,902)	27,129
Income from discontinued operations, net of tax	413	471	700
Gain on disposal of discontinued operations, net of tax	741	136	441
Net income (loss)	<u>\$ 35,073</u>	<u>\$ (2,295)</u>	<u>\$ 28,270</u>

See notes to condensed financial information of parent company.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES
CONDENSED STATEMENTS OF CASH FLOWS PARENT COMPANY ONLY
(Amounts in Thousands)

	Years Ended January 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 35,073	\$ (2,295)	\$ 28,270
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	781	937	967
Impairment charges on real estate	55	562	1,227
(Income) loss from consolidated and unconsolidated ethanol affiliates	(60,187)	1,451	(43,100)
Dividends received from equity method investments	15,221	6,267	9,995
Bargain purchase gain, net	—	—	(3,541)
Income from synthetic fuel investments	—	—	(2,883)
Gain on disposal of real estate and property and equipment	(1,015)	(133)	(683)
Deferred income tax	16,058	(908)	14,587
Excess tax benefit from stock option exercises	(64)	—	—
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	162	(77)	1
Prepaid expenses and other assets	392	773	1,295
Income taxes refundable	1,480	719	7,852
Accounts payable-trade	(32)	(108)	67
Other liabilities	2,130	(4,626)	(2,116)
Net cash provided by operating activities	<u>10,054</u>	<u>2,562</u>	<u>11,938</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(394)	—	(66)
Proceeds from synthetic fuel investments	—	—	2,883
Purchase of investments	(949)	—	(21,625)
Proceeds of note receivable	681	—	—
Proceeds from sale of real estate and property and equipment	8,876	2,815	4,345
Restricted investments	280	860	237
Net cash provided by (used in) investing activities	<u>8,494</u>	<u>3,675</u>	<u>(14,226)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments of long term debt	(620)	(451)	(1,195)
Stock options exercised	1,072	265	362
Repayments of contingent consideration liability	—	—	(1,251)
Excess tax benefit from stock option exercises	64	—	—
Treasury stock acquired	(3,486)	(4,373)	(22,218)
Net cash used in financing activities	<u>(2,970)</u>	<u>(4,559)</u>	<u>(24,302)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,578	1,678	(26,590)
CASH AND CASH EQUIVALENTS-Beginning of year	47,744	46,066	72,656
CASH AND CASH EQUIVALENTS-End of year	<u>\$ 63,322</u>	<u>\$ 47,744</u>	<u>\$ 46,066</u>
Non cash activities-Cashless exercises of stock options	\$ —	\$ 1,071	\$ 3,444

See notes to condensed financial information of parent company.

1. BASIS OF PRESENTATION

REX American Resources Corporation, the Parent Company, is a holding company that conducts substantially all of its business operations (excluding real estate) through its subsidiaries. Pursuant to certain of its subsidiaries' debt agreements, there are restrictions on the Parent Company's ability to obtain funds from certain of its subsidiaries through dividends, loans or advances. See Note 11 in the Notes to the Consolidated Financial Statements for a further discussion. Accordingly, these condensed financial statements have been presented on a parent company only basis. Under such presentation, the Parent Company's investments in its consolidated subsidiaries are presented under the equity method of accounting. These Parent Company only financial statements should be read in conjunction with REX American Resources Corporation's audited consolidated financial statements.

REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

Schedule II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JANUARY 31, 2014, 2013 AND 2012
(Amounts in thousands)

	Balance Beginning of Year	Additions Charged to Cost and Expenses	Deductions Charges for Which Reserves Were Created	Balance End of Year
2014:				
Allowance for doubtful accounts	\$ —	\$ —	\$ —	\$ —
2013:				
Allowance for doubtful accounts	\$ —	\$ —	\$ —	\$ —
2012:				
Allowance for doubtful accounts	\$ 10	\$ —	\$ 10	\$ —
2014:				
Deferred tax valuation allowance	\$ 1,891	\$ 126	\$ —	\$ 2,017
2013:				
Deferred tax valuation allowance	\$ 1,676	\$ 215	\$ —	\$ 1,891
2012:				
Deferred tax valuation allowance	\$ 1,242	\$ 434	\$ —	\$ 1,676

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our officers concluded that our disclosure controls and procedures are also effective at the reasonable assurance

level to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Material Changes to Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems deemed to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of January 31, 2014 based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (1992). Based upon this assessment, our management concluded that our internal control over financial reporting was effective as of January 31, 2014 based on those criteria.

The effectiveness of our internal control over financial reporting as of January 31, 2014 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

STUART A. ROSE Stuart A. Rose	Chairman of the Board and Chief Executive Officer (principal executive officer)	April 9, 2014
DOUGLAS L. BRUGGEMAN Douglas L. Bruggeman	Vice President-Finance, Chief Financial Officer and Treasurer (principal financial and accounting officer)	April 9, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
REX American Resources Corporation

We have audited the internal control over financial reporting of REX American Resources Corporation and subsidiaries (the “Company”) as of January 31, 2014, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2014, based on the criteria established in *Internal Control —*

Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedules as of and for the year ended January 31, 2014 of the Company and our report dated April 9, 2014 expressed an unqualified opinion on those financial statements and financial statement schedules, referred to the report of other auditors, and included an explanatory paragraph regarding the Company's retrospective presentation of discontinued operations and the acquisition of a majority ownership position in an existing equity method investment effective November 1, 2011.

/s/ Deloitte & Touche LLP

Cincinnati, Ohio

April 9, 2014

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Shareholders on June 3, 2014, except for certain information concerning our executive officers which is set forth in Part I of this report.

Item 11. Executive Compensation

The information required by this Item 11 is set forth in the Proxy Statement for our Annual Meeting of Shareholders on June 3, 2014 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 is set forth in the Proxy Statement for our Annual Meeting of Shareholders on June 3, 2014 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this Item 13 is set forth in the Proxy Statement for our Annual Meeting of Shareholders on June 3, 2014 and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 is set forth in the Proxy Statement for our Annual Meeting of Shareholders on June 3, 2014 and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The following consolidated financial statements of REX American Resources Corporation and subsidiaries are filed as a part of this report at Item 8 hereof.

Consolidated Balance Sheets as of January 31, 2014 and 2013

Consolidated Statements of Operations for the years ended January 31, 2014, 2013 and 2012

Consolidated Statements of Cash Flows for the years ended January 31, 2014, 2013 and 2012

Consolidated Statements of Shareholders' Equity for the years ended January 31, 2014, 2013 and 2012

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

(a)(2)(i) Financial Statement Schedules

The following financial statement schedules are filed as a part of this report at Item 8 hereof.

Schedule I –Condensed Financial Information of REX American Resources Corporation (Parent Company)

Schedule II -Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

(a)(2)(ii) Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons

Separate consolidated financial statements of Big River Resources, LLC, and Patriot Holdings, LLC required pursuant to Rule 3-09 of Regulation S-X are filed as Exhibits 99(a) and 99(b) to this report.

(a)(3) Exhibits

See Exhibit Index at page 94 of this report.

Management contracts and compensatory plans and arrangements filed as exhibits to this report are identified by an asterisk in the exhibit index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REX AMERICAN RESOURCES CORPORATION

By: STUART A. ROSE
Stuart A. Rose
Chairman of the Board and
Chief Executive Officer

Date: April 9, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
STUART A. ROSE Stuart A. Rose	Chairman of the Board and Chief Executive Officer (principal executive officer)	April 9, 2014
DOUGLAS L. BRUGGEMAN Douglas L. Bruggeman	Vice President-Finance, Chief Financial Officer and Treasurer (principal financial and accounting officer)	April 9, 2014
LAWRENCE TOMCHIN Lawrence Tomchin	Director	April 9, 2014
EDWARD M. KRESS Edward M. Kress	Director	April 9, 2014
ROBERT DAVIDOFF Robert Davidoff	Director	April 9, 2014
CHARLES A. ELCAN Charles A. Elcan	Director	April 9, 2014
DAVID S. HARRIS David S. Harris	Director	April 9, 2014
MERVYN L. ALPHONSO Mervyn L. Alphonso	Director	April 9, 2014
LEE FISHER Lee Fisher	Director	April 9, 2014

EXHIBIT INDEX

- (3) *Articles of incorporation and by-laws:*
- 3(a) Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3(a) to Form 10-Q for quarter ended July 31, 2010, File No. 001-09097)
 - 3(b) By-Laws, as amended (incorporated by reference to Exhibit 3(a) to Form 8-K, filed February 1, 2013, File No. 001-09097)
- (4) *Instruments defining the rights of security holders, including indentures:*
- 4 (a) Construction Loan Agreement dated as of September 20, 2007 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(l) to Form 10-K for fiscal year ended January 31, 2008, File No. 001-09097)
 - 4 (b) First Amendment of Construction Loan Agreement dated September 19, 2008 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(j) to Form 10-K for fiscal year ended January 31, 2010, File No. 001-09097)
 - 4(c) Second Amendment of Construction Loan Agreement dated January 30, 2009 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(k) to Form 10-K for fiscal year ended January 31, 2010, File No. 001-09097)
 - 4(d) Third Amendment of Construction Loan Agreement dated September 18, 2009 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(l) to Form 10-K for fiscal year ended January 31, 2010, File No. 001-09097)
 - 4(e) Fourth Amendment of Construction Loan Agreement dated June 1, 2010 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(a) to Form 10-Q for quarter ended October 31, 2010, File No. 001-09097)
 - 4(f) Fifth Amendment of Construction Loan Agreement dated May 31, 2011 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(a) to Form 10-Q for quarter ended April 30, 2011, File No. 001-09097)

- 4(g) Sixth Amendment of Construction Loan Agreement dated May 30, 2012 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(a) to Form 10-Q for quarter ended July 31, 2012, File No. 001-09097)
- 4(h) Seventh Amendment of Construction Loan Agreement dated March 14, 2013 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(h) to Form 10-K for fiscal year ended January 31, 2013, File No. 001-09097)
- 4(i) Eighth Amendment of Construction Loan Agreement dated May 29, 2013 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(a) to Form 10-Q for quarter ended July 31, 2013, File No. 001-09097)
- 4(j) Ninth Amendment of Construction Loan Agreement dated September 3, 2013 among One Earth Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(b) to Form 10-Q for quarter ended July 31, 2013, File No. 001-09097)
- 4(k) Loan Agreement dated November 1, 2011 among NuGen Energy, LLC, First National Bank of Omaha, as a Bank and as Administrative Agent, Accounts Bank and Collateral Agent, and the other Banks party thereto (incorporated by reference to Exhibit 4(a) to Form 8-K filed November 2, 2011, File No. 001-09097)
- 4(l) First Amendment of Loan Agreement dated November 1, 2012 among NuGen Energy, LLC, First National Bank of Omaha, as Agent and a Bank, and the other Banks party thereto (incorporated by reference to Exhibit 4(j) to Form 10-K for fiscal year ended January 31, 2013, File No. 001-09097)
- 4(m) Second Amendment of Loan Agreement dated March 13, 2013 among NuGen Energy, LLC, First National Bank of Omaha, as Agent and a Bank, and the other Banks party thereto (incorporated by reference to Exhibit 4(k) to Form 10-K for fiscal year ended January 31, 2013, File No. 001-09097)
- 4(n) Third Amendment of Loan Agreement dated May 31, 2013 among NuGen Energy, LLC, First National Bank of Omaha, as Agent and a Bank, and the other Banks party thereto (incorporated by reference to Exhibit 4(c) to Form 10-Q for fiscal quarter ended July 31, 2013, File No. 001-09097)
- 4(o) Fourth Amendment of Loan Agreement dated January 24, 2014 among NuGen Energy, LLC, First National Bank of Omaha, as Agent and a Bank, and the other Banks party thereto _____

Material contracts:

- 10(a)* Employment Agreement dated November 29, 2005 between Rex Radio and Television, Inc. and Stuart Rose (incorporated by reference to Exhibit 10(a) to Form 8-K filed November 30, 2005, File No. 001-09097)
- 10(b)* Amended and Restated Amendment No. 1 to Employment Agreement dated December 10, 2007 between Rex Radio and Television, Inc. and Stuart A. Rose (incorporated by reference to Exhibit 10(b) to Form 8-K filed November 30, 2008, File No. 001-09097)
- 10(c)* Amendment No. 2 to Employment Agreement dated December 10, 2007 between Rex Radio and Television, Inc. and Stuart A. Rose (incorporated by reference to Exhibit 10(c) to Form 8-K filed November 30, 2005, File No. 001-09097)
- 10(d)* Subscription Agreement dated December 1, 1989 from Stuart Rose to purchase 300,000 shares of registrant's Common Stock (incorporated by reference to Exhibit 6.5 to Form 10-Q for quarter ended October 31, 1989, File No. 0-13283)
- 10(e)* Subscription Agreement dated December 1, 1989 from Lawrence Tomchin to purchase 140,308 shares of registrant's Common Stock (incorporated by reference to Exhibit 6.6 to Form 10-Q for quarter ended October 31, 1989, File No. 0-13283)
- 10(f)* 1995 Omnibus Stock Incentive Plan, as amended and restated effective June 2, 1995 (incorporated by reference to Exhibit 4(c) to Post-Effective Amendment No. 1 to Form S-8 Registration Statement No. 33-81706)
- 10(g)* 1999 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10(a) to Form 10-Q for quarter ended April 30, 2000, File No. 001-09097)
- 10(h)* Form of Stock Option Agreement under 1999 Omnibus Stock Incentive Plan (Nonqualified Stock Option)(incorporated by reference to Exhibit 10(a) to Form 10-Q for quarter ended October 31, 2004, File No. 001-09097)
- 10(i)* Form of Stock Option Agreement under 1999 Omnibus Stock Incentive Plan (Nonemployee Director Stock Option) (incorporated by reference to Exhibit 10(b) to Form 10-Q for quarter ended October 31, 2004, File No. 001-09097)
- 10 (j) Unit Purchase and Option Agreement dated June 30, 2010 among REX NuGen, LLC and Central Farmers Cooperative (incorporated by reference to Exhibit 10(a) to Form 8-K filed July 16, 2010, File No. 001-09097)
- 10 (k) Unit Purchase Agreement dated July 25, 2011 among REX NuGen, LLC and Central Farmers Cooperative, as extended and amended by letter amendments dated July 26, 2011 and August 29, 2011 (incorporated by reference to Exhibit 10(a) to Form 8-K filed November 2, 2011, File No. 001-09097)

- (14) *Code of Ethics:*
- 14(a) Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14 (a) to Form 10-K for fiscal year ended January 31, 2004, File No. 001-09097)
- (21) *Subsidiaries of the registrant:*
- 21(a) Subsidiaries of registrant _____
- (23) *Consents of experts and counsel:*
- 23(a) Consent of Deloitte & Touche LLP to use its reports dated April 9, 2014 included in this annual report on Form 10-K into registrant's Registration Statements on Form S-8 (Registration Nos. 33-81706, 33-62645, 333-35118 and 333-69690)

- 23(b) Consent of Christianson & Associates, PLLP to use its reports dated February 14, 2014 and February 15, 2013, relating to the financial statements of Big River Resources, LLC included in this annual report on Form 10-K into the Registration Statements _____
- 23(c) Consent of Boulay P.L.L.P. to use its reports dated February 28, 2014 and March 21, 2013 relating to the consolidated financial statements of Patriot Holdings, LLC included in this annual report on Form 10-K into the Registration Statements

- (31) *Rule 13a-14(a)/15d-14(a) Certifications:*
- 31 Certifications _____
- (32) *Section 1350 Certifications:*
- 32 Certifications _____
- (99) *Additional Exhibits*

99(a) and (a) 1 Consolidated financial statements of Big River Resources, LLC for the years ended December 31, 2013, 2012 and 2011 _____

99(b) and (b) 1 Consolidated Financial statements of Patriot Holdings, LLC and Patriot Renewable Fuels, LLC for the years ended December 31, 2013, 2012 and 2011 _____

(101) *Interactive Data File*

101 The following information from REX American Resources Corporation Annual Report on Form 10-K for the fiscal year ended January 31, 2014, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.

Copies of the Exhibits not contained herein may be obtained by writing to Edward M. Kress, Secretary, REX American Resources Corporation, 7720 Paragon Road, Dayton, Ohio 45459.

Those exhibits marked with an asterisk (*) above are management contracts or compensatory plans or arrangements for directors or executive officers of the registrant.

**FOURTH AMENDMENT OF
LOAN AGREEMENT**

THIS FOURTH AMENDMENT OF LOAN AGREEMENT ("Amendment") is entered into and effective as of the 24th day of January, 2014 among NUGEN ENERGY, LLC, a South Dakota limited liability company ("Borrower"), FIRST NATIONAL BANK OF OMAHA in its capacities as Agent and a Bank ("Agent") and the Banks party to the Loan Agreement referenced below, and amends that certain Loan Agreement dated November 1, 2011 among Borrower, the Agent and Banks (as amended, the "Loan Agreement").

WHEREAS, pursuant to the Loan Agreement, Banks extended to Borrowers the Loans described in the Loan Agreement;

WHEREAS, pursuant to that certain First Amendment of Loan Agreement dated November 1, 2012, the Loan Termination Date of the Revolving Loan was extended to May 31, 2013;

WHEREAS, pursuant to that certain Second Amendment of Loan Agreement dated March 13, 2013, the Fixed Charge Coverage Ratio and Working Capital Covenant were modified and the Loan Agreement was otherwise amended as provided for therein;

WHEREAS, pursuant to that certain Third Amendment of Loan Agreement dated May 31, 2013, the Loan Termination Date of the Revolving Loan was extended to May 31, 2014;

WHEREAS, Borrower desires to construct two 1,100,000 bushel capacity grain bins at a cost which would exceed the \$2,500,000 annual capital expenditure covenant of the Loan Agreement, and Borrower has requested the Agent and Lenders consent to the exclusion of the construction costs of such grain bins from the capital expenditures covenant of the Loan Agreement, and under the terms of this Amendment, Agents and Lenders have agreed; and

WHEREAS, the parties desire to amend the Loan Agreement as provided for in this Amendment.

NOW, THEREFORE, in consideration of the amendments to the Loan Agreement provided for below, the mutual covenants herein and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, the parties hereto agree to amend the Loan Agreement as follows:

1. Capitalized terms used herein shall have the meaning given to such terms in the Loan Agreement as amended in this Amendment, unless specifically defined in this Amendment.

2. Section 5.4.9 of the Loan Agreement is hereby deleted in its entirety and the following is inserted in lieu thereof:

5.4.9 Make, or commit to make, capital expenditures (including the total amount of any capital leases) in an aggregate amount exceeding \$2,500,000.00 in any single fiscal year of BORROWER, nor capital expenditures not included in a ADMINISTRATIVE AGENT approved CAPEX BUDGET; provided, however, that not more than \$6,000,000 of capital expenditures from the construction of two 1,100,000 bushel capacity grain bins at the PROJECT will be excluded from the determination of BORROWER's capital expenditures in BORROWER's 2014 fiscal year. ADMINISTRATIVE AGENT hereby approves the inclusion of such grain bins in BORROWER's 2014 CAPEX BUDGET.

3. Except as modified herein, all other terms, provisions, conditions and obligations imposed under the terms of the Loan Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified, affirmed and certified by Borrower. Borrower hereby ratifies and affirms the accuracy and completeness of all representations and warranties contained in the Loan Agreement and other Loan Documents. Borrower represents and warrants to the Agent and the Banks that the representations and warranties set forth in the Loan Agreement, and each of the other Loan Documents, are true and complete on the date hereof as if made on and as of the date hereof (or, if any such representation or warranty is expressly stated to have been made as of a specific date, such representation or warranty shall be true and correct as of such specific date), and as if each reference in "this Agreement" included references to this Amendment. Borrower represents, warrants and confirms to the Agent and the Banks that no Events of Default is now existing under the Loan Documents and that no event or condition exists which would constitute an Event of Default with the giving of notice and/or the passage of time. Nothing contained in this Amendment either before or after giving effect thereto, will cause or trigger an Event of Default under any Loan Document. To the extent necessary, the Loan Documents are hereby amended consistent with the amendments provided for in this Amendment.

4. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same instrument.

5. This Amendment will be governed by and construed in accordance with the laws of the State of Nebraska, exclusive of its choice of laws rules.

6. Borrower will comply with all terms and conditions of this Amendment and any other documents executed pursuant hereto and will, when requested by the Agent, execute and deliver such further documents and instruments necessary to

consummate the transactions contemplated hereby and shall take such other actions as may be reasonably required or appropriate to evidence or carry out the intent and purposes of this Amendment.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment on the date first written above.

FIRST NATIONAL BANK OF OMAHA, as Agent and as a Bank

By: /s/ Blake Suing
Title: Loan Officer

NUGEN ENERGY, LLC, Borrower

By: /s/ Aaron Riedell
Title: President and CEO

AgStar Financial Services, PCA, as a Bank

By: /s/ Erik Moe

Title: Director

1st Farm Credit Services, PCA, as a Bank

By: /s/ Dale Richardson

Title: Vice President

1st Farm Credit Services, FLCA, as a Bank

By: /s/ Dale Richardson

Title: Vice President

7

Farm Credit Services of America, PCA as a Bank

By: /s/ Kathy Frahm

Title: Vice President

Farm Credit Services of America, FLCA as a Bank

By: /s/ Kathy Frahm

Title: Vice President

Badgerland Financial, FLCA, as a Bank

By: /s/ Ken Rue

Title: Vice President

Midwest Bank of Western Illinois, as a Bank

By: /s/ Brad Ray

Title: Vice President

SUBSIDIARIES OF REX AMERICAN RESOURCES CORPORATION

Name	State of Incorporation or Organization
AVA Acquisition Corp.	Delaware
Rex Radio and Television, Inc. ⁽¹⁾	Ohio
Stereo Town, Inc.	Georgia
Kelly & Cohen Appliances, Inc. ⁽¹⁾	Ohio
Rex Acquisition, LLC ⁽²⁾	Ohio
REX/GPP I, LLC ⁽³⁾	Ohio
REX/GPP II, LLC ⁽³⁾	Ohio
REX Investment, LLC ⁽⁴⁾	Ohio
REX IP, LLC	Ohio
REX Marketing Group, LLC ⁽³⁾	South Dakota
Farmers Energy Incorporated	Delaware
Farmers Energy Big River Holding, LLC ⁽⁵⁾	Ohio
Farmers Energy Big River, LLC ⁽⁶⁾	Ohio
Farmers Energy Cardinal Holding, LLC ⁽³⁾⁽⁵⁾	Ohio
Farmers Energy Cardinal, LLC ⁽³⁾⁽⁶⁾	Ohio
Farmers Energy Highwater Holding, LLC ⁽³⁾⁽⁵⁾	Ohio
Farmers Energy Highwater, LLC ⁽³⁾⁽⁶⁾	Ohio
Farmers Energy Levelland Holding, LLC ⁽³⁾⁽⁵⁾	Ohio
Farmers Energy Levelland, LLC ⁽³⁾⁽⁶⁾	Ohio
Farmers Energy Millennium Holding, LLC ⁽³⁾⁽⁵⁾	Ohio

Farmers Energy Millennium, LLC ⁽³⁾⁽⁶⁾	Ohio
Farmers Energy One Earth Holding, LLC ⁽⁵⁾	Ohio
Farmers Energy One Earth, LLC ⁽⁶⁾	Ohio
One Earth Energy, LLC ⁽⁷⁾	Illinois
Farmers Energy Patriot Holding, LLC ⁽⁵⁾	Ohio
Farmers Energy Patriot, LLC ⁽⁶⁾	Ohio
FEI Investment Incorporated	Delaware
Future Energy, LLC ⁽⁸⁾	Ohio
FE-I, LLC ⁽⁹⁾	California
FE-II, LLC ⁽⁹⁾	California
REX NuGen Holding, LLC ⁽⁵⁾	South Dakota
REX NuGen, LLC ⁽⁶⁾	South Dakota
NuGen Energy, LLC ⁽⁷⁾	South Dakota

-
- (1) Wholly-owned subsidiary of AVA Acquisition Corp.
 - (2) Wholly-owned subsidiary of Rex Radio and Television, Inc.
 - (3) Non-operating or inactive subsidiary.
 - (4) AVA Acquisition Corp. is the managing member and owns a 98.032% Class A membership interest, a 95.46% Class B membership interest and a 100% Class C membership interest.
 - (5) First-tier wholly-owned subsidiary of Farmers Energy Incorporated.
 - (6) Second-tier wholly-owned subsidiary of Farmers Energy Incorporated.
 - (7) Third-tier majority-owned subsidiary of Farmers Energy Incorporated.
 - (8) Majority-owned subsidiary of REX IP, LLC.
 - (9) Wholly-owned subsidiary of Future Energy, LLC.
-

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 33-81706, 33-62645, 333-35118, and 333-69690 on Form S-8 of our reports dated April 9, 2014, relating to the consolidated financial statements and consolidated financial statement schedules of RexAmerican Resources Corporation and subsidiaries (the "Company") (which reports express an unqualified opinion and refer to the report of other auditors, and included an explanatory paragraph regarding the retrospective presentation of discontinued operations and the acquisition of a majority ownership position in an existing equity method investment effective November 1, 2011) and the effectiveness of internal control over financial reporting, appearing in the Company's Annual Report on Form 10-K for the year ended January 31, 2014.

/s/ DELOITTE & TOUCHE LLP
April 9, 2014

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statements No. 33-81706, No. 33-62645, No. 333-35118, and No. 333-69690 on Form S-8 of REX American Resources Corporation and subsidiaries of our report dated February 14, 2014, relating to the financial statements of Big River Resources, LLC as of December 31, 2013 and 2012 and for the years ended December 31, 2013 and 2012 and our report dated February 15, 2013 relating to the financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012 and 2011, appearing in this annual Report on Form 10-K of REX American Resources Corporation and subsidiaries for the year ended January 31, 2014.

/S/ Christianson & Associates, PLLP

Willmar, Minnesota
April 9, 2014

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 33-81706, No. 33-62645, No. 333-35118, and No. 333-69690 on Form S-8 of REX American Resources Corporation and subsidiaries of our report dated February 28, 2014, relating to the consolidated financial statements of Patriot Holdings, LLC as of December 31, 2013 and 2012 and for the years then ended, and our report dated March 21, 2013, relating to the consolidated financial statements of Patriot Holdings LLC as of December 31, 2012 and 2011 and for the years then ended appearing in this annual Report on Form 10-K of REX American Resources Corporation and subsidiaries for the year ended January 31, 2014.

/s/ Boulay PLLP
Certified Public Accountants

Minneapolis, Minnesota

April 9, 2014

CERTIFICATIONS

I, Stuart A. Rose, certify that:

1. I have reviewed this annual report on Form 10-K of REX American Resources Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the

audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 9, 2014

STUART A. ROSE
Stuart A. Rose
Chairman of the Board and
Chief Executive Officer

I, Douglas L. Bruggeman, certify that:

1. I have reviewed this annual report on Form 10-K of REX American Resources Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 9, 2014

DOUGLAS L. BRUGGEMAN
Douglas L. Bruggeman
Vice President, Finance, Treasurer and
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION
1350, AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

The undersigned officers of REX American Resources Corporation (the "Company") hereby certify, to their knowledge, that the Company's Annual Report on Form 10-K for the period ended January 31, 2014, which this certificate accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

STUART A. ROSE
Stuart A. Rose
Chairman of the Board and
Chief Executive Officer

DOUGLAS L. BRUGGEMAN
Douglas L. Bruggeman
Vice President, Finance, Treasurer and
Chief Financial Officer

Dated: April 9, 2014

BIG RIVER RESOURCES, LLC
CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

CHRISTIANSON & ASSOCIATES, PLLP
Certified Public Accountants and Consultants
Willmar, Minnesota

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Big River Resources, LLC
West Burlington, Iowa

We have audited the accompanying consolidated financial statements of **Big River Resources, LLC** (an Iowa limited liability company), which comprise the consolidated balance sheets as of December 31, 2013 and 2012 and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of **Big River Resources, LLC** as of December 31, 2013 and 2012 and the results of its operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CHRISTIANSON & ASSOCIATES, PLLP
Certified Public Accountants and Consultants

February 14, 2014

BIG RIVER RESOURCES, LLC
CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 66,126,647	\$ 22,127,817
Receivables	35,721,528	30,084,594
Inventories	52,274,728	78,864,432
Prepaid expenses	1,636,184	1,578,818
Purchase advance on contracts	883,548	—
Derivative instruments	7,635,696	7,223,158
TOTAL CURRENT ASSETS	164,278,331	139,878,819
PROPERTY AND EQUIPMENT		
Land and land improvements	41,458,998	41,458,998
Building structure	78,457,946	78,457,946
Grain equipment	43,559,089	43,420,966
Process equipment	322,734,855	322,265,389
Other equipment	9,659,421	9,438,351
Construction in progress	5,409,868	216,697
	501,280,177	495,258,347
Accumulated depreciation	(166,320,254)	(131,153,588)
	334,959,923	364,104,759
OTHER ASSETS		
Investments	12,651,081	9,843,490
Deposits	200,000	200,000
Notes receivable	117,846	292,351
Financing costs, net of amortization	955,242	1,362,365
	13,924,169	11,698,206
TOTAL ASSETS	\$ 513,162,423	\$ 515,681,784

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012

	2013	2012
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Checks written in excess of funds on deposit	\$ 2,070,436	\$ 2,588,966
Payables		
Trade	34,327,008	42,446,419
General	10,418,220	8,086,876
Construction	1,426,354	—
Accrued expenses	6,987,480	3,895,236
Deferred sales	—	6,849,007
Current maturities of long-term debt	13,539,227	26,998,477
TOTAL CURRENT LIABILITIES	68,768,725	90,864,981
LONG-TERM DEBT, less current maturities	12,503,364	87,301,070
MEMBERS' EQUITY		
Members' capital	386,845,155	308,508,860
Noncontrolling interests	45,045,179	29,006,873
	431,890,334	337,515,733
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 513,162,423	\$ 515,681,784

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
SALES	\$ 1,292,119,994	\$ 1,135,955,535
COST OF SALES	<u>1,167,793,125</u>	<u>1,115,304,657</u>
GROSS PROFIT	124,326,869	20,650,878
OPERATING EXPENSES	<u>17,239,159</u>	<u>14,128,944</u>
INCOME FROM OPERATIONS	107,087,710	6,521,934
OTHER INCOME (EXPENSES)		
Interest expense	(3,704,145)	(6,264,357)
Investment income	4,459,766	4,900,699
Other income (expense)	29,164	(103,683)
	<u>784,785</u>	<u>(1,467,341)</u>
NET INCOME	107,872,495	5,054,593
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(17,143,578)</u>	<u>(2,255,381)</u>
NET INCOME ATTRIBUTABLE TO BIG RIVER RESOURCES, LLC MEMBERS	<u>\$ 90,728,917</u>	<u>\$ 2,799,212</u>

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years Ended December 31, 2013 and 2012

	Members' Equity	Noncontrolling Interests
Balance - December 31, 2011	\$ 328,429,511	\$ 33,223,954
Distributions to members	(22,719,863)	(6,472,462)
Net income	2,799,212	2,255,381
Balance - December 31, 2012	308,508,860	29,006,873
Capital contributions	—	250,000
Distributions to members	(12,392,622)	(1,355,272)
Net income	90,728,917	17,143,578
Balance - December 31, 2013	\$ 386,845,155	\$ 45,045,179

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING ACTIVITIES		
Net income	\$ 90,728,917	\$ 2,799,212
Charges to net income not affecting cash and cash equivalents		
Depreciation and amortization	35,594,561	35,096,289
Loss (gain) on derivative instruments	(16,223)	14,563,092
Investment earnings	(2,807,591)	(2,508,338)
Noncontrolling interest in subsidiaries' gain	17,143,578	2,255,381
Decrease (increase) in current assets		
Receivables	(5,636,934)	(16,804,761)
Inventories	26,589,704	4,450,933
Net cash paid on derivative instruments	(396,315)	(7,829,703)
Prepaid expenses	(57,366)	241,624
Purchase advance on contracts	(883,548)	—
Increase (decrease) in current liabilities		
Payables	(5,788,067)	15,336,962
Accrued expenses	3,092,244	(2,238,816)
Deferred sales	(6,849,007)	4,100,884
NET CASH PROVIDED BY OPERATING ACTIVITIES	150,713,953	49,462,759
INVESTING ACTIVITIES		
Purchase of property and equipment	(4,616,248)	(1,697,219)
Net payments received on notes receivable	174,505	—
NET CASH USED IN INVESTING ACTIVITIES	(4,441,743)	(1,697,219)
FINANCING ACTIVITIES		
Payments for financing costs	—	(170,100)
Principal payments on long-term debt	(20,827,773)	(20,956,684)
Net payments on long-term revolving loan	(67,429,183)	(4,129,991)
Checks written in excess of funds on deposit	(518,530)	1,326,900
Capital contributions	250,000	—
Distributions to noncontrolling interests	(1,355,272)	(6,472,462)
Distributions to members	(12,392,622)	(22,719,863)
NET CASH USED IN FINANCING ACTIVITIES	(102,273,380)	(53,122,200)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	43,998,830	(5,356,660)
CASH AND CASH EQUIVALENTS - beginning of year	22,127,817	27,484,477
CASH AND CASH EQUIVALENTS - end of year	\$ 66,126,647	\$ 22,127,817

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS - Big River Resources, LLC, its wholly-owned subsidiaries, Big River Resources West Burlington, LLC (West Burlington), Big River Resources Galva, LLC (Galva), Big River Resources Boyceville, LLC (Boyceville), its 50% joint venture Big River Resources Grinnell, LLC (Grinnell), its 50.5% ownership in Big River United Energy, LLC, and its 51% joint venture in Big River Prairie Gold, LLC (collectively, the company) are limited liability companies.

West Burlington owns and operates an ethanol plant located in West Burlington, Iowa with an annual production nameplate capacity of 92 million gallons of denatured ethanol. The company produces ethanol, non-food oil and distillers grains for commercial sales throughout the United States. The company operates grain elevators near Monmouth and Edgington, Illinois which buy corn and soybeans from farmers as a reserve corn supply to the ethanol operations in West Burlington, Iowa and Galva, Illinois and for soybean sales throughout the United States.

Galva owns and operates a 100 million gallon annual production nameplate capacity ethanol plant near Galva, Illinois. The company produces ethanol, distillers grains and non-food oil for commercial sales throughout the United States and exports.

Boyceville owns and operates an ethanol plant located in Boyceville, Wisconsin with an annual production nameplate capacity of 55 million gallons of denatured ethanol. The company produces ethanol, distillers grains, and non-food oil for commercial sales throughout the United States.

Grinnell is a development stage company that was organized to construct an ethanol plant near Grinnell, Iowa with a planned annual nameplate capacity of 100 million gallons. As of December 31, 2013, the company has no formal plans to develop the plant.

Big River United Energy, LLC owns and operates an ethanol plant located in Dyersville, Iowa with an annual production nameplate capacity of 100 million gallons of denatured ethanol. The company produces ethanol, distillers grains and non-food oil for commercial sales throughout the United States.

Big River Prairie Gold, LLC is a development stage company that was organized with the intention of developing and operating a zein manufacturing facility with an estimated production capacity of 600,000 pounds of zein protein near Galva, Illinois. The company is in the development stage with its efforts being principally devoted to organizational activities and construction of the facility.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PRINCIPLES OF CONSOLIDATION - The accompanying consolidated financial statements include the accounts of Big River Resources, LLC, and its subsidiaries. All significant intercompany account balances and transactions have been eliminated. The company accounts for its investment in Grinnell on a consolidated basis because it is a variable interest entity and the company is its primary beneficiary.

FISCAL REPORTING PERIOD - The company has adopted a fiscal year ending December 31 for reporting financial operations.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION - Revenues from the production of ethanol, distillers grains, and non-food oil are recorded at the time title to the goods and all risks of ownership transfer to customers and the settlement price is realizable. Denatured ethanol, distillers grains and non-food oil are generally shipped FOB shipping point. Udenatured ethanol is generally shipped FOB destination.

CASH AND CASH EQUIVALENTS - The company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

CONCENTRATIONS OF CREDIT RISK - The company extends credit to its customers in the ordinary course of business. The company performs periodic credit evaluations of its customers and generally does not require collateral. The company's operations may vary with the volatility of the commodity markets. The company's cash balances are maintained in bank depositories and periodically exceed federally insured limits.

RECEIVABLES - The company has engaged the services of national marketers to sell substantially all of its ethanol and a portion of its distillers production. The marketers handle nearly all sales functions including billing, logistics, and sales pricing. Once product is shipped, the marketers assume the risk of payment from the consumer and handle all delinquent payment issues. The company markets its own grain, local distillers grains and non-food oil. The company generally bills weekly with payments due within 10 days of the invoice date, and considers accounts older than 30 days from the stated due date to be delinquent and would generally initiate collection procedures. If the collection procedures have not provided collection within one year of the invoice date, management generally will write off the account as a bad debt. Trade receivables are recorded net of anticipated uncollectible amounts. As of December 31, 2013 and 2012, there was no allowance for uncollectible amounts.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVENTORIES - The company's method of accounting for ethanol, ethanol production in process, co-products, corn inventories, and soybeans and corn held at the elevators is valued at net realizable value (NRV). The parts, chemicals and ingredients inventories are recorded at the lower of cost (average cost method) or market method (LCM).

PROPERTY AND EQUIPMENT - Property and equipment are stated at the lower of cost or fair value. Significant additions and betterments are capitalized with expenditures for maintenance, repairs and minor renewals being charged to operations as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Land improvements	15-20 years
Building structure	5-20 years
Grain equipment	5-20 years
Process equipment	5-20 years
Other equipment	3-15 years

Construction in progress includes the following projects, and will be depreciated using the straight-line method over various estimated useful lives once the assets are placed into service:

Grain drying and handling facility at Big River Resources West Burlington, LLC. The estimated cost of the project is approximately \$9,498,000 which is expected to be completed June 2014.

Grain drying and handling facility at Big River United Energy, LLC. The estimated cost of the project is approximately \$7,145,000 which is expected to be completed September 2014.

Development of the zein manufacturing facility for Big River Prairie Gold, LLC. The estimated cost of the project is approximately \$12,050,000 which is expected to be completed November 2014.

The company reviews its property and equipment for impairment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. The company did not recognize any long-lived asset impairment loss for the years ended December 31, 2013 and 2012.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERIVATIVE INSTRUMENTS - The company recognizes its derivatives in the balance sheet and measures these instruments at fair value. In order for a derivative to qualify as a hedge, specific criteria must be met and appropriate documentation maintained. Gains and losses from derivatives that do not qualify as hedges, or are undesignated, must be recognized immediately in earnings. If the derivative does qualify as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will be either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Derivatives qualify for treatment as hedges when there is a high correlation between the change in fair value of the derivative instrument and the related change in value of the underlying hedged item.

Furthermore, the company must designate the hedging instruments based upon the exposure being hedged as a fair value hedge or a cash flow hedge. The company's derivatives are not designated as hedges for accounting purposes. For derivative instruments that are not accounted for as hedges, the change in fair value is recorded through earnings in the period of change.

The company records its forward purchase and sales commitments at fair value as derivative instruments which the company believes to represent more accurate financial reporting. These contracts are marked to market as an asset or liability and a corresponding gain or loss is recognized for the change in market value.

INVESTMENTS - Investments include stock in a lending cooperative bank and in the company's cooperative ethanol marketer and membership units in an ethanol plant located in Mitchell County, Iowa. The company records the investments in the cooperative bank and ethanol marketer at cost which includes its share of the allocated patronage equities. The membership units in the ethanol plant are recorded at cost.

DEPOSITS - Deposits include monies deposited for a distilled spirits bond and is recorded at the scheduled recoverable value.

NOTES RECEIVABLE - The company has sold real estate properties and provided long term financing to the purchasers in the form of notes which are carried as other non-current assets. The notes are on a 30 year amortization schedule and bear interest at 5.5%. The current portion of these notes as of December 31, 2013 and 2012 is approximately \$3,800 and \$7,600, respectively, which is included in receivables. In 2013, one of the notes receivable was paid off.

FINANCING COSTS - Financing costs are recorded at cost and include expenditures directly related to securing debt financing. Amortization is computed using the straight-line method over the loans' terms.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEFERRED SALES - The company receives advances for ethanol shipments based on provisional pricing prior to the recognition of the sale. These advances are carried as current liabilities on the balance sheet until the criteria to recognize the revenue is met and the sale is recognized. As of December 31, 2013 and 2012, the company has received \$0 and \$6,849,007 respectively in advances for shipments which have not met the revenue recognition criteria.

NONCONTROLLING INTERESTS - Noncontrolling interests represents the noncontrolling partners' share of the equity and income of Big River Resources Grinnell, LLC, Big River United Energy, LLC, and Big River Prairie Gold, LLC. Noncontrolling interests are classified in the consolidated statements of operations as a part of net income and the accumulated amount of noncontrolling interests are classified in the consolidated balance sheets as a part of members' equity.

FAIR VALUE OF FINANCIAL INSTRUMENTS - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The fair value of an asset or liability is determined based on a hierarchy. The fair value hierarchy has three levels of inputs, both observable and unobservable.

Fair value is determined using the lowest possible level of input. Level 1 inputs include quoted market prices in an active market for identical assets or liabilities. Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data.

Except for those assets and liabilities which are required by authoritative accounting guidance to be recorded at fair value in its balance sheets, the company has elected not to record any other assets or liabilities at fair value. No events occurred during the years ended December 31, 2013 and 2012 that would require adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis.

The carrying value of cash, accounts receivable, accounts payable and accrued expenses approximates fair value. It is not currently practicable to estimate the fair value of the debt financing. Because these agreements contain certain unique terms, covenants, and restrictions, as discussed in Note F, there are no readily determinable similar instruments on which to base an estimate of fair value.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAXES - The company is organized as a limited liability company under state law and is treated as a partnership for income tax purposes. Under this type of organization, the company's earnings pass through to the members and are taxed at the member level. The company files income tax returns in the U.S. federal jurisdiction and in the states of Iowa, Illinois and Wisconsin. As of December 31, 2013, the company is no longer subject to U.S. federal and state income tax examinations by tax authorities for tax years before 2010.

NOTE B: INVENTORIES

	<u>2013</u>	<u>2012</u>
Ethanol	\$ 17,109,470	\$ 23,820,559
Production in process	7,983,352	8,900,880
Distiller grains	1,915,102	2,357,447
Corn	11,253,281	18,407,059
Non-food oil	138,427	184,801
Spare parts	5,123,759	4,566,848
Chemicals and ingredients	1,694,139	1,602,529
Corn and soybeans held at elevators	7,057,198	19,024,309
	<u>\$ 52,274,728</u>	<u>\$ 78,864,432</u>

NOTE C: DERIVATIVE INSTRUMENTS

The company enters into derivative transactions to hedge its exposure to commodity price fluctuations. The company does not enter into derivative transactions for trading or speculative purposes.

The company hedges substantially all of its corn, soybeans, ethanol, and co-product inventories as well as its future purchase and sales contracts to the extent considered necessary for minimizing risk from market price fluctuations. In connection with the execution of forward contracts, the company normally elects to create a hedging relationship by executing an exchange traded futures contract as an offsetting position. In this situation, the forward contract is valued at market price until delivery is made against the contract.

The amounts recorded on the balance sheet represent the current fair market value of the instruments as determined by the broker with adjustments made by management for local basis and cash margin deposits. The company has categorized the cash flows related to the derivative activities in the same category as the item being hedged. Management expects all open positions outstanding as of December 31, 2013 to be realized within the next fiscal year.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE C: DERIVATIVE INSTRUMENTS (continued)

The open derivative instruments as of December 31, 2013 are as follows:

Ethanol Plants

Forward purchase contracts		
Corn	9,883,000	Bu
Forward sales contracts		
Ethanol	1,795,000	Gal
Distillers grains	170,000	Ton
Non-food oil	5,611,000	Pounds
Positions on the Chicago Board of Trade		
Corn (short)	7,345,000	Bu
Corn (long)	390,000	Bu
Ethanol (short)	18,900,000	Gal

Grain Elevators

Forward purchase contracts		
Corn	336,000	Bu
Soybeans	52,000	Bu
Forward sales contracts		
Corn	296,000	Bu
Soybeans	50,000	Bu
Positions on the Chicago Board of Trade		
Corn (short)	845,000	Bu
Corn (long)	80,000	Bu
Soybeans (short)	275,000	Bu
Soybeans (long)	190,000	Bu

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE C: DERIVATIVE INSTRUMENTS (continued)

The following tables provide details regarding the company's derivative financial instruments at December 31, 2013 and 2012, none of which are designated as hedging instruments:

		2013		
		Balance Sheet location	Assets	Liabilities
Commodity contracts		Derivative instruments	\$ 7,635,696	\$ —
		Statement of Operations location	Gain recognized for the year ended December 31, 2013	
Commodity contracts		Cost of sales	\$	16,223
		2012		
		Balance Sheet location	Assets	Liabilities
Commodity contracts		Derivative instruments	\$ 7,223,158	\$ —
		Statement of Operations location	Loss recognized for the year ended December 31, 2012	
Commodity contracts		Cost of sales	\$	(14,563,092)

NOTE D: FAIR VALUE MEASUREMENTS

The following tables provide information on those assets measured at fair value on a recurring basis as of December 31, 2013 and 2012:

		2013			
		Carrying Value in Balance Sheet at December 31, 2013	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets					
Derivative instruments		\$ 7,635,696	\$ 3,987,988	\$ 3,647,708	\$ —

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE D: FAIR VALUE MEASUREMENTS (continued)

	2012			
	Carrying Value in Balance Sheet at December 31, 2012	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets				
Derivative instruments	\$ 7,223,158	\$ 5,824,832	\$ 1,398,326	\$ —

The company determines the fair value of the derivative instruments shown in the tables above by obtaining fair value measurements from an independent pricing service. The fair value measurements for Level 1 inputs consider observable data that may include dealer quotes and live exchange trading levels. The fair value measurements for Level 2 inputs consider observable data that may include dealer quotes and live exchange trading levels adjusted for local basis.

NOTE E: SHORT-TERM DEBT

West Burlington

The company has a revolving line of credit with CoBank. The company may advance up to a maximum of \$25 million until expiration on August 1, 2014. Interest is paid in accordance with one or more of the following interest rate options: a rate equal to 2.95% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.12% at December 31, 2013). The company shall select the applicable rate option at the time of each loan request. Advances under the agreement are limited based on the borrowing base report. The loan is secured by substantially all assets and a mortgage on real estate.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.30% of the average daily unused portion of the commitment. As of December 31, 2013 and 2012, the company has no amounts drawn under this line of credit.

Galva

The company has a revolving line of credit with CoBank. The company can advance up to a maximum of \$7,500,000 until expiration on October 1, 2014. Interest is paid in accordance with one or more of the following interest rate options: a rate equal to 2.95% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.12% as of December 31, 2013). The company shall select the applicable rate option at the time of each loan request. Advances under the agreement are limited based on the borrowing base report. The loan is secured by substantially all assets and a mortgage on real estate.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE E: SHORT-TERM DEBT (continued)

Galva (continued)

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.30% of the average daily unused portion of the commitment. As of December 31, 2013 and 2012, the company has no amounts drawn under this line of credit.

Boyceville

The company has a revolving line of credit with Agstar Financial Services. The company can advance up to a maximum of \$10,000,000 until expiration on August 1, 2014. Interest is paid in accordance with one or more of the following interest rate options: a rate equal to 3.25% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 3.25% (3.42% at December 31, 2013). The company shall select the applicable rate option at the time of each loan request. Advances under the agreement are limited based on the borrowing base report. The loan is secured by substantially all assets and a mortgage on real estate.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.40% of the average daily unused portion of the commitment. As of December 31, 2013 and 2012, the company has no amounts drawn under this line of credit.

Big River United Energy, LLC

The company has a revolving line of credit with CoBank. The company may advance up to a maximum of \$25 million until expiration on October 1, 2014. Interest is paid in accordance with one or more of the following interest rate options: a rate equal to 2.90% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.90% (3.07% at December 31, 2013). The company shall select the applicable rate option at the time of each loan request. Advances under the agreement are limited based on the borrowing base report. The loan is secured by substantially all assets and a mortgage on real estate.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.30% of the average daily unused portion of the commitment. As of December 31, 2013 and 2012, the company has no amounts drawn under this line of credit.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE F: LONG-TERM DEBT

	2013	2012
Promissory note payable to CHS Capital LLC due in monthly installments of \$83,333 plus interest at a variable rate of 5% plus the one-month LIBOR (currently 5.169%), maturing December 2016, secured by personal property including investments.	\$ 8,000,008	\$ 9,000,004
<u>West Burlington</u>		
Term loan, further terms detailed below.	14,250,000	23,250,000
Non-interest bearing note payable to Eastern Iowa Light and Power payable at \$4,167 per month beginning in January 2010 until January 2018 secured by letter of credit, paid off during 2013.	—	250,000
Non-interest bearing note payable to Eastern Iowa Light and Power payable at \$3,704 per month until October 2014, secured by letter of credit, paid off during 2013.	—	77,777
<u>Galva</u>		
Term loan, further terms detailed below.	3,539,227	14,039,227
Revolving term loan, further terms detailed below.	—	7,582,068
<u>Boyce ville</u>		
Revolving term loan, further terms detailed below.	—	10,977,408
Revolving term loan 2, further terms detailed below.	—	4,000,000
<u>Big River United Energy, LLC</u>		
Revolving term loan, further terms detailed below.	253,356	42,404,032
Revolving term loan, further terms detailed below.	—	2,719,031
	26,042,591	114,299,547
Current maturities	(13,539,227)	(26,998,477)
	\$ 12,503,364	\$ 87,301,070

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE F: LONG-TERM DEBT (continued)

Long-term debt maturities are as follows:

<u>Years Ending December 31,</u>	
2014	\$ 13,539,227
2015	6,249,992
2016	6,000,016
2017	—
2018	253,356
	<u>\$ 26,042,591</u>

West Burlington

The company entered into a credit agreement with CoBank which includes a term loan for \$18,750,000 and revolving term loans of \$16,000,000 and \$4,000,000. The loans are secured by substantially all assets and a mortgage on real estate.

For each of the loans, the company is required to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: a rate equal to 2.95% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.12% at December 31, 2013). The company shall select the applicable rate option at the time of each loan request.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, and include net worth and working capital requirements. As of December 31, 2013 and 2012, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

Term loan

The company is required to make 12 quarterly principal installments of \$2,250,000 beginning in May 2012 until February 2015 with a final installment in an amount equal to the remaining unpaid balance in May 2015.

Revolving term loans

For the \$16,000,000 revolving term loan, the company is required to make semi-annual principal payments beginning on November 2015 until May 2017 of a reducing commitment amount as follows:

<u>Payment Date</u>	<u>Commitment Amount</u>
November 1, 2015	\$ 12,000,000
May 1, 2016	8,000,000
November 1, 2016	4,000,000
May 1, 2017	—

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE F: LONG-TERM DEBT (continued)

West Burlington (continued)

For the \$4,000,000 revolving term loan, the company is required to repay the outstanding loan balance at the time the commitment expires on November 1, 2017.

In addition, on each of the revolving term loans, the company agrees to pay a monthly commitment fee at a rate of 0.50% of the average daily unused portion of the commitment. As of December 31, 2013 and 2012, the company has no amounts outstanding on the revolving term loans.

Galva

The company entered into a credit agreement with CoBank to partially finance the construction of the plant. Under the credit agreement, the lender has provided a term loan for \$70,000,000 and a revolving term loan of \$20,000,000. The loans are secured by substantially all assets and mortgage on real estate.

For each of the loans, the company is required to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: a rate equal to 2.95% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.12% as of December 31, 2013). The company shall select the applicable rate option at the time of each loan request.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, and include net worth and working capital requirements. As of December 31, 2013 and 2012, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

Term loan

The company is required to make quarterly principal installments of \$2,625,000 which began in December 2009 until March 2014 with a final installment in an amount equal to the remaining unpaid balance in June 2014

Revolving term loan

The company is required to repay the outstanding loan balance at the time the commitment expires on June 1, 2016. In addition, the company agrees to pay a monthly commitment fee at a rate of 0.50% of the average daily unused portion of the commitment.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE F: LONG-TERM DEBT (continued)

Boyceville

The company entered into a credit agreement with AgStar Financial Services which includes revolving term loans of \$25,500,000 and \$4,000,000. The loans are secured by substantially all assets and a mortgage on real estate.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, require minimum debt service coverage, net worth and working capital requirements. As of December 31, 2013 and 2012, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

The \$25,500,000 revolving term loan requires the company to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: a rate equal to 3.5% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 3.5% (3.67% at December 31, 2013). The company shall select the applicable rate option at the time of each loan request. The company is required to make quarterly principal payments beginning on October 20, 2012 until July 20, 2017 reducing the commitment available under the agreement by \$1,500,000 each quarter. In December 2013, the company made a prepayment on this revolving term loan which can be drawn against for future working capital in an amount not to exceed \$21,000,000 less the required quarterly principal payments. In December 2012, the company made a \$13,522,592 prepayment which was drawn on for future working capital.

The \$4,000,000 revolving term loan 2 requires the company to pay interest monthly on the unpaid balance based on a rate equal to 3.5% above the rate quoted by the British Bankers Association on the one-month LIBOR index. This note was paid in full and cancelled in July 2013.

In addition, on each of the revolving term loans, the company agrees to pay monthly commitment fee at a rate of 0.65% of the average daily unused portion of the commitment.

Big River United Energy, LLC

The company has a credit agreement with CoBank which includes revolving term loans of \$44,000,000 and \$6,000,000. The loans are secured by substantially all assets and a mortgage on real estate.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE F: LONG-TERM DEBT (continued)

Big River United Energy, LLC (continued)

For each of the revolving term loans, the company is required to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: a rate equal to 3.15% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 3.15% (3.32% at December 31, 2013). The company shall select the applicable rate option at the time of each loan request.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, and include net worth and working capital requirements. As of December 31, 2013 and 2012, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

For the \$44,000,000 revolving term loan, the company is required to repay the outstanding loan balance as of the maturity date of June 1, 2018. The available balance has a reducing commitment amount of \$4,000,000 every six months beginning June 2013 until the maturity date. In 2013, the company made a prepayment on this revolving term loan which can be drawn against for future working capital in an amount not to exceed \$36,000,000 less the required principal payments.

For the \$6,000,000 revolving term loan, the company is required to repay the outstanding loan balance at the time the commitment expires on December 1, 2018.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.60% of the average daily unused portion of the commitment on each of the revolving term loans.

NOTE G: MEMBERS' EQUITY

The company was formed on March 6, 2006 as an Iowa Limited Liability Company and has a perpetual life. The company's ownership is divided into four classes of units: Class A, B, C and D membership units. The profits and losses of the company will be allocated among the unit holders in proportion to the total units held. Distributions will be made to unit holders in proportion to the total units held. Each member is entitled to one vote for each unit held as to matters submitted to the membership.

The Class A member appoints eleven directors, Class B members appoint eight directors and Class C members appoint two directors to the board of directors. The total number of directors appointed by the Class A members shall increase by one director for each additional Class B, Class C or Class D director appointed under the terms of the operating agreement.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE G: MEMBERS' EQUITY (continued)

As of December 31, 2013, there are eleven Class A, eight Class B and two Class C directors. Transfer of the units is restricted pursuant to the operating agreement and to the applicable tax and securities laws and requires approval of the board of directors.

As of December 31, 2013 and 2012, the company had 378 and 367 members and the following membership units issued, respectively:

	<u>2013</u>	<u>2012</u>
Class A	5,033.40	5,033.40
Class B	3,666.00	3,666.00
Class C	3,500.00	3,500.00
Class D	8,455.00	8,455.00
	<u>20,654.40</u>	<u>20,654.40</u>

NOTE H: SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following is a schedule of supplemental disclosure of cash flow information for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 3,866,244</u>	<u>\$ 6,541,537</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Refinance of long-term debt borrowings	<u>\$ —</u>	<u>\$ 45,838,942</u>
Accounts payable incurred for construction in progress	<u>\$ 1,426,354</u>	<u>\$ —</u>

NOTE I: CONCENTRATIONS

The company has ethanol marketing agreements with an unrelated party which cover the entire ethanol marketing for the company. The initial term of the agreement ended in August 2012 for Big River United Energy, LLC and will expire in January 2016 for all other facilities. The agreements automatically renew for one year terms thereafter, unless either party provides notice of non-renewal ninety days prior to the end of the term. The agreement requires payment of an agreed upon percentage of the net sales price as defined in the agreement.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE I: CONCENTRATIONS (continued)

The company has a co-products marketing agreement with an unrelated party which covers the entire distillers grain marketing for Big River United Energy, LLC. The initial term of the agreement ended August 2013 and will automatically renew for one year terms thereafter, unless either party provides a 90 day written notice of termination. The agreement requires payment of an agreed upon percentage of the net sales price as defined in the agreement.

The company has a distiller grains marketing agreement with an unrelated party which covers the entire non truck grains marketing for Big River Resources Galva, LLC. The agreement automatically renews for one year terms, unless either party provides notice of non-renewal ninety days prior to the end of the then-current term. The agreement requires payment of an agreed upon percentage of the net sales price as defined in the agreement.

The ethanol and co-products could be marketed by other marketers without any significant effect on operations. Receivables relating to sales under these agreements totaled \$30,009,653 and \$25,250,592 as of December 31, 2013 and 2012, respectively.

NOTE J: EMPLOYEE BENEFIT PLAN

The company has a defined contribution plan which covers full-time employees who meet age and length of service eligibility requirements. The company matches the participants' contribution up to a maximum of 4% of wages. For the years ended December 31, 2013 and 2012, company matching contributions to the plan were \$436,352 and \$431,081, respectively.

NOTE K: LEASES

The company leases rail cars under long-term operating lease agreements expiring at various times through October 2019. The company is required to pay executory costs such as maintenance and insurance.

Minimum fixed future lease payments consist of:

Years Ending December 31,	
2014	\$ 5,080,055
2015	4,592,760
2016	4,577,410
2017	4,163,460
2018	3,917,285
Thereafter	3,819,135
Total minimum future lease payments	<u>\$ 26,150,105</u>

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE K: LEASES (continued)

Total rent expense of \$6,181,768 and \$5,272,922 was incurred in 2013 and 2012, respectively.

NOTE L: RELATED PARTY TRANSACTIONS

The company purchases corn from the patrons of one of the members and the noncontrolling members of the company. The corn supply could be purchased from other suppliers without any significant effect on operations.

NOTE M: COMMITMENTS AND CONTINGENCIES

Substantially all of the companies' facilities are subject to federal, state, and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does management expect to have, any material effect upon operations. Management believes that the current practices and procedures for the control and disposition of such wastes will comply with the applicable federal and state requirements.

In addition to the forward contracts marked to market and identified as derivative instruments, the company had entered into unpriced forward ethanol sales contracts for delivery in 2014 of approximately 114,700,000 gallons.

Big River Resources United Energy, LLC has issued letters of credit totaling \$1,716,426 through February 2014 as security to certain vendors and lenders. There are no amounts drawn against these letters of credit as of December 31, 2013.

In January 2010, GS Clean Tech Corp. filed a lawsuit against Big River Resources West Burlington, LLC in the U.S. District Court for infringement rights on its patent covering corn oil extraction technology. On July 1, 2009, Big River Resources Galva, LLC entered into a Corn Oil Tricanter Purchase and Installation Agreement with ICM, Inc. This agreement includes an indemnification clause that holds Big River Resources West Burlington, LLC and Big River Resources Galva, LLC harmless from all claims, liabilities, and costs including attorney fees arising out of the infringement of adversely owned patents. However, if GS Clean Tech Corp. were to prevail in this lawsuit and ICM, Inc. was not able to pay the claims, the company would be liable for any amounts not paid by ICM, Inc. under the indemnification clause. Due to this indemnification clause, the company does not expect to incur any costs related to the litigation and no liability has been recorded as of December 31, 2013.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE M: COMMITMENTS AND CONTINGENCIES (continued)

In October 2006, Big River Resources Galva, LLC entered into a development agreement with the City of Kewanee for the extension of the Enterprise Zone, to include land east of Galva upon which the company constructed the ethanol facility. The company is obligated to pay an amount equal to 20% of the gross value of the state use tax exemption that results from the purchase of any utility product, commodity or resource that such tax may be exempted from under the regulations of the enterprise zone before an extension and as it may be amended. Based on the estimated usage of natural gas at the time of the execution of the agreement, an amount of \$160,000 per year is estimated to be payable in quarterly installments. The term of the agreement expires on December 31, 2017. For the years ended December 31, 2013 and 2012, the company made payments of \$160,000 under this agreement.

The company has a sponsorship agreement which requires annual sponsorship payments totaling \$375,000. The initial term of the agreement expires September 2015 and shall automatically renew for a single three year renewal term unless terminated by either party with a written notice of termination at least one hundred-eighty days before the end of the then-current term. The annual fee shall increase by \$17,500 each subsequent year during the term of this agreement. For the years ended December 31, 2013 and 2012, the company incurred \$427,500 and \$410,000, respectively, under the sponsorship agreement.

NOTE N: SUBSEQUENT EVENTS

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through February 14, 2014, the date the financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Big River Resources, LLC
West Burlington, Iowa

We have audited the financial statements of Big River Resources, LLC as of and for the years ended December 31, 2013 and 2012, and our report thereon dated February 14, 2014, which expressed an unqualified opinion on those financial statements, appears on pages one and two. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on pages 29 - 33 is presented for purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CHRISTIANSON & ASSOCIATES, PLLP
Certified Public Accountants and Consultants

February 14, 2014

BIG RIVER RESOURCES, LLC
CONSOLIDATING BALANCE SHEET
December 31, 2013

	Big River Resources, LLC	Big River Resources West Burlington, LLC	Big River Resources Galva, LLC	Big River Resources Boyceville, LLC	Big River United Energy, LLC	Big River Resources Grinnell, LLC	Big River Prairie Gold, LLC	ELIMINATION ENTRIES	CONSOLIDATED
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	\$ 7,652,127	\$ 34,748,148	\$ 20,090,064	\$ 2,982,871	\$ 391,083	\$ 169,213	\$ 93,141	\$ —	\$ 66,126,647
Receivables									
Trade	40	9,908,614	5,395,642	6,494,688	13,920,359	2,185	—	—	35,721,528
Related party	2,186,747	137,113	—	—	—	—	—	(2,323,860)	—
Inventories	—	16,425,748	18,285,284	6,754,752	10,809,944	—	—	—	52,274,728
Prepaid expenses	60,464	445,947	463,254	285,440	368,552	3,342	9,185	—	1,636,184
Purchase advance on contract	—	—	—	421,713	4,618,35	—	—	—	883,548
Derivative instruments	—	1,163,569	3,185,401	947,530	2,339,196	—	—	—	7,635,696
TOTAL CURRENT ASSETS	9,899,378	62,829,139	47,419,645	17,886,994	28,289,969	174,740	102,326	(2,323,860)	164,278,331
PROPERTY AND EQUIPMENT									
Land and land improvements	—	7,242,974	12,294,993	9,099,390	11,481,641	1,340,000	—	—	41,458,998
Building structure	—	13,045,669	31,597,310	13,966,577	19,848,390	—	—	—	78,457,946
Grain equipment	—	21,990,075	7,647,145	6,059,575	7,862,294	—	—	—	43,559,089
Process equipment	—	100,493,241	122,277,772	43,077,497	56,886,345	—	—	—	322,734,855
Other equipment	310,032	2,977,936	2,608,832	960,222	2,802,399	—	—	—	9,659,421
Construction in progress	—	3,436,300	140,164	—	1,123,122	—	710,282	—	5,409,868
	310,032	149,186,195	176,566,216	73,163,261	100,004,191	1,340,000	710,282	—	501,280,177
Accumulated depreciation	(157,651)	(67,767,435)	(53,992,392)	(14,554,794)	(29,874,982)	—	—	—	(166,320,254)
	152,381	81,418,760	122,573,824	58,608,467	70,156,209	1,340,000	710,282	—	334,959,923
OTHER ASSETS									
Investments in subsidiaries	387,025,234	—	—	—	—	—	—	(387,025,234)	—
Investments	32,775	6,319,563	2,438,122	577,839	3,282,728	—	—	—	12,651,081
Deposits	—	—	—	—	200,000	—	—	—	200,000
Notes receivable	—	—	—	—	177,864	—	—	—	117,846
Financing costs, net of amortization	7,387	288,331	414,942	103,916	140,666	—	—	—	955,242
TOTAL OTHER ASSETS	387,065,396	6,607,894	2,853,064	681,755	3,741,294	—	—	(387,025,234)	13,924,169
TOTAL ASSETS	\$ 397,117,155	\$ 150,855,793	\$ 172,846,533	\$ 77,177,216	\$ 102,187,472	\$ 1,514,740	\$ 812,608	\$ (389,349,094)	\$ 513,162,423

See independent auditor's report on supplementary information.

BIG RIVER RESOURCES, LLC
CONSOLIDATING BALANCE SHEET
December 31, 2013

	Big River Resources, LLC	Big River Resources West Burlington, LLC	Big River Resources Galva, LLC	Big River Resources Boyceville, LLC	Big River United Energy, LLC	Big River Resources Grinnell, LLC	Big River Prairie Gold, LLC	ELIMINATION ENTRIES	CONSOLIDATED
LIABILITIES AND MEMBERS' EQUITY									
CURRENT LIABILITIES									
Checks written in excess of funds on deposit	\$ —	\$ —	\$ —	\$ —	\$ 2,070,436	\$ —	\$ —	\$ —	\$ 2,070,436
Payables									
Trade	—	25,518,332	1,836,924	3,850,766	3,120,986	—	—	—	34,327,008
General	175,290	3,010,418	2,795,888	1,624,997	2,794,759	4,850	12,018	—	10,418,220
Related party	—	243,800	267,206	172,896	1,639,958	—	—	(2,323,860)	—
Construction	—	716,072	—	—	—	—	710,282	—	1,426,354
Accrued expenses	2,096,702	1,399,220	802,173	516,775	2,130,298	23,882	18,430	—	6,987,480
Current maturities of long-term debt	1,000,000	9,000,000	3,539,227	—	—	—	—	—	13,539,227
TOTAL CURRENT LIABILITIES	3,271,992	39,887,842	9,241,418	6,165,434	11,756,437	28,732	740,730	(2,323,860)	68,768,725
LONG-TERM DEBT, less current maturities	7,000,008	5,250,000	—	—	253,356	—	—	—	12,503,364
MEMBERS' EQUITY	296,116,238	79,033,568	131,916,608	56,142,447	55,210,006	1,495,289	400,000	(324,197,918)	296,116,238
Net income (loss)	90,728,917	26,684,383	31,688,507	14,869,335	34,967,673	(9,281)	(328,122)	(107,872,495)	90,728,917
Noncontrolling interest - Grinnell	—	—	—	—	—	—	—	743,004	743,004
Noncontrolling interest - United Energy	—	—	—	—	—	—	—	44,212,955	44,212,955
Noncontrolling interest - Prairie Gold	—	—	—	—	—	—	—	89,220	89,220
	<u>386,845,155</u>	<u>105,717,951</u>	<u>163,605,115</u>	<u>71,011,782</u>	<u>90,177,679</u>	<u>1,486,008</u>	<u>71,878</u>	<u>(387,025,234)</u>	<u>431,890,334</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 397,117,155	\$ 150,855,793	\$ 172,846,533	\$ 77,177,216	\$ 102,187,472	\$ 1,514,740	\$ 812,608	\$ (389,349,094)	\$ 513,162,423

See independent auditor's report on supplementary information.

BIG RIVER RESOURCES, LLC
CONSOLIDATING STATEMENT OF OPERATIONS AND EBITDA
Year Ended December 31, 2013

	Big River Resources, LLC	Big River Resources West Burlington, LLC	Big River Resources Galva, LLC	Big River Resources Boyceville, LLC	Big River United Energy, LLC	Big River Resources Grinnell, LLC	Big River Praire Gold, LLC	ELIMINATION ENTRIES	CONSOLIDATED
SALES	\$ —	\$ 395,810,193	\$ 361,942,149	\$ 177,437,603	\$ 378,787,725	\$ —	\$ —	\$ (21,857,676)	\$ 1,292,119,994
COST OF SALES	7,441	363,912,884	326,797,097	160,145,606	338,787,773	—	—	(21,857,676)	1,167,793,125
GROSS PROFIT (LOSS)	(7,441)	31,897,309	35,145,052	17,291,997	39,999,952	—	—	—	124,326,869
OPERATING EXPENSES	1,828,227	5,456,190	3,936,935	2,700,362	5,259,851	29,082	328,122	(2,299,610)	17,239,159
INCOME (LOSS) FROM OPERATIONS	(1,835,668)	26,441,119	31,208,117	14,591,635	34,740,101	(29,082)	(328,122)	2,299,610	107,087,710
OTHER INCOME (EXPENSES)									
Equity in earnings of subsidiaries	90,728,917	—	—	—	—	—	—	(90,728,917)	—
Management fee income	2,283,610	—	—	—	—	—	—	(2,283,610)	—
Interest expense	(447,026)	(993,328)	(529,998)	(526,443)	(1,207,350)	—	—	—	(3,704,145)
Investment income	—	1,181,597	1,110,839	813,863	1,353,467	—	—	—	4,459,766
Other income (expense)	(916)	54,995	(100,451)	(9,720)	81,455	19,801	—	(16,000)	29,164
	92,564,585	243,264	480,390	277,700	227,572	19,801	—	(93,028,527)	784,785
NET INCOME (LOSS)	<u>\$ 90,728,917</u>	<u>\$ 26,684,383</u>	<u>\$ 31,688,507</u>	<u>\$ 14,869,335</u>	<u>\$ 34,967,673</u>	<u>\$ (9,281)</u>	<u>\$ (328,122)</u>	<u>\$ (90,728,917)</u>	<u>\$ 107,872,495</u>
EBITDA									
Net income (loss)	\$ 90,728,917	\$ 26,684,383	\$ 31,688,507	\$ 14,869,335	\$ 34,967,673	\$ (9,281)	\$ (328,122)	\$ (93,728,917)	\$ 107,872,495
Interest	447,026	993,328	529,998	526,443	1,207,350	—	—	—	3,704,145
Income taxes	—	—	—	—	—	—	—	—	—
Depreciation	51,347	9,538,986	11,667,574	6,994,046	6,935,485	—	—	—	35,187,438
Amortization	1,250	96,435	169,892	8,067	131,479	—	—	—	407,123
Total EBITDA	<u>\$ 91,228,540</u>	<u>\$ 37,313,132</u>	<u>\$ 44,055,971</u>	<u>\$ 22,397,891</u>	<u>\$ 43,241,987</u>	<u>\$ (9,281)</u>	<u>\$ (328,122)</u>	<u>\$ (90,728,917)</u>	<u>\$ 147,171,201</u>

See independent auditor's report on supplementary information.

BIG RIVER RESOURCES, LLC
CONSOLIDATED SCHEDULES OF SALES AND COST OF SALES
Years Ended December 31, 2013 and 2012

SALES	2013	%	AVG PRICE	2012	%	AVG PRICE
Ethanol	\$ 950,320,101	73.55	\$ 2.50	\$ 837,750,584	73.75	\$ 2.31
Dried distillers grains	239,977,285	18.57	237.41	198,527,478	17.48	223.36
Modified distillers grains	22,804,493	1.76	100.55	26,856,947	2.36	104.27
Non-food oil	29,477,887	2.28	0.38	28,076,653	2.47	0.38
Elevator corn sales	71,299,108	1.14	2.91	85,309,010	0.84	6.81
Less: intercompany corn sales	(58,567,712)			(75,712,147)		
Elevator soybean sales	30,201,297	2.34	14.30	31,257,316	2.75	14.80
Elevator drying, storage & handling	4,607,535	0.37	—	3,889,694	0.35	—
	<u>\$ 1,292,119,994</u>	<u>100.00</u>		<u>\$ 1,135,955,535</u>	<u>100.00</u>	
COST OF SALES						
Corn purchases	\$ 836,867,641	64.92	\$ 6.53	\$ 792,297,856	69.75	\$ 6.81
Derivative instruments	(16,223)	(0.00)		14,563,092	1.28	
Change in inventory	8,110,795	0.63		2,324,687	0.20	
Chemical ingredients	38,461,012	2.98		36,143,206	3.18	
Natural gas	45,669,915	3.53		33,638,361	2.96	
Utilities	14,264,493	1.10		13,326,003	1.17	
Wages	11,565,599	0.90		11,356,975	1.00	
Maintenance	10,054,905	0.78		9,155,087	0.81	
Supplies	3,233,446	0.25		2,073,336	0.18	
Insurance	619,145	0.05		658,834	0.06	
Freight	44,573,950	3.45		38,451,828	3.38	
Equipment leases	6,181,768	0.48		5,272,922	0.46	
Depreciation	35,136,091	2.72		34,710,248	3.06	
Marketing	7,696,185	0.60		7,042,512	0.62	
Elevator corn and soybean purchases	101,886,132	7.89		112,384,671	9.89	
Miscellaneous	1,488,271	0.12		1,905,038	0.17	
	<u>\$ 1,167,793,125</u>	<u>90.37</u>		<u>\$ 1,115,304,657</u>	<u>98.17</u>	

See independent auditor's report on supplementary information.

BIG RIVER RESOURCES, LLC
CONSOLIDATED SCHEDULES OF OPERATING EXPENSES AND OTHER INCOME
Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING EXPENSES		
Wages	\$ 13,289,991	\$ 10,365,496
Payroll taxes	293,706	268,536
Employee benefits	1,102,118	1,224,932
Insurance	795,079	800,711
Materials and supplies	475,258	339,003
Professional fees	636,401	611,150
Holding company allocations	(5,143,654)	(5,496,101)
Travel, meals and entertainment	183,107	190,725
Training	46,128	70,756
Repairs and maintenance	75,433	122,629
Office	667,360	677,479
Property taxes	1,455,677	1,416,747
Advertising	1,672,119	1,592,532
Amortization	458,470	386,041
Contributions	34,864	38,953
Utilities and telephone	547,009	657,002
Memberships, dues, licenses and permits	176,312	198,101
Miscellaneous	473,781	664,252
	\$ 17,239,159	\$ 14,128,944
OTHER INCOME (EXPENSE)		
Interest income	\$ 14,371	\$ 18,840
Interest expense	(3,704,145)	(6,264,357)
Investment income	4,459,766	4,900,699
Other income (expense)	14,793	(122,523)
	\$ 784,785	\$ (1,467,341)

See independent auditor's report on supplementary information.

BIG RIVER RESOURCES, LLC
CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2012 and 2011

CHRISTIANSON & ASSOCIATES, PLLP
Certified Public Accountants and Consultants
Willmar, Minnesota

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Big River Resources, LLC
West Burlington, Iowa

We have audited the accompanying consolidated financial statements of **Big River Resources, LLC** (an Iowa limited liability company), which comprise the consolidated balance sheets as of December 31, 2012 and 2011 and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of **Big River Resources, LLC** as of December 31, 2012 and 2011 and the results of its operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CHRISTIANSON & ASSOCIATES, PLLP
Certified Public Accountants and Consultants

February 15, 2013

BIG RIVER RESOURCES, LLC
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 22,127,817	\$ 27,484,477
Receivables	30,084,594	13,279,833
Inventories	78,864,432	83,315,365
Prepaid expenses	1,578,818	1,821,442
Derivative instruments	7,223,158	13,956,547
TOTAL CURRENT ASSETS	139,878,819	139,857,664
PROPERTY AND EQUIPMENT		
Land and land improvements	41,458,998	41,449,528
Building structure	78,457,946	78,435,674
Grain equipment	43,420,966	42,791,885
Process equipment	322,265,389	321,559,477
Other equipment	9,438,351	9,291,731
Construction in progress	216,697	35,583
	495,258,347	493,563,878
Accumulated depreciation	(131,153,588)	(96,395,970)
	364,104,759	397,167,908
OTHER ASSETS		
Investments	9,843,490	7,318,962
Deposits	200,000	200,000
Notes receivable	292,351	307,541
Financing costs, net of amortization	1,362,365	1,528,186
	11,698,206	9,354,689
TOTAL ASSETS	\$ 515,681,784	\$ 546,380,261

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

	2012	2011
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Checks written in excess of funds on deposit	\$ 2,588,966	\$ 1,262,066
Payables		
Trade	42,446,419	26,851,627
General	8,086,876	8,344,706
Accrued expenses	3,895,236	6,134,052
Deferred sales	6,849,007	2,748,123
Current maturities of long-term debt	26,998,477	27,457,874
TOTAL CURRENT LIABILITIES	90,864,981	72,798,448
LONG-TERM DEBT, less current maturities	87,301,070	111,928,348
MEMBERS' EQUITY		
Members' capital	308,508,860	328,429,511
Noncontrolling interest	29,006,873	33,223,954
	337,515,733	361,653,465
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 515,681,784	\$ 546,380,261

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
SALES	\$ 1,135,955,535	\$ 1,162,307,802
COST OF SALES	<u>1,115,304,657</u>	<u>1,057,101,237</u>
GROSS PROFIT	20,650,878	105,206,565
OPERATING EXPENSES	<u>14,128,944</u>	<u>15,861,359</u>
INCOME FROM OPERATIONS	6,521,934	89,345,206
OTHER INCOME (EXPENSES)		
Interest expense	(6,264,357)	(6,994,003)
Investment income	4,900,699	4,560,743
Other income (expense)	<u>(103,683)</u>	<u>635,487</u>
	<u>(1,467,341)</u>	<u>(1,797,773)</u>
NET INCOME BEFORE NONCONTROLLING INTEREST	5,054,593	87,547,433
NONCONTROLLING INTEREST IN SUBSIDIARY'S INCOME	<u>(2,255,381)</u>	<u>(16,163,118)</u>
NET INCOME	<u>\$ 2,799,212</u>	<u>\$ 71,384,315</u>

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years Ended December 31, 2012 and 2011

	Members' Equity	Noncontrolling Interest
Balance - December 31, 2010	\$ 277,699,596	\$ 21,515,080
Distributions to members	(20,654,400)	(4,454,244)
Net income	71,384,315	16,163,118
Balance - December 31, 2011	328,429,511	33,223,954
Distributions to members	(22,719,863)	(6,472,462)
Net income	2,799,212	2,255,381
Balance - December 31, 2012	\$ 308,508,860	\$ 29,006,873

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Net income	\$ 2,799,212	\$ 71,384,315
Charges to net income not affecting cash and cash equivalents		
Depreciation and amortization	35,096,289	28,810,264
Loss on derivative instruments	14,563,092	40,131,892
Investment earnings	(2,508,338)	(2,541,918)
Noncontrolling interest in subsidiaries' gain	2,255,381	16,163,118
Decrease (increase) in current assets		
Receivables	(16,804,761)	(4,952,617)
Inventories	4,450,933	(1,308,617)
Net cash paid on derivative instruments	(7,829,703)	(16,489,040)
Prepaid expenses	241,624	(135,443)
Increase (decrease) in current liabilities		
Payables	15,336,962	14,175,250
Accrued expenses	(2,238,816)	858,976
Deferred sales	4,100,884	1,137,272
NET CASH PROVIDED BY OPERATING ACTIVITIES	49,462,759	147,233,452
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,697,219)	(74,738,822)
Net proceeds from sale of investments	—	309,000
NET CASH USED IN INVESTING ACTIVITIES	(1,697,219)	(74,429,822)
FINANCING ACTIVITIES		
Payments for financing costs	(170,100)	(225,376)
Principal payments on long-term debt	(20,956,684)	(64,361,097)
Proceeds from long-term debt borrowings	—	53,250,000
Net payments on long-term revolving loan	(4,129,991)	(24,207,891)
Net payments on revolving line of credit	—	(6,000,000)
Checks written in excess of funds on deposit	1,326,900	1,262,066
Noncontrolling distributions	(6,472,462)	(4,454,244)
Distributions to members	(22,719,863)	(20,654,400)
NET CASH USED IN FINANCING ACTIVITIES	(53,122,200)	(65,390,942)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,356,660)	7,412,688
CASH AND CASH EQUIVALENTS - beginning of year	27,484,477	20,071,789
CASH AND CASH EQUIVALENTS - end of year	\$ 22,127,817	\$ 27,484,477

See notes to consolidated financial statements.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS - Big River Resources, LLC, its wholly-owned subsidiaries, Big River Resources West Burlington, LLC (West Burlington), Big River Resources Galva, LLC (Galva), Big River Resources Boyceville, LLC (Boyceville), its 50% joint venture Big River Resources Grinnell, LLC (Grinnell) and its 50.5% ownership in Big River United Energy, LLC, (collectively, the company) are limited liability companies.

West Burlington owns and operates an ethanol plant located in West Burlington, Iowa with an annual production nameplate capacity of 92 million gallons of denatured ethanol. The company produces ethanol, non-food oil and distillers grains for commercial sales throughout the United States. The company operates grain elevators near Monmouth and Edgington, Illinois which buy corn and soybeans from farmers as a reserve corn supply to the ethanol operations in West Burlington, Iowa and Galva, Illinois and for soybean sales throughout the United States.

Galva owns and operates a 100 million gallon annual production nameplate capacity ethanol plant near Galva, Illinois. The company produces ethanol, distillers grains and non-food oil for commercial sales throughout the United States and exports.

Boyceville was formed on October 6, 2011 to acquire and operate an ethanol plant located in Boyceville, Wisconsin with an annual production nameplate capacity of 55 million gallons. The company began production of ethanol, distillers grains, and non-food oil for commercial sales throughout the United States and exports in December 2011.

Grinnell is a development stage company that was organized to construct an ethanol plant near Grinnell, Iowa with a planned annual nameplate capacity of 100 million gallons. As of December 31, 2012, the company has no formal plans to develop the plant.

Big River United Energy, LLC owns and operates an ethanol plant located in Dyersville, Iowa with an annual production nameplate capacity of 100 million gallons of denatured ethanol. The company produces ethanol, distillers grains and non-food oil for commercial sales throughout the United States and exports.

PRINCIPLES OF CONSOLIDATION - The accompanying consolidated financial statements include the accounts of Big River Resources, LLC, and its subsidiaries. All significant intercompany account balances and transactions have been eliminated. The company accounts for its investment in Grinnell on a consolidated basis because it is a variable interest entity and the company is its primary beneficiary.

FISCAL REPORTING PERIOD - The company has adopted a fiscal year ending December 31 for reporting financial operations.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period.

REVENUE RECOGNITION - Revenues from the production of ethanol, distillers grains, and non-food oil are recorded at the time title to the goods and all risks of ownership transfer to customers and the settlement price is realizable. Denatured ethanol, distillers grains and non-food oil are generally shipped FOB shipping point. Udenatured ethanol is generally shipped FOB destination.

CASH AND CASH EQUIVALENTS - The company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

CONCENTRATIONS OF CREDIT RISK - The company extends credit to its customers in the ordinary course of business. The company performs periodic credit evaluations of its customers and generally does not require collateral. The company's operations may vary with the volatility of the commodity markets. The company's cash balances are maintained in bank depositories and periodically exceed federally insured limits.

RECEIVABLES - The company has engaged the services of national marketers to sell substantially all of its ethanol and a portion of its distillers production. The marketers handle nearly all sales functions including billing, logistics, and sales pricing. Once product is shipped, the marketers assume the risk of payment from the consumer and handle all delinquent payment issues. The company markets its own grain, local distillers grains and non-food oil. The company generally bills weekly with payments due within 10 days of the invoice date, and considers accounts older than 30 days from the stated due date to be delinquent and would generally initiate collection procedures. If the collection procedures have not provided collection within one year of the invoice date, management generally will write off the account as a bad debt. Trade receivables are recorded net of anticipated uncollectible amounts. As of December 31, 2012 and 2011, there was no allowance for uncollectible amounts.

INVENTORIES - The company's method of accounting for ethanol, ethanol production in process, co-products, corn inventories, and soybeans and corn held at the elevators is valued at net realizable value (NRV). The parts, chemicals and ingredients inventories are recorded at the lower of cost (average cost method) or market method (LCM).

PROPERTY AND EQUIPMENT - Property and equipment are stated at the lower of cost or fair value. Significant additions and betterments are capitalized with expenditures for maintenance, repairs and minor renewals being charged to operations as incurred.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY AND EQUIPMENT (continued)

Depreciation is computed using the straight-line method over the following estimated useful lives:

Land improvements	15–20 years
Building structure	5–20 years
Grain equipment	5–20 years
Process equipment	5–20 years
Other equipment	3–15 years

Construction in progress will be depreciated using the straight-line method over various estimated useful lives once the assets are placed into service.

The company reviews its property and equipment for impairment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. The company did not recognize any long-lived asset impairment loss for the years ended December 31, 2012 and 2011.

DERIVATIVE INSTRUMENTS - The company recognizes its derivatives in the balance sheet and measures these instruments at fair value. In order for a derivative to qualify as a hedge, specific criteria must be met and appropriate documentation maintained. Gains and losses from derivatives that do not qualify as hedges, or are undesignated, must be recognized immediately in earnings. If the derivative does qualify as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will be either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Derivatives qualify for treatment as hedges when there is a high correlation between the change in fair value of the derivative instrument and the related change in value of the underlying hedged item.

Furthermore, the company must designate the hedging instruments based upon the exposure being hedged as a fair value hedge or a cash flow hedge. The company's derivatives are not designated as hedges for accounting purposes. For derivative instruments that are not accounted for as hedges, the change in fair value is recorded through earnings in the period of change.

The company records its forward purchase and sales commitments at fair value as derivative instruments which the company believes to represent more accurate financial reporting. These contracts are marked to market as an asset or liability and a corresponding gain or loss is recognized for the change in market value.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS - Investments include stock in a lending cooperative bank and in the company's cooperative ethanol marketer and membership units in an ethanol plant located in Mitchell County, Iowa. The company records the investments in the cooperative bank and ethanol marketer at cost which includes its share of the allocated patronage equities. The membership units in the ethanol plant are recorded at cost.

DEPOSITS - Deposits include monies deposited for a distilled spirits bond and is recorded at the scheduled recoverable value.

NOTES RECEIVABLE - The company has sold real estate properties and provided long term financing to the purchasers in the form of notes which are carried as other non-current assets. The notes are on a 30 year amortization schedule with balloon payments due in 2015 and 2016 and bear interest at 5.5%. The current portion of these notes as of December 31, 2012 and 2011 is approximately \$7,600 and \$4,300, respectively, which is included in receivables.

FINANCING COSTS - Financing costs are recorded at cost and include expenditures directly related to securing debt financing. Amortization is computed using the straight-line method over the loans' terms.

DEFERRED SALES - The company receives advances for ethanol shipments based on provisional pricing prior to the recognition of the sale. These advances are carried as current liabilities on the balance sheet until the criteria to recognize the revenue is met and the sale is recognized. As of December 31, 2012 and 2011, the company has received \$6,849,007 and \$2,748,123 respectively in advances for shipments which have not met the revenue recognition criteria.

NONCONTROLLING INTEREST - Noncontrolling interest represents the noncontrolling partners' share of the equity and income of Big River Resources Grinnell, LLC and Big River United Energy, LLC. Noncontrolling interests are classified in the consolidated statements of operations as a part of net income and the accumulated amount of noncontrolling interests are classified in the consolidated balance sheets as a part of members' equity.

FAIR VALUE OF FINANCIAL INSTRUMENTS - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The fair value of an asset or liability is determined based on a hierarchy. The fair value hierarchy has three levels of inputs, both observable and unobservable.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS (continued) - Fair value is determined using the lowest possible level of input. Level 1 inputs include quoted market prices in an active market for identical assets or liabilities. Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data.

Except for those assets and liabilities which are required by authoritative accounting guidance to be recorded at fair value in its balance sheets, the company has elected not to record any other assets or liabilities at fair value. No events occurred during the years ended December 31, 2012 and 2011 that would require adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis.

The carrying value of cash, accounts receivable, accounts payable and accrued expenses approximates fair value. It is not currently practicable to estimate the fair value of the debt financing. Because these agreements contain certain unique terms, covenants, and restrictions, as discussed in Note F, there are no readily determinable similar instruments on which to base an estimate of fair value.

INCOME TAXES - The company is organized as a limited liability company under state law and is treated as a partnership for income tax purposes. Under this type of organization, the company's earnings pass through to the members and are taxed at the member level. The company files income tax returns in the U.S. federal jurisdiction and in the states of Iowa, Illinois and Wisconsin. As of December 31, 2012, the company is no longer subject to U.S. federal and state income tax examinations by tax authorities for tax years before 2009.

NOTE B: INVENTORIES

	2012	2011
Ethanol	\$ 23,820,559	\$ 26,596,823
Production in process	8,900,880	8,868,315
Distiller grains	2,357,447	1,993,608
Corn	18,407,059	19,241,805
Non-food oil	184,801	126,913
Spare parts	4,566,848	4,026,725
Chemicals and ingredients	1,602,529	1,924,992
Corn and soybeans held at elevators	19,024,309	20,536,184
	<u>\$ 78,864,432</u>	<u>\$ 83,315,365</u>

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE C: DERIVATIVE INSTRUMENTS

The company enters into derivative transactions to hedge its exposure to commodity price fluctuations. The company does not enter into derivative transactions for trading or speculative purposes.

The company hedges substantially all of its corn, soybeans, ethanol, and co-product inventories as well as its future purchase and sales contracts to the extent considered necessary for minimizing risk from market price fluctuations. In connection with the execution of forward contracts, the company normally elects to create a hedging relationship by executing an exchange traded futures contract as an offsetting position. In this situation, the forward contract is valued at market price until delivery is made against the contract.

The amounts recorded on the balance sheet represent the current fair market value of the instruments as determined by the broker with adjustments made by management for local basis and cash margin deposits. The company has categorized the cash flows related to the derivative activities in the same category as the item being hedged. Management expects all open positions outstanding as of December 31, 2012 to be realized within the next fiscal year.

The open derivative instruments as of December 31, 2012 are as follows:

Ethanol Plants

Forward purchase contracts		
Corn	10,176,000	Bu
Natural gas	255,500	MMBtu
Forward sales contracts		
Ethanol	1,227,000	Gal
Distillers grains	97,000	Ton
Non-food oil	5,870,000	Pounds
Positions on the Chicago Board of Trade		
Corn (short)	13,160,000	Bu
Corn (long)	220,000	Bu
Ethanol (short)	2,150,000	Gal

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE C: DERIVATIVE INSTRUMENTS (continued)

Grain Elevators

Forward purchase contracts		
Corn	1,140,000	Bu
Soybeans	47,000	Bu
Forward sales contracts		
Corn	523,000	Bu
Soybeans	6,000	Bu
Positions on the Chicago Board of Trade		
Corn (short)	2,950,000	Bu
Soybeans (short)	15,000	Bu

The following tables provide details regarding the company's derivative financial instruments at December 31, 2012 and 2011, none of which are designated as hedging instruments:

2012		
<u>Balance Sheet location</u>	<u>Assets</u>	<u>Liabilities</u>
Commodity contracts	\$ 7,223,158	\$ —
<u>Statement of Operations location</u>	<u>Loss recognized for the year ended December 31, 2012</u>	
Commodity contracts	\$	(14,563,092)
2011		
<u>Balance Sheet location</u>	<u>Assets</u>	<u>Liabilities</u>
Commodity contracts	\$ 13,956,547	\$ —
<u>Statement of Operations location</u>	<u>Loss recognized for the year ended December 31, 2011</u>	
Commodity contracts	\$	(40,131,892)

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE D: FAIR VALUE MEASUREMENTS

The following tables provide information on those assets measured at fair value on a recurring basis as of December 31, 2012 and 2011:

		2012			
		Carrying Value in Balance Sheet at December 31, 2012	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets					
Derivative instruments	\$	7,223,158	\$ 5,824,832	\$ 1,398,326	\$ —
		2011			
		Carrying Value in Balance Sheet at December 31, 2011	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets					
Derivative instruments	\$	13,956,547	\$ 11,412,775	\$ 2,543,772	\$ —

The company determines the fair value of the derivative instruments shown in the table above by obtaining fair value measurements from an independent pricing service. The fair value measurements for Level 1 inputs consider observable data that may include dealer quotes and live exchange trading levels. The fair value measurements for Level 2 inputs consider observable data that may include dealer quotes and live exchange trading levels adjusted for local basis.

NOTE E: SHORT-TERM DEBT

West Burlington

The company has a revolving line of credit with CoBank. The company may advance up to a maximum of \$35 million until expiration on October 1, 2013. Interest is paid in accordance with one or more of the following interest rate options: a rate equal to 2.95% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.16% at December 31, 2012). The company shall select the applicable rate option at the time of each loan request. Advances under the agreement are limited based on the borrowing base report. The loan is secured by substantially all assets and a mortgage on real estate.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE E: SHORT-TERM DEBT (continued)

West Burlington (continued)

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.30% of the average daily unused portion of the commitment. As of December 31, 2012 and 2011, the company has no amounts drawn under this line of credit.

Galva

The company has a revolving line of credit with CoBank. The company can advance up to a maximum of \$10,000,000 until expiration on October 1, 2013. Interest is paid in accordance with one or more of the following interest rate options: a rate equal to 2.95% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.16% as of December 31, 2012). The company shall select the applicable rate option at the time of each loan request. Advances under the agreement are limited based on the borrowing base report. The loan is secured by substantially all assets and a mortgage on real estate.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.30% of the average daily unused portion of the commitment. As of December 31, 2011 and 2010, the company has no amounts drawn under this line of credit.

Boyceville

The company has a revolving line of credit with Agstar Financial Services. The company can advance up to a maximum of \$10,000,000 until expiration on August 1, 2013. Interest is paid in accordance with one or more of the following interest rate options: a rate equal to 3.25% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 3.25% (3.46% at December 31, 2012). The company shall select the applicable rate option at the time of each loan request. Advances under the agreement are limited based on the borrowing base report. The loan is secured by substantially all assets and a mortgage on real estate.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.40% of the average daily unused portion of the commitment. As of December 31, 2012 and 2011, the company has no amounts drawn under this line of credit.

Big River United Energy, LLC

Until it expired in 2012, the company had a revolving line of credit with AgStar. The company could advance up to a maximum of \$17,000,000. Interest was paid at a variable rate of 3% plus the greater of the one month LIBOR rate or 2%. Advances under the agreement were limited based on the borrowing base report. The loan was secured by substantially all assets and a mortgage on real estate. In addition, the company agreed to pay a monthly commitment fee at a rate of 0.5% of the average daily unused portion of the commitment. As of December 31, 2012 and 2011, the company had no outstanding balance under this line of credit.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE F: LONG-TERM DEBT

	2012	2011
Promissory note payable to CHS Capital LLC due in monthly installments of \$83,333 plus interest at a variable rate of 5% plus the one-month LIBOR (currently 5.209%), maturing December 2016, secured by personal property including investments.	\$ 9,000,004	\$ 10,000,000
<u>West Burlington</u>		
Term loan, further terms detailed below.	23,250,000	30,000,000
Non-interest bearing note payable to Eastern Iowa Light and Power payable at \$4,167 per month beginning in January 2010 until January 2018 secured by letter of credit - Note M.	250,000	300,000
Non-interest bearing note payable to Eastern Iowa Light and Power payable at \$3,704 per month until October 2014, secured by letter of credit - Note M.	77,777	122,222
<u>Galva</u>		
Term loan, further terms detailed below.	14,039,227	23,470,653
Revolving term loan, further terms detailed below.	7,582,068	—
<u>Boyceville</u>		
Revolving Term loan, further terms detailed below.	10,977,408	25,973,588
Revolving Term loan 2, further terms detailed below.	4,000,000	—
<u>Big River United Energy, LLC</u>		
<u>CoBank</u>		
Revolving term loan, further terms detailed below.	42,404,032	—
Revolving term loan, further terms detailed below.	2,719,031	—
Revolving line of credit, further terms detailed below.	—	—
<u>AgStar</u>		
Fixed term loan, further terms detailed below.	—	25,477,164
Variable term loan, further terms detailed below.	—	24,042,595
	114,299,547	139,386,222
Current maturities	(26,998,477)	(27,457,874)
	\$ 87,301,070	\$ 111,928,348

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE F: LONG-TERM DEBT (continued)

Long-term debt maturities are as follows:

Years Ending December 31,	
2013	\$ 26,998,477
2014	21,622,555
2015	18,777,404
2016	27,632,080
2017	12,550,000
Thereafter	6,719,031
	\$ 114,299,547

West Burlington

The company entered into a credit agreement with CoBank which includes a term loan for \$35,000,000 and revolving term loans of \$16,000,000 and \$4,000,000. The loans are secured by substantially all assets and a mortgage on real estate.

For each of the loans, the company is required to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: a rate equal to 2.95% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.16% at December 31, 2012). The company shall select the applicable rate option at the time of each loan request.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, and include net worth and working capital requirements. As of December 31, 2012 and 2011, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

Term loan

The company is required to make 12 quarterly principal installments of \$2,250,000 beginning in May 2012 until February 2015 with a final installment in an amount equal to the remaining unpaid balance in May 2015.

Revolving term loans

For the \$16,000,000 revolving term loan, the company is required to make semi-annual principal payments beginning on November 2015 until May 2017 of a reducing commitment amount as follows:

Payment Date	Commitment Amount
November 1, 2015	\$ 12,000,000
May 1, 2016	8,000,000
November 1, 2016	4,000,000
May 1, 2017	—

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE F: LONG-TERM DEBT (continued)

West Burlington (continued)

For the \$4,000,000 revolving term loan, the company is required to repay the outstanding loan balance at the time the commitment expires on November 1, 2017.

In addition, on each of the revolving term loans, the company agrees to pay a monthly commitment fee at a rate of 0.5% of the average daily unused portion of the commitment. As of December 31, 2012 and 2011, the company has no amounts outstanding on the revolving term loans.

Galva

The company entered into a credit agreement with CoBank to partially finance the construction of the plant. Under the credit agreement, the lender has provided a term loan for \$70,000,000 and a revolving term loan of \$20,000,000. The loans are secured by substantially all assets and mortgage on real estate.

For each of the loans, the company is required to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: a rate equal to 2.95% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.16% as of December 31, 2012). The company shall select the applicable rate option at the time of each loan request.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, and include net worth and working capital requirements. As of December 31, 2012 and 2011, the company was in compliance with all financial and non-financial covenants.

Term loan

The company is required to make quarterly principal installments of \$2,625,000 which began in December 2009 until March 2014 with a final installment in an amount equal to the remaining unpaid balance in June 2014. In addition to the required payments, beginning with the year ending 2009 and ending with the year ending 2011, the company was required to make additional principal payments equal to 75% of the company's excess cash flow as defined in the loan agreement. Based on the operating results for the year ended December 31, 2011, the company was required to make an additional principal payment of \$11,556,425 in 2012, of which \$10,000,000 had been prepaid prior to December 31, 2011. The remaining \$1,556,425 was included in current maturities of long-term debt as of December 31, 2011.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE F: LONG-TERM DEBT (continued)

Galva (continued)

Revolving term loan

The company is required to repay the outstanding loan balance at the time the commitment expires on June 1, 2016.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.5% of the average daily unused portion of the commitment.

Boyceville

The company entered into a credit agreement with Agstar Financial Services which includes revolving term loans of \$26,000,000 and \$4,000,000. The loans are secured by substantially all assets and a mortgage on real estate.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, require minimum debt service coverage, net worth and working capital requirements. As of December 31, 2012 and 2011, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

The \$26,000,000 revolving term loan requires the company to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: a rate equal to 3.5% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 3.5% (3.71% at December 31, 2012). The company shall select the applicable rate option at the time of each loan request. The company is required to make quarterly principal payments beginning on October 20, 2012 until January 20, 2017 reducing the commitment available under the agreement by \$1,500,000 each quarter. In December 2012, the company made a \$13,522,592 prepayment on this revolving term loan, which can be drawn against for future working capital.

The \$4,000,000 revolving term loan 2 requires the company to pay interest monthly on the unpaid balance based on a rate equal to 3.5% above the rate quoted by the British Bankers Association on the one-month LIBOR index (3.71% at December 31, 2012).

The company is required to make quarterly principal payments beginning on April 20, 2017 until October 20, 2017 of a reducing commitment amount as follows:

Payment Date	Commitment Amount
April 20, 2017	\$ 2,500,000
July 20, 2017	1,000,000
October 20, 2017	—

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE F: LONG-TERM DEBT (continued)

Boyceville (continued)

In addition, on each of the revolving term loans, the company agrees to pay monthly commitment fee at a rate of 0.65% of the average daily unused portion of the commitment.

Big River United Energy, LLC

CoBank

In December 2012, the company entered into a credit agreement with CoBank which includes revolving term loans of \$44,000,000 and \$6,000,000 and a revolving line of credit of \$25,000,000. The loans are secured by substantially all assets and a mortgage on real estate.

For each of the revolving term loans, the company is required to pay interest monthly on the unpaid balance in accordance with one or more of the following interest rate options: a rate equal to 3.15% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 3.15% (3.36% at December 31, 2012). The company shall select the applicable rate option at the time of each loan request.

The company is required to pay interest on the revolving line of credit in accordance with one or more of the following interest rate options: a rate equal to 2.9% above the rate quoted by the British Bankers Association on the one-month LIBOR index, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.9% (3.11% at December 31, 2012). The company shall select the applicable rate option at the time of each line of credit request.

The loans described above are subject to a common credit agreement with various financial and non-financial covenants that limit distributions, and include net worth and working capital requirements. As of December 31, 2012 and 2011, the company was in compliance with all financial and non-financial covenants. Specific terms for each loan are as follows:

For the \$44,000,000 revolving term loan, the company is required to repay the outstanding loan balance as of the maturity date of June 1, 2018. The available balance has a reducing commitment amount of \$4,000,000 every six months beginning June 2013 until the maturity date.

For the \$6,000,000 revolving term loan, the company is required to repay the outstanding loan balance at the time the commitment expires on December 1, 2018.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE F: LONG-TERM DEBT (continued)

Big River United Energy, LLC (continued)

CoBank (continued)

For the \$25,000,000 revolving line of credit, the advances under the agreement are limited based on the borrowing base report. The company is required to repay the outstanding balance at the time the line of credit expires on February 1, 2014.

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.5% on each of the revolving term loans and 0.3% for the revolving line of credit on the average daily unused portion of the commitment. As of December 31, 2012, the company has no amount drawn under the revolving line of credit.

AgStar

Prior to being refinanced with CoBank in December 2012, company had entered into a credit agreement with AgStar to finance the purchase of the plant. Under the credit agreement, the lender provided a term loan for \$76,000,000 and a term revolving loan of \$20,000,000. The loans were secured by substantially all assets and mortgage on real estate.

The loans described above were subject to a common credit agreement with various financial and non-financial covenants that limit distributions, and include net worth and working capital requirements.

Specific terms for each loan were as follows:

Term loans

In June 2010, the company converted a portion of its term loan to a fixed rate term loan.

The variable rate portion required the company to make payments based on a variable interest rate of 3.0% plus the greater of the one month LIBOR Rate or 2.0% with a final scheduled payment of the remaining unpaid balance in September 2015.

In addition to the required payments, the company was required to make additional principal payments not to exceed \$5,000,000 per year. Based on the operating results for the years ended December 31, 2011, the company was required to make an additional payment of \$5,000,000.

The fixed rate portion required the company to make monthly principal and interest payments until January 2013 when the rate would have converted back to a variable interest rate of 3.0% plus the greater of the one month LIBOR Rate or 2.0% until September 2015.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE F: LONG-TERM DEBT (continued)

Big River United Energy, LLC (continued)

AgStar (continued)

Revolving Term Loan

For the \$20,000,000 revolving term loan, the company was required to make interest only payments based on a variable interest rate of 3.0% plus the greater of the one month LIBOR Rate or 2.0% until the scheduled maturity of September 2015.

In addition, the company agreed to pay a monthly commitment fee at a rate of 0.5% of the average daily unused portion of the commitment. As of December 31, 2012 and 2011, the company had no amounts outstanding under this revolving term loan.

NOTE G: MEMBERS' EQUITY

The company was formed on March 6, 2006 as an Iowa Limited Liability Company and has a perpetual life. The company's ownership is divided into four classes of units: Class A, B, C and D membership units. The profits and losses of the company will be allocated among the unit holders in proportion to the total units held. Distributions will be made to unit holders in proportion to the total units held. Each member is entitled to one vote for each unit held as to matters submitted to the membership.

The Class A member appoints eleven directors, Class B members appoint eight directors and Class C members appoint two directors to the board of directors. The total number of directors appointed by the Class A members shall increase by one director for each additional Class B, Class C or Class D director appointed under the terms of the operating agreement.

As of December 31, 2012, there are eleven Class A, eight Class B and two Class C directors. Transfer of the units is restricted pursuant to the operating agreement and to the applicable tax and securities laws and requires approval of the board of managers.

As of December 31, 2012 and 2011, the company had 367 and 362 members and the following membership units issued, respectively:

	<u>2012</u>	<u>2011</u>
Class A	5,033.40	5,033.40
Class B	3,666.00	3,666.00
Class C	3,500.00	3,500.00
Class D	8,455.00	8,455.00
	<u>20,654.40</u>	<u>20,654.40</u>

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE H: SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following is a schedule of supplemental disclosure of cash flow information for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 6,541,537	\$ 7,521,515
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Refinance of long-term debt borrowings	\$ 45,838,942	\$ —

NOTE I: CONCENTRATIONS

The company has ethanol marketing agreements with an unrelated party which cover the entire ethanol marketing for the company. The agreements expire in August 2012 for Big River United Energy, LLC and in January 2016 for all other facilities, and automatically renews for one year terms thereafter, unless either party provides notice of non-renewal ninety days prior to the end of the term. The agreement requires payment of an agreed upon percentage of the net sales price as defined in the agreement.

The company has a co-products marketing agreement with an unrelated party which covers the entire distillers grain marketing for Big River United Energy, LLC. The initial term of the agreement ended August 2012 and was automatically extended for an additional one year terms and shall automatically extend hereafter, unless either party provides a 90 day written notice of termination. The agreement requires payment of an agreed upon percentage of the net sales price as defined in the agreement.

The ethanol and co-products could be marketed by other marketers without any significant effect on operations.

NOTE J: EMPLOYEE BENEFIT PLAN

The company has a defined contribution plan which covers full-time employees who meet age and length of service eligibility requirements. The company matches the participants' contribution up to a maximum of 4% of wages. For the years ended December 31, 2012 and 2011, company matching contributions to the plan were \$431,081 and \$364,830, respectively.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE K: LEASES

The company leases rail cars under long-term operating lease agreements expiring at various times through October 2019. The company is required to pay executory costs such as maintenance and insurance.

Minimum fixed future lease payments consist of:

Years Ending December 31,	
2013	\$ 4,652,539
2014	2,824,520
2015	2,205,600
2016	2,183,600
2017	1,769,400
Thereafter	2,966,500
Total minimum future lease payments	<u>\$ 16,602,159</u>

Total rent expense of \$5,272,922 and \$4,633,461 was incurred in 2012 and 2011, respectively.

In addition, the company subleased rail cars to Platinum Ethanol, LLC under a long-term operating lease agreement that expired in June 2012. The company received reimbursements of lease expenses including executory costs such as maintenance and insurance totaling \$207,000 and \$621,000 for years ended December 31, 2012 and 2011, respectively. These payments are netted against lease expense and are included in cost of sales.

NOTE L: RELATED PARTY TRANSACTIONS

The company purchases corn from the patrons of one of the members and the noncontrolling members of the company. The corn supply could be purchased from other suppliers without any significant effect on operations.

NOTE M: COMMITMENTS AND CONTINGENCIES

Substantially all of the companies' facilities are subject to federal, state, and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does management expect to have, any material effect upon operations. Management believes that the current practices and procedures for the control and disposition of such wastes will comply with the applicable federal and state requirements.

In addition to the forward contracts marked to market and identified as derivative instruments, the company had entered into unpriced forward ethanol sales contracts delivery in 2012 of approximately 135,900,000 gallons.

BIG RIVER RESOURCES, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE M: COMMITMENTS AND CONTINGENCIES (continued)

Big River Resources West Burlington, LLC and Big River United Energy, LLC have issued letters of credit totaling \$2,105,314 which expire at various times through September 2013 as security to certain vendors and lenders. There are no amounts drawn against these letters of credit as of December 31, 2012.

In January 2010, GS Clean Tech Corp. filed a lawsuit against Big River Resources West Burlington, LLC in the U.S. District Court for infringement rights on its patent covering corn oil extraction technology. On July 1, 2009, Big River Resources Galva, LLC entered into a Corn Oil Tricanter Purchase and Installation Agreement with ICM, Inc. This agreement includes an indemnification clause that holds Big River Resources West Burlington, LLC and Big River Resources Galva, LLC harmless from all claims, liabilities, and costs including attorney fees arising out of the infringement of adversely owned patents. However, if GS Clean Tech Corp. were to prevail in this lawsuit and ICM, Inc. was not able to pay the claims, the company would be liable for any amounts not paid by ICM, Inc. under the indemnification clause. Due to this indemnification clause, the company does not expect to incur any costs related to the litigation and no liability has been recorded as of December 31, 2012.

In October 2006, Big River Resources Galva, LLC entered into a development agreement with the City of Kewanee for the extension of the Enterprise Zone, to include land east of Galva upon which the company constructed the ethanol facility. The company is obligated to pay an amount equal to 20% of the gross value of the state use tax exemption that results from the purchase of any utility product, commodity or resource that such tax may be exempted from under the regulations of the enterprise zone before an extension and as it may be amended. Based on the estimated usage of natural gas at the time of the execution of the agreement, an amount of \$160,000 per year is estimated to be payable in quarterly installments. The term of the agreement expires on December 31, 2017. For the years ended December 31, 2012 and 2011, the company made payments of \$160,000 under this agreement.

The company has a sponsorship agreement which requires annual sponsorship payments totaling \$375,000. The initial term of the agreement expires September 2015 and shall automatically renew for a single three year renewal term unless terminated by either party with a written notice of termination at least one hundred-eighty days before the end of the then-current term. The annual fee shall increase by \$17,500 each subsequent year during the term of this agreement.

NOTE N: SUBSEQUENT EVENTS

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through February 15, 2013, the date the financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Big River Resources, LLC
West Burlington, Iowa

We have audited the financial statements of Big River Resources, LLC as of and for the years ended December 31, 2012 and 2011, and our report thereon dated February 15, 2013, which expressed an unqualified opinion on those financial statements, appears on page one and two. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on pages 29 - 33 is presented for purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CHRISTIANSON & ASSOCIATES, PLLP
Certified Public Accountants and Consultants

February 15, 2013

BIG RIVER RESOURCES, LLC
CONSOLIDATING BALANCE SHEET
December 31, 2012

	Big River Resources, LLC	Big River Resources West Burlington, LLC	Big River Resources Galva, LLC	Big River Resources Boyceville, LLC	Big River United Energy, LLC	Big River Resources Grinnell, LLC	ELIMINATION ENTRIES	CONSOLIDATED
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	\$ 5,095,329	\$ 11,085,123	\$ 193,956	\$ 336,702	\$ 5,234,412	\$ 182,295	\$ —	\$ 22,127,817
Receivables								
Trade	97	8,179,211	4,399,755	3,679,649	13,825,014	868	—	30,084,594
Related party	15,000,000	125,013	122,576	61,288	—	—	(15,308,877)	—
Inventories	—	29,818,665	23,866,111	8,229,868	16,949,788	—	—	78,864,432
Prepaid expenses	71,401	424,215	424,028	296,720	359,752	2,702	—	1,578,818
Derivative instruments	—	3,457,672	1,709,696	484,414	1,571,376	—	—	7,223,158
TOTAL CURRENT ASSETS	20,166,827	53,089,899	30,716,122	13,088,641	37,940,342	185,865	(15,308,877)	139,878,819
PROPERTY AND EQUIPMENT								
Land and land improvements	—	7,242,974	12,294,993	9,099,390	11,481,641	1,340,000	—	41,458,998
Building structure	—	13,045,669	31,597,310	13,966,577	19,848,390	—	—	78,457,946
Grain equipment	—	21,851,952	7,647,145	6,059,575	7,862,294	—	—	43,420,966
Process equipment	—	100,115,653	122,247,449	43,015,942	56,886,345	—	—	322,265,389
Other equipment	289,799	2,800,141	2,604,104	941,908	2,802,399	—	—	9,438,351
Construction in progress	—	216,697	—	—	—	—	—	216,697
	289,799	145,273,086	176,391,001	73,083,392	98,881,069	1,340,000	—	495,258,347
Accumulated depreciation	(106,303)	(58,249,225)	(42,324,816)	(7,560,747)	(22,912,497)	—	—	(131,153,588)
	183,496	87,023,861	134,066,185	65,522,645	75,968,572	1,340,000	—	364,104,759
OTHER ASSETS								
Investments in subsidiaries	298,215,831	—	—	—	—	—	(298,215,831)	—
Investments	34,775	5,636,859	1,737,577	11,718	2,422,561	—	—	9,843,490
Deposits	—	—	—	—	200,000	—	—	200,000
Notes receivable	—	—	—	—	292,351	—	—	292,351
Financing costs, net of amortization	8,637	384,767	584,834	111,983	272,144	—	—	1,362,365
TOTAL OTHER ASSETS	298,259,243	6,021,626	2,322,411	123,701	3,187,056	—	(298,215,831)	11,698,206
TOTAL ASSETS	\$ 318,609,566	\$ 146,135,386	\$ 167,104,718	\$ 78,734,987	\$ 117,095,970	\$ 1,525,865	\$ (313,524,708)	\$ 515,681,784

See independent auditor's report on supplementary information.

BIG RIVER RESOURCES, LLC
CONSOLIDATING BALANCE SHEET
December 31, 2012

	Big River Resources, LLC	Big River Resources West Burlington, LLC	Big River Resources Galva, LLC	Big River Resources Boyceville, LLC	Big River United Energy, LLC	Big River Resources Grinnell, LLC	ELIMINATION ENTRIES	CONSOLIDATED
LIABILITIES AND STOCKHOLDERS' EQUITY								
CURRENT LIABILITIES								
Checks written in excess of funds on deposit	\$ —	\$ —	\$ 737,324	\$ 1,851,642	\$ —	\$ —	\$ —	\$ 2,588,966
Payables								
Trade	—	32,643,135	2,674,796	3,530,379	3,598,109	—	—	42,446,419
General	118,930	2,253,122	2,161,711	1,627,061	1,919,252	6,800	—	8,086,876
Related party	306,440	7,500,000	7,501,625	812	—	—	(15,308,877)	—
Accrued expenses	675,337	820,714	411,995	225,448	1,737,966	23,776	—	3,895,236
Deferred sales	—	—	79,364	—	6,769,643	—	—	6,849,007
Current maturities of long-term debt	1,000,000	9,094,445	10,500,000	—	6,404,032	—	—	26,998,477
TOTAL CURRENT LIABILITIES	2,100,707	52,311,416	24,066,815	7,235,342	20,429,002	30,576	(15,308,877)	90,864,981
LONG-TERM DEBT, less current maturities	8,000,004	14,483,332	11,121,295	14,977,408	38,719,031	—	—	87,301,070
MEMBERS' EQUITY	305,709,629	78,931,211	132,460,821	55,889,253	53,384,718	1,502,113	(322,168,097)	305,709,648
Net Income (loss)	2,799,226	409,427	(544,213)	632,984	4,563,219	(6,824)	(5,054,607)	2,799,212
Noncontrolling Interest - Grinnell	—	—	—	—	—	—	747,645	747,645
Noncontrolling Interest - United Energy	—	—	—	—	—	—	28,259,228	28,259,228
	<u>308,508,855</u>	<u>79,340,638</u>	<u>131,916,608</u>	<u>56,522,237</u>	<u>57,947,937</u>	<u>1,495,289</u>	<u>(298,215,831)</u>	<u>337,515,733</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 318,609,566	\$ 146,135,386	\$ 167,104,718	\$ 78,734,987	\$ 117,095,970	\$ 1,525,865	(313,524,708)	\$ 515,681,784

See independent auditor's report on supplementary information.

BIG RIVER RESOURCES, LLC
CONSOLIDATING STATEMENT OF OPERATIONS AND EBITDA
Year Ended December 31, 2012

	Big River Resources, LLC	Big River Resources West Burlington, LLC	Big River Resources Galva, LLC	Big River Resources Boyceville, LLC	Big River United Energy, LLC	Big River Resources Grinnell, LLC	ELIMINATION ENTRIES	CONSOLIDATED
SALES	\$ —	\$ 381,447,371	\$ 310,839,153	\$ 165,222,706	\$ 320,159,024	\$ —	\$ (41,712,719)	\$ 1,135,955,535
COST OF SALES	4,090	376,325,483	307,663,855	161,065,901	311,958,047	—	(41,712,719)	1,115,304,657
GROSS PROFIT (LOSS)	(4,090)	5,121,888	3,175,298	4,156,805	8,200,977	—	—	20,650,878
OPERATING EXPENSES	14,840	5,094,759	3,807,800	2,513,210	3,193,223	32,982	(527,870)	14,128,944
INCOME (LOSS) FROM OPERATIONS	(18,930)	27,129	(632,502)	1,643,595	5,007,754	(32,982)	527,870	6,521,934
OTHER INCOME (EXPENSES)								
Equity in earnings of subsidiaries	2,799,226	—	—	—	—	—	(2,799,226)	—
Management fee income	527,870	—	—	—	—	—	(527,870)	—
Interest expense	(507,324)	(1,387,341)	(1,028,353)	(1,020,463)	(2,320,876)	—	—	(6,264,357)
Investment income	—	1,739,991	1,257,358	19,947	1,883,403	—	—	4,900,699
Other income (expense)	(1,616)	29,648	(140,716)	(10,095)	(7,062)	26,158	—	(103,683)
	<u>2,818,156</u>	<u>382,298</u>	<u>88,289</u>	<u>(1,010,611)</u>	<u>(444,535)</u>	<u>26,158</u>	<u>(3,327,096)</u>	<u>(1,467,341)</u>
NET INCOME (LOSS)	<u>\$ 2,799,226</u>	<u>\$ 409,427</u>	<u>\$ (544,213)</u>	<u>\$ 632,984</u>	<u>\$ 4,563,219</u>	<u>\$ (6,824)</u>	<u>\$ (2,799,226)</u>	<u>\$ 5,054,593</u>
EBITDA								
Net income (loss)	\$ 2,799,226	\$ 409,427	\$ (544,213)	\$ 632,984	\$ 4,563,219	\$ (6,824)	\$ (2,799,226)	\$ 5,054,593
Interest	507,324	1,387,341	1,028,353	1,020,463	2,320,876	—	—	6,264,357
Income taxes	—	—	—	—	—	—	—	—
Depreciation	50,121	9,374,734	11,580,913	6,987,072	6,767,529	—	—	34,760,369
Amortization	1,250	117,489	169,892	8,067	39,222	—	—	335,920
	<u>3,357,921</u>	<u>11,288,991</u>	<u>12,234,945</u>	<u>8,648,586</u>	<u>13,690,846</u>	<u>(6,824)</u>	<u>(2,799,226)</u>	<u>46,415,239</u>
Total EBITDA	<u>\$ 3,357,921</u>	<u>\$ 11,288,991</u>	<u>\$ 12,234,945</u>	<u>\$ 8,648,586</u>	<u>\$ 13,690,846</u>	<u>\$ (6,824)</u>	<u>\$ (2,799,226)</u>	<u>\$ 46,415,239</u>

See independent auditor's report on supplementary information.

BIG RIVER RESOURCES, LLC
CONSOLIDATED SCHEDULES OF SALES AND COST OF SALES
Years Ended December 31, 2012 and 2011

SALES	2012	%	AVG PRICE	2011	%	AVG PRICE
Ethanol	\$ 837,750,584	73.75	\$ 2.31	\$ 911,553,810	78.43	\$ 2.72
Dried distillers grains	198,527,478	17.48	223.36	172,607,848	14.85	188.01
Modified distillers grains	26,856,947	2.36	104.27	8,749,000	0.75	82.21
Non-food oil	28,076,653	2.47	0.38	19,924,641	1.71	0.44
Elevator corn sales	85,309,010	0.84	6.81	58,771,126	1.51	6.24
Less: intercompany corn sales	(75,712,147)			(41,244,846)		
Elevator soybean sales	31,257,316	2.75	14.80	29,091,357	2.50	11.87
Elevator drying, storage & handling	3,889,694	0.35	—	2,854,866	0.25	—
	<u>\$ 1,135,955,535</u>	<u>100.00</u>		<u>\$ 1,162,307,802</u>	<u>100.00</u>	
COST OF SALES						
Corn purchases	\$ 792,297,856	69.75	\$ 6.81	\$ 738,558,946	63.54	\$ 6.14
Derivative instruments	14,563,092	1.28		40,131,892	3.45	
Change in inventory	2,324,687	0.20		3,251,457	0.28	
Chemical ingredients	36,143,206	3.18		30,797,992	2.65	
Natural gas	33,638,361	2.96		41,767,276	3.59	
Utilities	13,326,003	1.17		11,623,436	1.00	
Wages	11,356,976	1.00		9,420,621	0.81	
Maintenance	9,155,087	0.81		7,325,587	0.63	
Supplies	2,073,336	0.18		1,232,830	0.11	
Insurance	658,834	0.06		646,253	0.05	
Freight	38,451,828	3.38		48,600,784	4.18	
Equipment leases	5,272,922	0.46		4,633,461	0.40	
Depreciation	34,710,248	3.06		28,428,691	2.45	
Marketing	7,042,512	0.62		7,045,889	0.61	
Elevator corn and soybean purchases	112,384,671	9.89		82,062,010	7.06	
Miscellaneous	1,905,038	0.17		1,574,112	0.14	
	<u>\$ 1,115,304,657</u>	<u>98.17</u>		<u>\$ 1,057,101,237</u>	<u>90.95</u>	

See independent auditor's report on supplementary information.

BIG RIVER RESOURCES, LLC
CONSOLIDATED SCHEDULES OF OPERATING EXPENSES AND OTHER INCOME
Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING EXPENSES		
Wages	\$ 10,365,496	\$ 11,857,363
Payroll taxes	268,536	233,721
Employee benefits	1,224,932	1,315,963
Insurance	800,711	641,210
Materials and supplies	339,003	272,437
Professional fees	611,150	1,335,890
Holding company allocations	(5,496,101)	(4,821,330)
Travel, meals and entertainment	190,725	159,333
Training	70,756	118,926
Repairs and maintenance	122,629	231,405
Office	677,479	568,781
Property taxes	1,416,747	1,099,246
Advertising	1,592,532	1,243,068
Amortization	386,041	381,573
Contributions	38,953	26,522
Utilities and telephone	657,002	504,171
Memberships, dues, licenses and permits	198,101	109,771
Miscellaneous	664,252	583,309
	\$ 14,128,944	\$ 15,861,359
OTHER INCOME (EXPENSE)		
Interest income	\$ 18,840	\$ 60,038
Interest expense	(6,264,357)	(6,994,003)
Investment income	4,900,699	4,560,743
Other income (expense)	(122,523)	575,449
	\$ (1,467,341)	\$ (1,797,773)

See independent auditor's report on supplementary information.

Patriot Holdings, LLC and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2013 and December 31, 2012 And Report of Independent Registered Public Accounting Firm

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Patriot Holdings, LLC and Subsidiaries
Annawan, Illinois

We have audited the accompanying consolidated balance sheets of Patriot Holdings, LLC and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended. Patriot Holdings, LLC's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patriot Holdings, LLC as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Boulay PLLP
Certified Public Accountants

Minneapolis, Minnesota
February 28, 2014

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2013 and 2012

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 9,685,987	\$ 532,014
Accounts receivable	6,889,911	3,465,138
Inventory	9,515,584	15,843,093
Commodity derivative instruments	—	1,683,138
Prepaid expenses and other current assets	448,167	778,383
Total current assets	<u>26,539,649</u>	<u>22,301,766</u>
PROPERTY, PLANT, AND EQUIPMENT		
Property, plant, and equipment, at cost	170,562,034	163,270,363
Accumulated depreciation	(48,856,660)	(39,410,230)
Property, plant, and equipment, net	<u>121,705,374</u>	<u>123,860,133</u>
OTHER NON-CURRENT ASSETS		
Deferred financing costs, net	142,463	225,354
Long-term assets	1,033,575	1,033,575
Notes receivable	24,201,531	26,211,113
Interest receivable	11,998,662	9,989,080
Total other non-current assets	<u>37,376,231</u>	<u>37,459,122</u>
TOTAL ASSETS	<u>\$ 185,621,254</u>	<u>\$ 183,621,021</u>
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 6,492,563	\$ 4,453,848
Accrued expenses and other current liabilities	2,772,208	2,141,718
Accrued loss on firm purchase commitments	—	1,615,000
Due to broker	—	1,833,226
Revolving note	—	3,763,984
Current portion of long-term debt	6,769,471	6,393,229
Total current liabilities	<u>16,034,242</u>	<u>20,201,005</u>
LONG-TERM LIABILITIES		
Long-term debt	33,017,838	38,909,578
Deferred income	24,828,979	26,957,177
Total long-term liabilities	<u>57,846,817</u>	<u>65,866,755</u>
COMMITMENTS AND CONTINGENCIES		
MEMBERS' EQUITY , 65,000 units authorized; 45,607 units issued and outstanding	<u>111,740,195</u>	<u>97,553,261</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 185,621,254</u>	<u>\$ 183,621,021</u>

Notes to the Consolidated Financial Statements are an integral part of this Statement.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIESConsolidated Statements of Operations
Years ended December 31, 2013 and 2012

	Years Ended December 31,	
	2013	2012
REVENUES	\$ 377,531,745	\$ 373,584,112
COST OF GOODS SOLD	340,120,454	363,435,805
LOWER OF COST OR MARKET ADJUSTMENT	—	2,463,000
GROSS MARGIN	37,411,291	7,685,307
OPERATING EXPENSES	3,831,898	3,529,108
OPERATING INCOME	33,579,393	4,156,199
OTHER INCOME (EXPENSE)		
Interest expense	(2,166,745)	(3,205,198)
Gain on interest rate swap	—	153,623
Other income	104,946	215,093
Total other expense, net	(2,061,799)	(2,836,482)
NET INCOME	<u>\$ 31,517,594</u>	<u>\$ 1,319,717</u>

Notes to the Consolidated Financial Statements are an integral part of this Statement.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES
Consolidated Statements of Changes in Members' Equity
Years ended December 31, 2013 and 2012

BALANCE – December 31, 2011	\$ 96,421,144
Repurchase of membership units	(187,600)
Net income for the year ended December 31, 2012	<u>1,319,717</u>
BALANCE – December 31, 2012	97,553,261
Member distributions	(17,330,660)
Net income for the year ended December 31, 2013	<u>31,517,594</u>
BALANCE – December 31, 2013	<u><u>\$ 111,740,195</u></u>

Notes to the Consolidated Financial Statements are an integral part of this Statement.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended December 31, 2013 and 2012

	Years Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 31,517,594	\$ 1,319,717
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,421,242	7,330,250
Noncash interest expense	—	339,473
Change in fair value of interest rate swap	—	(153,623)
Change in fair value of commodity derivative instruments	(31,433)	(3,778,617)
Changes in operating assets and liabilities:		
Restricted cash – commodity margin account	—	183,644
Accounts receivable	(3,424,773)	3,422,017
Inventory	6,327,509	(3,673,120)
Prepays and other current assets	330,216	153,556
Commodity derivative instruments	(118,655)	2,335,692
Long-term assets	—	(500,000)
Accounts payable	2,038,715	1,547,815
Accrued loss on firm purchase commitments	(1,615,000)	1,615,000
Accrued expenses	(1,352,246)	(88,534)
Net cash flows provided by operating activities	<u>41,093,169</u>	<u>10,053,270</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(5,309,054)	(1,696,138)
Net cash flows used in investing activities	<u>(5,309,054)</u>	<u>(1,696,138)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on working capital loan	(3,763,984)	3,763,984
Proceeds from long-term debt	877,800	51,441,585
Payments on long-term debt	(6,393,298)	(63,827,960)
Payments on interest rate swap settlement	—	(2,537,050)
Payments for debt financing costs	(20,000)	(322,271)
Payments for membership unit repurchase	—	(187,600)
Distributions paid	(17,330,660)	—
Net cash flows used in financing activities	<u>(26,630,142)</u>	<u>(11,669,312)</u>
NET INCREASE (DECREASE) IN CASH	9,153,973	(3,312,180)
CASH – BEGINNING OF PERIOD	<u>532,014</u>	<u>3,844,194</u>
CASH – END OF PERIOD	<u>\$ 9,685,987</u>	<u>\$ 532,014</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 2,066,971</u>	<u>\$ 2,695,175</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Property, plant, and equipment additions included in accounts payable and accrued expenses	<u>\$ 1,984,736</u>	<u>\$ 81,615</u>

Notes to the Consolidated Financial Statements are an integral part of this Statement.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of the Patriot Holdings, LLC (the "Company"), and its wholly-owned subsidiaries including Patriot Renewable Fuels, LLC ("Patriot"), Patriot Export, Inc., Patriot Land Holdings, LLC and Patriot Fuels Biodiesel, LLC. All significant intercompany balances and transactions have been eliminated on a consolidated basis for reporting purposes.

Nature of Business - Patriot is the main operating company and has a dry mill, corn-based processing facility that produces fuel-grade ethanol, distillers grains, and corn oil, co-products of the ethanol production, that are derived from corn. The ethanol plant is located in Annawan, Illinois and the Company sells its production of ethanol and distillers grains throughout the United States and various international locations. The ethanol plant has a nameplate capacity (guaranteed by the design-builder) to produce 100 million gallon per year of denatured fuel-grade ethanol and approximately 320 thousand tons of dried distillers grains with solubles ("DDGS") and process 35.7 million bushels of corn. The Company typically produces ethanol in excess of the nameplate production amount.

Patriot Export, Inc., ("Export") was set up as an Interest-Charge Domestic International Sales Corporation, ("IC-DISC"), and has a franchise agreement with Patriot to sell its products which are exported. Patriot pays a commission to Export, which is then redistributed back to the Company as a dividend.

Patriot Land Holdings, LLC was formed in 2013 for future land development purposes.

Patriot Fuels Biodiesel, LLC was formed in 2013 for future construction and operation of a biodiesel plant.

Use of Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The Company uses estimates and assumptions in accounting for the following significant matters, among others: economic lives of property, plant, and equipment, realizability of accounts receivable; valuation of inventory, inventory purchase commitments, notes receivable arising from tax increment financing, long-term investments, and the assumptions used in the impairment analysis of long-lived assets. Actual results may differ from previously estimated amounts, and such differences may be material to our financial statements. The Company periodically reviews estimates and assumptions, and the effects of revisions are reflected in the period in which the revision is made. For the years ended December 31, 2013 and 2012, the Company did not make any revisions to the financial statements for actual results that differed from previously estimated amounts.

Revenue Recognition - The Company sells ethanol and DDGS pursuant to marketing agreements as discussed further in Note 8, and markets corn oil on its own, and generally recognizes revenue at the time of loading ethanol, distillers grains, or corn oil into trucks, railcars, or containers. This is the point at which the marketer or purchaser has taken title and assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. Title is generally assumed by the buyer at the Company's shipping point. In certain instances where the sales price of the Company's ethanol is not fixed or determinable at the time title transfers to the customer, the Company defers the income until the price does become fixed or determinable.

In accordance with the Company's agreements for the marketing and sale of ethanol and related products, marketing fees and commissions due to the marketers are deducted from the gross sales price at the time incurred. Commissions were approximately \$2,200,000 and \$2,700,000 for the years ended December 31,

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

2013 and 2012, respectively. Revenue is recorded net of these commissions as they do not provide an identifiable benefit that is sufficiently separable from the sale of ethanol and related products.

Expense Recognition – Cost of goods sold consists primarily of costs for raw materials, utilities, conversion costs, freight, warehousing costs, salaries, wages and expenses for plant operating staff and plant management, depreciation and amortization expenses, general facility overhead charges, property taxes, and property and casualty insurance.

General and administrative expenses consist primarily of salaries and expenses for management, administrative and accounting employees, and fees paid to outside service providers such as legal, accounting, and consulting firms.

Cash – The Company maintains cash primarily in accounts with two financial institutions which, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts or any losses in connection with these balances.

Accounts Receivable – Accounts receivable are recorded at their estimated net realizable value and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the statement of cash flows. The Company does not have any off-balance sheet credit exposure related to its customers. Accounts are considered past due if payment is not made on a timely basis in accordance with the Company's credit terms. Accounts considered uncollectible are written off. The Company follows a policy of providing an allowance for doubtful accounts when deemed necessary; however, based on historical experience, and its evaluation of the status of receivables, the Company believes that all accounts are collectible in all material respects and thus an allowance was not necessary at December 31, 2013 or 2012. It is possible this estimate will change in the future.

The Company performs periodic credit evaluations of its marketers and has not required collateral. The Company's operations vary with the volatility of the market for inputs (including corn, natural gas, chemicals, and denaturant) and for finished products (ethanol and DDGS), and to mitigate that volatility the Company actively seeks to minimize inventory and accounts receivable levels.

Inventory – Inventory is stated at the lower of cost or market. Cost is determined using the first in, first out ("FIFO") method. Market is based on current replacement values except that it does not exceed net realizable values and it is not less than net realizable values reduced by allowances from normal profit margin. Inventories consist of raw materials (corn, chemicals, denaturant), work in process, finished goods (ethanol, DDGS, and corn oil) and spare parts.

All materials and production costs related to the production of ethanol and distillers grains not sold are capitalized as inventory and recognized as cost of sales when the sale of the products is recognized.

Prepaid Expenses – Prepaid expenses are recorded for non-inventory purchases that will be consumed in less than one year.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Property, Plant, and Equipment – Property, plant, and equipment is stated at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years as shown in the table below:

<u>Asset Description</u>	<u>Years</u>
Land improvements	10-30 years
Buildings	15-30 years
Process equipment	3-20 years
Grain handling equipment	10 years
Railroad and rail equipment	10-20 years
Office and computer equipment	3-5 years

The Company expenses maintenance and repair costs as incurred and major betterments and improvements are capitalized. Depreciation expense for the years ended December 31, 2013 and 2012 totaled approximately \$9,447,000 and \$9,458,000, respectively.

Property, plant, and equipment are reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including, but not limited to, discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. The Company did not identify any triggering events that would require additional impairment analysis for both the years ended December 31, 2013 or 2012.

Notes Receivable – The Company received promissory notes from the Village of Annawan (the “Village”) under a tax increment financing (“TIF”) agreement. The Village provided funds in the form of interest bearing notes. The notes bear interest at a fixed rate established at the time of issuance based on the prime rate, not to exceed 9% per annum. The notes are reviewed annually for collectability, or whenever events or circumstances indicate that the carrying amount may not be recoverable. See Note 4 for further discussion.

Deferred Financing Costs – Costs incurred in connection with both the original financing for the ethanol plant and the long-term debt refinanced in March 2012 as discussed in Note 5 were deferred and amortized over the term of the respective financing using the effective interest method. In conjunction with the Company’s refinancing of long term debt in March 2012, the Company expensed approximately \$203,000 related to the unamortized financing costs for the original financing which is included as a component of interest expense within the consolidated statements of operations.

Accounts Payable – Accounts payable are recorded at the invoiced amount as the invoices are received from vendors. Accrued payables for raw materials received but not invoiced are included in accounts payable.

Interest Rate Swap – The Company previously entered into a derivative contract to fix the interest rate for a portion of its original long-term debt. As part of the Company’s refinancing of long-term debt in March 2012 as discussed in Note 5, the interest rate swap was settled. The Company recorded the interest rate swap at fair value with changes in fair value recognized in earnings because the interest rate swap was not designated as a cash flow hedge. See Note 6 for further discussion.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

Deferred Income – Proceeds received from the Village under the TIF agreement are recorded as deferred income and will be amortized into income over the life of the related property, plant, and equipment. See Note 4 for further discussion.

Income Taxes – The Company is treated as a partnership for federal and state income tax purposes and generally does not incur income taxes. Instead, the earnings and losses are included in the income tax returns of the members. Therefore, no provision or liability for federal or state income taxes has been included in these financial statements. Differences between the financial statement basis of assets and tax basis of assets is related to capitalization and amortization of organization and start-up costs for tax purposes, whereas these costs are expensed for financial statement purposes. In addition, the Company uses the modified accelerated cost recovery system method (“MACRS”) for tax depreciation instead of the straight-line method that is used for book depreciation, which also causes temporary differences. The Company has no uncertain tax positions as of December 31, 2013 or 2012. The Company is no longer subject to federal or state income tax examinations by tax authorities for years before 2010.

Fair Value – The Company has adopted guidance for fair value measurement related to nonfinancial items that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

No events occurred during the years ended December 31, 2013 or 2012 that required adjustment to the recognized balances of assets or liabilities, which are recorded at fair value on a nonrecurring basis.

The carrying value of restricted cash, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short maturity of these instruments. The fair value of long-term debt has been estimated using discounted cash flow analysis based upon the Company’s current incremental borrowing rates for similar types of financing arrangements. The fair value of outstanding debt with fixed rate terms will fluctuate with changes in applicable interest rates. Fair value will exceed carrying value when the current market interest rate is lower than the interest rate at which the debt was originally issued. The fair value of a company’s debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules. As of December 31, 2013, the Company believes the carrying amount of the fixed rate long-term debt approximates the fair value because market conditions and Company’s incremental borrowing rate has not changed significantly since the refinancing in March 2012.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Environmental Liabilities – The Company’s operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdiction in which it operates. These laws require the Company to investigate and remediate the effects of the release or disposal of material in its location. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, occupational health, and the production, handling, storage and use of hazardous materials to prevent environmental or other damage, and to limit the financial liability which could result from such events. Environmental liabilities would be recorded if the Company’s liability is probable and the costs can be reasonably estimated. No such liabilities were recorded at December 31, 2013, and 2012 and the Company is not currently a party to any material unsettled environmental legal proceedings at December 31, 2013.

Comparative Data – Certain 2012 consolidated statement of operations items have been reclassified to conform to the current year’s presentation. Gains and losses from hedging activity on ethanol and DDGS have been reclassified into revenue rather than cost of goods sold. Royalties on corn oil sales has been reclassified into cost of goods sold rather than revenue.

Subsequent Events – The Company has evaluated subsequent events through February 28, 2014, the date the consolidated financial statements were available to be issued.

2. INVENTORY

A summary of inventory at December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Raw materials	\$ 2,941,722	\$ 3,765,301
Work in progress	1,000,200	1,305,763
Finished goods	3,381,047	8,971,418
Spare parts	2,192,615	1,800,611
Totals	<u>\$ 9,515,584</u>	<u>\$ 15,843,093</u>

The Company performs a lower of cost or market analysis to determine if the market values of certain inventories are less than their carrying value, which is attributable primarily to decreases in market prices of corn and ethanol. The Company did not record any lower of cost or market adjustment for the year ended December 31, 2013. Based on the lower of cost or market analysis, the Company was required to record a lower of cost or market charge of approximately \$848,000 on certain inventories for the year ended December 31, 2012. The Company also recorded a lower of cost or market adjustment charge of approximately \$1,615,000 related to firm purchase commitments for the year ended December 31, 2012, as further discussed in Note 8.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

3. PROPERTY, PLANT, AND EQUIPMENT

A summary of property, plant, and equipment at December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Land and land equipment	\$ 19,361,953	\$ 18,186,447
Process and grain handling equipment	120,768,634	116,542,869
Buildings	26,439,156	26,407,808
Furniture, fixtures and computer equipment	2,220,057	1,966,805
Construction in progress	1,772,234	166,434
	<u>170,562,034</u>	<u>163,270,363</u>
Accumulated depreciation	(48,856,660)	(39,410,230)
Total property and equipment, net	<u>\$ 121,705,374</u>	<u>\$ 123,860,133</u>

4. TAX INCREMENT FINANCING

During the years ended December 31, 2009, 2008 and 2007, the Company received amounts from the Village of Annawan, Illinois (the "Village") under a TIF agreement. The Village provided funds in the form of interest bearing notes in 2009 and 2008, as well as cash proceeds from a TIF bond issuance in 2007. The notes bear interest at a fixed rate established at the time of issuance based on the prime rate, not to exceed 9% per annum. Bonds issued to fund the TIF arrangement are not a liability of the Company but are an obligation of the Village since the Company does not guarantee the TIF debt and has no obligation to satisfy any shortfall in annual debt service requirements. The bonds and related notes are to be repaid by the Village from the incremental increase in property taxes related to the improvement of the Company's real property. The proceeds of the financing have been recorded as deferred income and will be amortized into income with such amortization amount based on the life of the related property and equipment. The amount of reimbursements to be received under the TIF agreement is not to exceed \$41,772,000 plus related interest on the TIF notes receivable. As payments are received, they will be considered payments of interest first, then principle. As such, interest is accrued and presented as a receivable, but a corresponding impairment is recorded since management estimates the total amount collectible will approximate \$36,200,000. From the date of issuance through December 31, 2013, the Company had received \$9,000,000 in cash from the Village in addition to four notes receivable totaling \$32,754,979. The Company has not received any payments since 2009 and does not expect to receive any payments until 2019. The amount recorded by the Company as deferred income related to the amounts received was \$41,754,979. Included in the consolidated statement of operations for each of the years ended December 31, 2013 and 2012, the Company amortized \$2,128,198 deferred income which was netted against depreciation expense and is included as a component of costs of goods sold.

As of December 31, 2013 and 2012, the unamortized deferred income balance was \$24,828,979 and \$26,957,177, respectively. The notes, net of the valuation allowance discussed below, had accrued interest receivable of \$11,998,662 and \$9,989,080 at December 31, 2013 and 2012, respectively, and is recorded separate from the notes received as interest receivable. Non-cash interest income was accrued on the notes receivable at the weighted average interest rate for the four notes at 6.1% for both the years ended December 31, 2013 and 2012, and was included in the statements of operations as interest income. At December 31, 2013 and 2012, the Company has recorded a valuation allowance of \$8,553,448 and \$6,543,886, respectively, against the notes receivable based on the uncertainty of future cash flows of the Village.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

5. LONG-TERM DEBT and REVOLVING LINE OF CREDIT

	<u>2013</u>	<u>2012</u>
Secured by substantially all Patriot assets:		
Term note, fixed rate interest of 4.6%, due March 2017	\$ 38,909,509	\$ 45,302,807
Term note, fixed rate interest of 4.4% until July 2018, then 3.75% plus 5-year Treasury bill rate, with a floor of 4.0% and a ceiling of 6.4%, due July 2023	877,800	—
Total debt	<u>39,787,309</u>	<u>45,302,807</u>
Less: current maturities	<u>(6,769,471)</u>	<u>(6,393,229)</u>
Total long-term debt	<u>\$ 33,017,838</u>	<u>\$ 38,909,578</u>

On March 30, 2012, Patriot entered into a new definitive loan agreement (the "Agreement") with a financial institution (the "Bank") for a fixed rate term note and a fixed rate revolving note. With the proceeds from the new notes, Patriot paid the outstanding balances of its outstanding fixed rate note, variable rate note and long-term reducing revolving note issued by a separate financial institution. The new fixed rate term loan for \$50,000,000 has a fixed interest rate of 4.6%. The fixed rate revolving note for \$10,000,000 has an interest rate of the greater of the indexed prime rate plus 0.5% or 4.00%. This note was renewed on March 30, 2013 and will expire on July 15, 2014.

On June 6, 2013, but effective as of March 30, 2013, Patriot signed an amendment to the Agreement for an additional working capital loan for \$10,000,000 with an interest rate of the greater of the indexed prime rate plus 0.5% or 4.0%. The working capital loan expires in March 2017 with the original term note. There was no outstanding balance at December 31, 2013 on either the revolving note or the working capital note; however, if there had been a balance on either the revolving note or working capital note, the interest rate at December 31, 2013 would be 4%. At December 31, 2012, there was \$3,763,984 outstanding on the revolving note. Interest for all three notes is payable monthly.

In addition, the amendment modified some of Patriot's restrictive covenants. These covenants, coupled with other restrictions, require that Patriot meet certain financial ratios. At December 31, 2013, Patriot was in compliance with all of its financial covenants except for the capital expenditure covenant, for which Patriot has received a waiver as of December 31, 2013. Patriot expects to remain in compliance with all of its covenants through December 31, 2014.

On July 29, 2013, Patriot Land Holdings entered in a new loan agreement with a financial institution for a term note of \$877,800 to finance a land purchase. The note has a fixed interest rate of 4.4% for five years. The rate after five years is 3.75% plus the 5-year Treasury bill rate, with a floor of 4% and a ceiling of 6.4%. Interest is paid annually on this note.

Annual expected maturities for the Company's long-term debt at December 31, 2013 are as follows:

2014	\$ 6,769,471
2015	7,091,811
2016	7,426,234
2017	17,928,093
2018	85,268
Thereafter	486,432
Total	<u>\$ 39,787,309</u>

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

6. DERIVATIVE INSTRUMENTS

Derivatives are accounted for in accordance with ASC 815, Derivatives and Hedging ("ASC 815") and primarily consist of commodity futures contracts, swaps, and option contracts. The Company provides qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses from derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

Prior to the signing of the new ethanol marketing agreement and corn origination agreement, as discussed further in Note 8, the Company has entered into derivative transactions to hedge its exposures commodity price fluctuations. With the Company's prior loan agreement, the Company had also entered into an interest rate swap agreement to hedge its exposure to interest rates. The Company does not enter into derivative transactions for trading purposes.

The new ethanol marketing and corn origination agreements contain features for the marketer and grain originator to provide the Company with ethanol sales and corn purchase contracts that effectively fix the profit margin with fixed price forward contracts. With these new agreements, the Company has elected to designate these forward purchases of corn and forward sales contracts of ethanol as normal purchases and normal sales under ASC 815. Accordingly, these contracts are not reflected in the consolidated financial statements until the contracts are executed.

As of December 31, 2012, the Company had corn derivative instruments. The Company records its derivative financial instruments as either assets or liabilities at fair value in the consolidated balance sheet. Derivatives qualify for treatment as hedges when there is a high correlation between the change in fair value of the derivative instrument and the related change in value of the underlying hedged item. Based upon the exposure being hedged, the Company designates its hedging instruments as a fair value hedge, a cash flow hedge or a hedge against foreign currency exposure. The Company formally documents, designates, and assesses the effectiveness of transactions that receive hedge accounting initially and on an on-going basis. The Company does not currently have any derivative instruments that are designated as effective hedging instruments for accounting purposes, although they believe they function as economic cash flow hedges.

Commodity Contracts

As part of its hedging strategy, the Company may enter into corn commodity-based derivatives, through its original corn origination agreement in order to protect cash flows from fluctuations caused by volatility in commodity prices in order to protect gross profit margins from potentially adverse effects of market and price volatility on corn purchase commitments where the prices are set at a future date. These derivatives are not designated as effective hedges for accounting purposes. For derivative instruments that are not accounted for as hedges, or for the ineffective portions of qualifying hedges, the change in fair value is recorded through earnings in the period of change. Corn derivative changes in fair market value are included in cost of goods sold. At December 31, 2012, the total notional amount of the Company's outstanding corn derivative instruments was approximately 3,490,000 bushels that were entered into to hedge forecasted corn purchases through December 2013.

Interest Rate Contract

The Company entered into a forward starting interest rate swap in the notional amount of \$46,950,000 during 2006 to limit its exposure to the impact of increasing interest rates on its results of operations and future cash flows for interest. The Swap fixed the interest rate of the Fixed Rate Note at 8.655% and was effective as of

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

October 8, 2008. With the retirement of the Fixed Rate Note, the interest rate swap was settled on March 30, 2012 for \$2,537,050.

The swap agreement was not designated as an effective hedge for accounting purposes and the change in fair market value and associated net settlements are recorded in interest expense.

The Company did not have any commodity derivative instruments at December 31, 2013. The following table provides details regarding the Company's derivative financial instruments at December 31, 2012:

Consolidated Balance Sheet			
	Location	Assets	Liabilities
Corn contracts	Commodity derivative instruments	\$ 1,683,138	\$ —
Totals		<u>\$ 1,683,138</u>	<u>\$ —</u>

The following table provides details regarding gains and (losses) from the Company's derivative financial instruments in the statement of operations, none of which are designated as hedging instruments:

Consolidated Statement of Operations Location		Year ended December 31, 2013	Year ended December 31, 2012
Ethanol contracts	Revenue	\$ (1,325,112)	\$ 2,441,160
DDGS contracts	Revenue	(1,632,800)	3,110,915
Corn contracts	Cost of goods sold	2,989,345	(1,773,458)
Interest rate swap	Gain on interest rate swap	—	153,623
Total gain		<u>\$ 31,433</u>	<u>\$ 3,932,240</u>

7. RELATED PARTY TRANSACTIONS

The Company has engaged CGB Enterprises Co. ("CGB"), an equity member, to source corn for the Company under a long-term agreement on a fee per bushel basis (discussed further in Note 8).

Total amounts paid to CGB during the years ended December 31, 2013 and 2012 are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
CGB	<u>\$ 277,097,510</u>	<u>\$ 299,034,055</u>

Total amounts payable to CGB at December 31, 2013 and 2012, which are included in accounts payable, are as follows:

	2013	2012
CGB	<u>\$ 1,121,122</u>	<u>\$ 1,596,948</u>

The Company had engaged Murex N.A, LTD, ("Murex"), an equity member, to market ethanol for the Company through July 31, 2013 under a long term agreement on a percentage of revenue commission basis. The total amount owed to the Company from Murex as of December 31, 2012 was \$1,272,774 and is included in accounts receivable. The Company paid approximately \$1,700,000 and \$2,700,000 in ethanol marketing fees to Murex for the years ended December 31, 2013 and 2012, respectively.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

8. COMMITMENTS AND CONTINGENCIES

Corn Origination Agreement

The Company has a corn origination agreement with CGB, an equity member of the Company, whereby they are entitled to the exclusive right for procurement of 100% of the corn needs for the plant. The contract commenced in 2008 and expired in August 2013. A new agreement effective September 1, 2013 was signed with CGB and continues for one year with one year renewal terms unless terminated by either party. The price of the corn purchased will be the bid price CGB establishes with the producer of corn plus a set fee per bushel. At December 31, 2013, the Company had open forward corn purchase commitments for 12,240,000 bushels at an average price of \$4.66 with CGB. At December 31, 2012, the Company had open forward corn purchase commitments for 3,488,944 bushels at an average price of \$7.58 with CGB. At December 31, 2012, some of these forward purchase contracts were above market prices for corn. Given the declining corn and ethanol prices, the Company expected to incur a loss upon delivery under these contracts. The loss is determined by calculating the net realizable value of the raw products similar to the lower of cost or market methodology used in valuing inventories. At December 31, 2012, the Company recorded a \$1,615,000 loss that is included in the Lower of Cost or Market Adjustment in the Consolidated Statement of Operations.

Ethanol Marketing Agreement

The Company has a marketing agreement with CHS, Inc. ("CHS") whereby they are entitled to the exclusive right for sale and distribution of 100% the Company's ethanol. The Company pays the buyer a percentage of the net sales price for certain marketing costs. The agreement is effective August 1, 2013 and continues for one year with one year automatic renewal terms unless terminated by either party. Prior to the CHS agreement, the Company had a marketing agreement with Murex, an equity member of the Company, which expired on July 31, 2013. At December 31, 2013, the Company had open forward ethanol sales commitments for 27,840,000 gallons at an average price of \$1.65 with CHS. At December 31, 2012, the Company did not have any fixed ethanol sales commitments. During the year ended December 31, 2013, the Company had ethanol sales of \$111,846,000 to CHS, of which approximately \$4,260,000 is included in accounts receivable at December 31, 2013. In addition, the Company had approximately \$174,900,000 of ethanol sales to Murex during the year ended December 31, 2013. During the year ended December 31, 2012, the Company had approximately \$276,900,000 of ethanol sales to Murex, of which approximately \$1,273,000 is included in accounts receivable at December 31, 2012. For the years ended December 31, 2013 and 2012, ethanol sales are recorded net of commissions totaling approximately \$2,200,000 and \$2,700,000, respectively.

Distillers Grains Marketing Agreement

The Company has a marketing agreement with CHS, whereby they are entitled to the exclusive right for sale and distribution of 100% of the plant's dried distiller's grains with solubles and wet distiller's grains with solubles. The initial term of the agreement was one year, but the agreement is to remain in effect until terminated by either party at its unqualified option, by providing written notice of not less than 90 days to the other party. Neither party to the agreement has provided such notice. At December 31, 2013, the Company had open forward DDGS sales commitments for 126,500 tons at an average price of \$215. For the year ended December 31, 2013, the Company recorded DDGS sales of approximately \$85,600,000 net of commissions of approximately \$700,000. For the year ended December 31, 2012, the Company recorded DDGS sales of approximately \$82,600,000 net of commissions of approximately \$700,000.

Natural Gas Contracts

At December 31, 2013, the Company had forward contracts to purchase approximately 823,000 British thermal units (MMBTU) of natural gas through June 2014 at an average price of approximately \$3.92 per MMBTU. At December 31, 2012, the Company had forward contracts to purchase approximately 230,000 British thermal units (MMBTU) of natural gas through January 2013 at an average price of approximately \$3.65 per MMBTU.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

9. CONCENTRATIONS

For the years ended December 31, 2013 and 2012, two customers accounted for substantially all of the Company's revenues and trade accounts receivable. Accounts receivable for CHS for ethanol and dry distillers grains as of December 31, 2013 accounted for 94% of the Company's trade receivables. At December 31, 2012, accounts receivable for Murex for ethanol and CHS for dry distiller grains represented 37% and 54%, respectively, of total outstanding receivables. Revenues for CHS for ethanol and dry distillers grain revenues for the year ended December 31, 2013 represented 52% of total revenues. Revenues for Murex for ethanol for the year ended December 31, 2013 represented 46% of total revenues. For the year ended December 31, 2012, revenues for Murex and CHS represented 75% and 23%, respectively, of total revenues. Corn oil revenues accounted for 2% of total revenue for both the years ended December 31, 2013 and 2012.

The Company has revenue and accounts receivable concentrations in ethanol and distillers grains due to the Company's use of one marketer for each product; however, the sale of these products could be achieved by using other marketers without any significant effect on operations.

10. MEMBERS' EQUITY

As specified in the Company's operating agreement, the Company has one class of membership units. The Company is authorized to issue up to 65,000 membership units. No additional units may be issued for less than \$500 per unit without the consent of the majority of the membership units then outstanding. Profits and losses of the Company are allocated to members based on the proportion of units held. As of December 31, 2013 and 2012 the Company had 45,607 membership units issued and outstanding.

During 2013, the Company paid a cash distribution of \$380 per membership unit for a distribution total to its unit holders of approximately \$17,330,000. The Company did not pay any distributions in 2012.

During 2012, the board approved the cash redemption of 134 membership units totaling \$187,600.

11. FAIR VALUE MEASUREMENTS

The Company follows accounting guidance related to fair value disclosures. For the Company, this guidance applies to certain derivative investments. The authoritative guidance also clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

The Company did not have any assets that were accounted for at fair value on a recurring basis as of December 31, 2013. The following table sets forth, by level, the Company's assets that were accounted for at fair value on a recurring basis as of December 31, 2012:

	Carrying Amount in Balance Sheet	Fair Value	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable inputs (Level 3)
Financial Assets					
Corn derivative contracts	\$ 1,683,138	\$ 1,683,138	\$ 1,683,138	\$ —	\$ —

The fair value of corn futures contracts were based on quoted market prices in active markets.

PATRIOT HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

12. OPERATING LEASES

The Company has various equipment leases under non-cancelable leases through June 2016. Rent expense for operating leases was approximately \$54,000 and \$115,000 for the years ended December 31, 2013 and 2012, respectively.

At December 31, 2013, the Company had the following minimum lease commitments for payment of rentals under leases, which at inception had a non-cancelable term of over one year:

Periods ending December 31,	
2014	\$ 48,243
2015	10,324
2016	4,302
Total minimum lease commitments	<u>\$ 62,869</u>

13. RISKS AND UNCERTAINTIES

The Company has certain risks and uncertainties that it experiences during volatile market conditions, which can have a significant impact on operating results. The Company's revenues are derived from the sale and distribution of ethanol and distillers grains to customers primarily located in the U.S. Corn for the production process is supplied to the Company's plant primarily from local agricultural producers and is purchased on the open market. For the year ended December 31, 2013, ethanol sales were 75% of total revenues and corn costs were 81% of cost of goods sold.

The Company's operating and financial performance is largely driven by the prices at which it sells ethanol and the cost at which it purchases corn. The price of ethanol and the cost of corn are both influenced, not necessarily in similar directions, by factors such as supply and demand, the weather, and by government policies and programs. Ethanol is also influenced by unleaded gasoline prices and the petroleum markets as a whole, which do not necessarily impact the cost of corn. Similarly, the cost of corn may be influenced, independently of ethanol, by other grain markets such as wheat and soybeans. The Company utilizes various risk management policies and programs to protect against the price volatility of these commodities, as well as those of natural gas and distillers grains.

14. LEGAL PROCEEDINGS

From time to time in the ordinary course of business, the Company may be named as a defendant in legal proceedings related to various issues, including without limitation, workers' compensation claims, tort claims, or contractual disputes. The Company is not currently a party to any material pending legal proceedings and we are not currently aware of any such proceedings contemplated by any third party or government authorities.

Patriot Holdings, LLC

Consolidated Financial Statements as of and for the Years Ended December 31, 2012 and December 31, 2011 And Report of Independent Registered Public Accounting Firm

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Patriot Holdings, LLC
Annawan, Illinois

We have audited the accompanying consolidated balance sheets of Patriot Holdings, LLC and Subsidiaries (formerly known as Patriot Renewable Fuels, LLC) as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended. Patriot Holdings, LLC's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Patriot Holdings, LLC as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Boulay, Heutmaker, Zibell & Co. P.L.L.P.
Certified Public Accountants

Minneapolis, Minnesota
March 21, 2013

PATRIOT HOLDINGS, LLC
Consolidated Balance Sheets
December 31, 2012 and 2011

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 532,014	\$ 3,844,194
Restricted cash	—	183,644
Accounts receivable, net	3,465,138	6,887,155
Inventory	15,843,093	12,169,973
Commodity derivative instruments	1,683,138	240,213
Prepaid expenses and other current assets	778,383	931,939
Total current assets	<u>22,301,766</u>	<u>24,257,118</u>
PROPERTY, PLANT, AND EQUIPMENT		
Property, plant, and equipment, at cost	163,270,363	161,492,610
Accumulated depreciation	(39,410,230)	(29,951,783)
Property, plant, and equipment, net	<u>123,860,133</u>	<u>131,540,827</u>
OTHER NON-CURRENT ASSETS		
Deferred financing costs, net	225,354	242,556
Long-term assets	1,033,575	533,575
Notes receivable	26,211,113	28,226,201
Interest receivable	9,989,080	7,973,993
Total other non-current assets	<u>37,459,122</u>	<u>36,976,325</u>
TOTAL ASSETS	<u><u>\$ 183,621,021</u></u>	<u><u>\$ 192,774,270</u></u>
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 4,453,848	\$ 4,739,259
Accrued expenses and other current liabilities	2,141,718	2,148,637
Accrued loss on firm purchase commitments	1,615,000	—
Due to broker	1,833,226	—
Revolving note	3,763,984	—
Current portion of interest rate swap	—	1,303,842
Current portion of long-term debt	6,393,229	12,058,569
Total current liabilities	<u>20,201,005</u>	<u>20,250,307</u>
LONG-TERM LIABILITIES		
Long-term debt	38,909,578	45,630,613
Interest rate swap	—	1,386,831
Deferred income	26,957,177	29,085,375
Total long-term liabilities	<u>65,866,755</u>	<u>76,102,819</u>
COMMITMENTS AND CONTINGENCIES		
MEMBERS' EQUITY , 65,000 units authorized; 45,607 and 45,741 units issued and outstanding, respectively	<u>97,553,261</u>	<u>96,421,144</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 183,621,021</u></u>	<u><u>\$ 192,774,270</u></u>

Notes to the Consolidated Financial Statements are an integral part of this Statement.

PATRIOT HOLDINGS, LLC
Consolidated Statements of Operations
Years ended December 31, 2012 and 2011

	Years Ended December 31,	
	2012	2011
REVENUES	\$ 365,302,083	\$ 377,249,524
COST OF GOODS SOLD	355,153,776	348,042,328
LOWER OF COST OR MARKET ADJUSTMENT	2,463,000	—
GROSS MARGIN	7,685,307	29,207,196
OPERATING EXPENSES	3,529,108	3,276,329
OPERATING INCOME	4,156,199	25,930,867
OTHER INCOME (EXPENSE)		
Interest expense	(3,205,198)	(5,003,263)
Gain on interest rate swap	153,623	1,506,159
Other income	215,093	181,005
Total other expense, net	(2,836,482)	(3,316,099)
NET INCOME	\$ 1,319,717	\$ 22,614,768

Notes to the Consolidated Financial Statements are an integral part of this Statement.

PATRIOT HOLDINGS, LLC
Consolidated Statements of Changes in Members' Equity
Years ended December 31, 2012 and 2011

BALANCE – December 31, 2010	\$ 80,667,526
Member distributions	(6,861,150)
Net income for the year ended December 31, 2011	<u>22,614,768</u>
BALANCE – December 31, 2011	96,421,144
Repurchase of membership units	(187,600)
Net income for the year ended December 31, 2012	<u>1,319,717</u>
BALANCE – December 31, 2012	<u><u>\$ 97,553,261</u></u>

Notes to the Consolidated Financial Statements are an integral part of this Statement.

PATRIOT HOLDINGS, LLC
Consolidated Statements of Cash Flows
Years ended December 31, 2012 and 2011

	Years Ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,319,717	\$ 22,614,768
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,330,250	7,196,446
Noncash interest expense	339,473	173,090
Change in fair value of interest rate swap	(153,623)	(1,506,159)
Change in fair value of commodity derivative instruments	(3,778,617)	1,862,147
Patronage dividend received	—	(200,475)
Changes in operating assets and liabilities:		
Restricted cash – commodity margin account	183,644	1,168,632
Accounts receivable	3,422,017	(3,214,009)
Inventory	(3,673,120)	(2,999,853)
Prepays and other current assets	153,556	170,293
Commodity derivative instruments	2,335,692	(4,082,585)
Long-term assets	(500,000)	—
Accounts payable	1,547,815	1,056,866
Accrued loss on firm purchase commitments	1,615,000	—
Accrued expenses	(88,534)	(170,241)
Net cash flows provided by operating activities	10,053,270	22,068,920
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(1,696,138)	(3,713,614)
Net cash flows used in investing activities	(1,696,138)	(3,713,614)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from working capital loan	3,763,984	—
Proceeds from long-term debt	51,441,585	—
Payments on long-term debt	(63,827,960)	(13,000,628)
Payments on interest rate swap settlement	(2,537,050)	—
Payments for debt financing costs	(322,271)	—
Payments for membership unit repurchase	(187,600)	—
Distributions paid	—	(6,861,150)
Net cash flows used in financing activities	(11,669,312)	(19,861,778)
NET DECREASE IN CASH	(3,312,180)	(1,506,472)
CASH – BEGINNING OF PERIOD	3,844,194	5,350,666
CASH – END OF PERIOD	\$ 532,014	\$ 3,844,194
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 2,695,175	\$ 4,800,052
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Property, plant, and equipment additions included in accounts payable and accrued expenses	\$ 81,615	\$ 14,080

Notes to the Consolidated Financial Statements are an integral part of this Statement.

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - In March 2012, the members of Patriot Renewable Fuels, LLC ("Patriot"), a predecessor company of Patriot Holdings, LLC, approved the reorganization of Patriot into a subsidiary of a newly formed holding company, Patriot Holdings, LLC. In the transaction, all of the outstanding membership units of Patriot were converted on a one-for-one basis to membership units of Patriot Holdings, LLC. A second wholly-owned subsidiary, Patriot Export, Inc., ("Export") was also set up as an Interest-Charge Domestic International Sales Corporation, ("IC-DISC"), and has a franchise agreement with Patriot to sell its products which are exported. Patriot pays a commission to Export, which is then redistributed back to the Company as a dividend. The consolidated financial statements include the accounts of the Patriot Holdings, LLC and its wholly-owned subsidiaries (the "Company"). All years presented are for Patriot Holdings, LLC and its predecessor Patriot. All significant intercompany balances and transactions have been eliminated on a consolidated basis for reporting purposes.

Nature of Business - Patriot is the main operating company and has a dry mill, corn-based processing facility that produces fuel-grade ethanol, distillers grains, and corn oil, co-products of the ethanol production, that are derived from corn. The ethanol plant is located in Annawan, Illinois and the Company sells its production of ethanol and distillers grains throughout the United States and various international locations. The ethanol plant has a nameplate capacity (guaranteed by the design-builder) to produce 100 million gallon per year of denatured fuel-grade ethanol and approximately 320 thousand tons of dried distillers grains with solubles ("DDGS") and process 35.7 million bushels of corn. The Company typically produces ethanol in excess of the nameplate production amount.

Use of Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The Company uses estimates and assumptions in accounting for the following significant matters, among others: economic lives of property and equipment, realizability of accounts receivable; valuation of inventory, inventory purchase commitments, notes receivable arising from tax increment financing, long-term investments, and the assumptions used in the impairment analysis of long-lived assets. Actual results may differ from previously estimated amounts, and such differences may be material to our financial statements. The Company periodically reviews estimates and assumptions, and the effects of revisions are reflected in the period in which the revision is made. For the years ended December 31, 2012 and 2011, the Company did not make any revisions to the financial statements for actual results that differed from previously estimated amounts.

Revenue Recognition - The Company sells ethanol, DDGS, and corn oil pursuant to marketing agreements as discussed further in Note 8, and generally recognizes revenue at the time of loading ethanol, distillers grains, or corn oil into trucks, railcars, or containers. This is the point at which the marketer has taken title and assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. Title is generally assumed by the buyer at the Company's shipping point. In certain instances where the sales price of the Company's ethanol is not fixed or determinable at the time title transfers to the customer, the Company defers the income until the price does become fixed or determinable.

In accordance with the Company's agreements for the marketing and sale of ethanol and related products, marketing fees and commissions due to the marketers are deducted from the gross sales price at the time incurred. Commissions were approximately \$2,702,000 and \$2,968,000 for the years ended December 31, 2012 and 2011, respectively. Revenue is recorded net of these commissions as they do not provide an identifiable benefit that is sufficiently separable from the sale of ethanol and related products.

PATRIOT HOLDINGS, LLC
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Expense Recognition – Cost of goods sold consists primarily of costs for raw materials, utilities, conversion costs, freight, warehousing costs, salaries, wages and expenses for plant operating staff and plant management, depreciation and amortization expenses, general facility overhead charges, property taxes, and property and casualty insurance.

General and administrative expenses consist primarily of salaries and expenses for management, administrative and accounting employees, and fees paid to outside service providers such as legal, accounting, and consulting firms.

Cash – The Company maintains cash primarily in accounts with two financial institutions which, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts or any losses in connection with these balances.

Accounts Receivable – Accounts receivable are recorded at their estimated net realizable value and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the statement of cash flows. The Company does not have any off-balance sheet credit exposure related to its customers. Accounts are considered past due if payment is not made on a timely basis in accordance with the Company's credit terms. Accounts considered uncollectible are written off. The Company follows a policy of providing an allowance for doubtful accounts when deemed necessary; however, based on historical experience, and its evaluation of the status of receivables, the Company believes that all accounts are collectible in all material respects and thus an allowance was not necessary at December 31, 2012 or 2011. It is possible this estimate will change in the future.

The Company performs periodic credit evaluations of its marketers and has not required collateral. The Company's operations vary with the volatility of the market for inputs (including corn, natural gas, chemicals, and denaturant) and for finished products (ethanol and DDGS), and to mitigate that volatility the Company actively seeks to minimize inventory and accounts receivable levels.

Inventory – Inventory is stated at the lower of cost or market. Cost is determined using the first in, first out ("FIFO") method. Market is based on current replacement values except that it does not exceed net realizable values and it is not less than net realizable values reduced by allowances from normal profit margin. Inventories consist of raw materials (corn, chemicals, denaturant), work in process, finished goods (ethanol and DDGS) and spare parts.

All materials and production costs related to the production of ethanol and distillers grains not sold are capitalized as inventory and recognized as cost of sales when the sale of the products is recognized.

Prepaid Expenses – Prepaid expenses are recorded for non-inventory purchases that will be consumed in less than one year. Included in prepaid expenses and other assets are certain costs paid in advance for natural gas.

Property, Plant, and Equipment – Property, plant, and equipment is stated at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years as shown in the table below:

<u>Asset Description</u>	<u>Years</u>
Land improvements	10-30 years
Buildings	15-30 years
Process equipment	3-20 years
Grain handling equipment	10 years
Railroad and rail equipment	10-20 years
Office and computer equipment	3-5 years

PATRIOT HOLDINGS, LLC
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

The Company expenses maintenance and repair costs as incurred and major betterments and improvements are capitalized. Depreciation expense for the years ended December 31, 2012 and 2011 totaled approximately \$9,458,000 and \$9,325,000, respectively.

Property, plant, and equipment are reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including, but not limited to, discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. The Company did not identify any triggering events that would require additional impairment analysis for both the years ended December 31, 2012 or 2011.

Notes Receivable – The Company received promissory notes from the Village of Annawan (the “Village”) under a tax increment financing (“TIF”) agreement. The Village provided funds in the form of interest bearing notes. The notes bear interest at a fixed rate established at the time of issuance based on the prime rate, not to exceed 9% per annum. See Note 4 for further discussion.

Deferred Financing Costs – Costs incurred in connection with both the original financing for the ethanol plant and the long-term debt refinanced in March 2012 as discussed in Note 5 were deferred and amortized over the term of the respective financing using the effective interest method. In conjunction with the Company’s refinancing of long term debt in March 2012, the Company expensed \$202,773 related to the unamortized financing costs for the original financing which is included as a component of interest expense within the consolidated statements of operations.

Accounts Payable – Accounts payable are recorded as invoices are received from vendors at the invoiced amount. Accrued payables for raw materials received but not invoiced are included in accounts payable.

Interest Rate Swap – The Company previously entered into a derivative contract to fix the interest rate for a portion of its original long-term debt. As part of the Company’s refinancing of long-term debt in March 2012 as discussed in Note 5, the interest rate swap was settled. The Company recorded the interest rate swap at fair value with changes in fair value recognized in earnings because the interest rate swap was not designated as a cash flow hedge. See Note 6 for further discussion.

Deferred Income – Proceeds received from the Village under the TIF agreement are recorded as deferred income and will be amortized into income over the life of the related property, plant, and equipment. See Note 4 for further discussion.

Income Taxes – The Company is treated as a partnership for federal and state income tax purposes and generally does not incur income taxes. Instead, the earnings and losses are included in the income tax returns of the members. Therefore, no provision or liability for federal or state income taxes has been included in these financial statements. Differences between the financial statement basis of assets and tax basis of assets is related to capitalization and amortization of organization and start-up costs for tax purposes, whereas these costs are expensed for financial statement purposes. In addition, the Company uses the modified accelerated cost recovery system method (“MACRS”) for tax depreciation instead of the straight-line method that is used for book depreciation, which also causes temporary differences. The Company has no uncertain tax positions as of December 31, 2012 or 2011. The Company is no longer subject to federal or state income tax examinations by tax authorities for years before 2009.

PATRIOT HOLDINGS, LLC
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Fair Value – The Company has adopted guidance for fair value measurement related to nonfinancial items that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

No events occurred during the years ended December 31, 2012 or 2011 that required adjustment to the recognized balances of assets or liabilities, which are recorded at fair value on a nonrecurring basis.

The carrying value of restricted cash, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short maturity of these instruments. The fair value of long-term debt has been estimated using discounted cash flow analysis based upon the Company's current incremental borrowing rates for similar types of financing arrangements. The fair value of outstanding debt with fixed rate terms will fluctuate with changes in applicable interest rates. Fair value will exceed carrying value when the current market interest rate is lower than the interest rate at which the debt was originally issued. The fair value of a company's debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules. As of December 31, 2012, the Company believes the carrying amount of the long-term debt approximates the fair value because market conditions had not changed significantly since the refinancing in March 2012.

Environmental Liabilities – The Company's operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdiction in which it operates. These laws require the Company to investigate and remediate the effects of the release or disposal of material in its location. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, occupational health, and the production, handling, storage and use of hazardous materials to prevent environmental or other damage, and to limit the financial liability which could result from such events. Environmental liabilities would be recorded if the Company's liability is probable and the costs can be reasonably estimated. No such liabilities were recorded at December 31, 2012, and 2011 and the Company is not currently a party to any material unsettled environmental legal proceedings at December 31, 2012.

Subsequent Events – The Company has evaluated subsequent events through March 21, 2013, the date the financial statements were available to be issued.

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2. INVENTORY

A summary of inventory at December 31, 2012 and 2011 is as follows:

	2012	2011
Raw materials	\$ 3,765,301	\$ 3,685,195
Work in progress	1,305,763	1,353,138
Finished goods	8,971,418	5,427,803
Spare parts	1,800,611	1,703,837
Totals	<u>\$ 15,843,093</u>	<u>\$ 12,169,973</u>

The Company performs a lower of cost or market analysis to determine if the market values of certain inventories are less than their carrying value, which is attributable primarily to decreases in market prices of corn and ethanol. Based on the lower of cost or market analysis, the Company was required to record a lower of cost or market charge of approximately \$848,000 on certain inventories for the year ended December 31, 2012. The Company also recorded a lower of cost or market adjustment charge of \$1,615,000 related to firm purchase commitments, as further discussed in Note 8. The Company did not record any lower of cost or market adjustment for the year ended December 31, 2011.

3. PROPERTY, PLANT, AND EQUIPMENT

A summary of property, plant, and equipment at December 31, 2012 and 2011 is as follows:

	2012	2011
Land and land equipment	\$ 18,186,447	\$ 18,149,120
Process and grain handling equipment	116,542,869	115,184,474
Buildings	26,407,808	26,198,661
Furniture, fixtures and computer equipment	1,966,805	1,960,355
Construction in progress	166,434	—
	<u>163,270,363</u>	<u>161,492,610</u>
Accumulated depreciation	(39,410,230)	(29,951,783)
Total property and equipment, net	<u>\$ 123,860,133</u>	<u>\$ 131,540,827</u>

4. TAX INCREMENT FINANCING

During the years ended December 31, 2009, 2008 and 2007, the Company received amounts from the Village of Annawan, Illinois (the "Village") under a TIF agreement. The Village provided funds in the form of interest bearing notes in 2009 and 2008, as well as cash proceeds from a TIF bond issuance in 2007. The notes bear interest at a fixed rate established at the time of issuance based on the prime rate, not to exceed 9% per annum. Bonds issued to fund the TIF arrangement are not a liability of the Company but are an obligation of the Village since the Company does not guarantee the TIF debt and has no obligation to satisfy any shortfall in annual debt service requirements. The bonds and related notes are to be repaid by the Village from the incremental increase in property taxes related to the improvement of the Company's real property. The proceeds of the financing have been recorded as deferred income and will be amortized into income with such amortization amount based on the life of the related property and equipment. The amount of reimbursements to be received under the TIF agreement is not to exceed \$41,772,000 plus related interest on the TIF notes receivable. As of December 31, 2012, the Company had received \$9,000,000 in cash from the Village in addition to four notes receivable totaling \$32,754,979. The amount recorded by the Company as

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deferred income related to the amounts received was \$41,754,979. Included in the statement of operations for each of the years ended December 31, 2012 and 2011, the Company amortized \$2,128,198 deferred income which was netted against depreciation expense and is included as a component of costs of goods sold.

As of December 31, 2012 and 2011, the unamortized deferred income balance was \$26,957,177 and \$29,085,375, respectively. The notes, net of the valuation allowance discussed below, had accrued interest receivable of \$9,989,080 and \$7,973,993 at December 31, 2012 and 2011, respectively, and is recorded separate from the notes received as interest receivable. Non-cash interest income was accrued on the notes receivable at the weighted average interest rate for the four notes at 6.1% for both the years ended December 31, 2012 and 2011, and was included in the statements of operations as interest income. At December 31, 2012 and 2011, the Company has recorded a valuation allowance of \$6,543,866 and \$4,528,778, respectively, against the notes receivable based on the uncertainty of future cash flows of the Village.

5. LONG-TERM DEBT and REVOLVING LINE OF CREDIT

	<u>2012</u>	<u>2011</u>
Secured by substantially all Company assets:		
Fixed rate note, variable rate interest of 90 day LIBOR plus 300 basis points, swapped to a fixed rate of 8.655%, paid in full during 2012.	\$ —	\$ 35,746,154
Variable rate note, variable interest of 90 day LIBOR plus 450 basis points with a minimum rate of 5.5%, paid in full during 2012.	—	13,943,028
Long-term reducing revolving note, variable interest of 90 day LIBOR plus 450 basis points with a minimum rate of 5.5%, paid in full during 2012	—	8,000,000
Term note, fixed rate interest of 4.6%, due March 2017	45,302,807	—
Total debt	45,302,807	57,689,182
Less: current maturities	(6,393,229)	(12,058,569)
Total long-term debt	<u>\$ 38,909,578</u>	<u>\$ 45,630,613</u>

On March 30, 2012, the Company entered into a new definitive loan agreement (the "Agreement") with a financial institution (the "Bank") for a fixed rate term note and a fixed rate revolving note. With the proceeds from the new notes, the Company paid the outstanding balances of its outstanding fixed rate note, variable rate note and long-term reducing revolving note issued by a separate financial institution. The new fixed rate term loan for \$50,000,000 has a fixed interest rate of 4.6%. The fixed rate revolving note for \$10,000,000 has an interest rate of the greater of the indexed prime rate plus 0.5% or 4.00%.

In December 2012, the Company signed an amendment to the Agreement for an additional working capital loan for \$4,250,000 with an interest rate of the greater of the indexed prime rate plus 1% or 5.75%. Both the fixed rate revolving note and the working capital loan expire in March 2013. The Company is currently in negotiations with their lender to renew both the fixed rate revolving note and the working capital loan. There was no outstanding balance at December 31, 2012 on the working capital note and \$3,763,984 outstanding on the revolving note. Interest for all three notes is payable monthly.

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The new Agreement contains various restrictive covenants which, among other matters, require that the Company meet certain financial ratios. At December 31, 2012, the Company is in compliance with all of its financial covenants except for the working capital covenant. The Company has received a waiver for this covenant as of December 31, 2012. The Company expects to remain in compliance with all of its covenants throughout 2013.

Annual expected maturities for the new long-term debt at December 31, 2012 are as follows:

2013	\$ 6,393,229
2014	6,697,859
2015	7,017,004
2016	7,348,180
2017	17,846,535
Total	<u>\$ 45,302,807</u>

6. DERIVATIVE INSTRUMENTS

From time to time the Company enters into derivative transactions to hedge its exposures to interest rate and commodity price fluctuations. The Company does not enter into derivative transactions for trading purposes.

The Company provides qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses from derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

As of December 31, 2012, the Company had corn derivative instruments. As of December 31, 2011, the Company had corn derivative instruments and an outstanding interest rate swap agreement. The Company records its derivative financial instruments as either assets or liabilities at fair value in the balance sheet. Derivatives qualify for treatment as hedges when there is a high correlation between the change in fair value of the derivative instrument and the related change in value of the underlying hedged item. Based upon the exposure being hedged, the Company designates its hedging instruments as a fair value hedge, a cash flow hedge or a hedge against foreign currency exposure. The Company formally documents, designates, and assesses the effectiveness of transactions that receive hedge accounting initially and on an on-going basis. The Company does not currently have any derivative instruments that are designated as effective hedging instruments for accounting purposes, although they believe they function as economic cash flow hedges.

Commodity Contracts

As part of its hedging strategy, the Company may enter into corn commodity-based derivatives, through its corn origination agreement as discussed in Note 8, in order to protect cash flows from fluctuations caused by volatility in commodity prices in order to protect gross profit margins from potentially adverse effects of market and price volatility on corn purchase commitments where the prices are set at a future date. These derivatives are not designated as effective hedges for accounting purposes. For derivative instruments that are not accounted for as hedges, or for the ineffective portions of qualifying hedges, the change in fair value is recorded through earnings in the period of change. Corn derivative changes in fair market value are included in cost of goods sold. At December 31, 2012, the total notional amount of the Company's outstanding corn derivative instruments was approximately 3,490,000 bushels that were entered into to hedge forecasted corn purchases through December 2013. At December 31, 2011, the total notional amount of the Company's outstanding corn derivative instruments was approximately 3,020,000 bushels that were entered into to hedge forecasted corn purchases through December 2012.

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Interest Rate Contact

As discussed in Note 5 the Company entered into a forward starting interest rate swap in the notional amount of \$46,950,000 during 2006 to limit its exposure to the impact of increasing interest rates on its results of operations and future cash flows for interest. The Swap fixed the interest rate of the Fixed Rate Note at 8.655% and was effective as of October 8, 2008. With the retirement of the Fixed Rate Note, the interest rate swap was settled on March 30, 2012 for \$2,537,050.

At December 31, 2011, the Company had approximately \$35,700,000 of notional amount outstanding in swap agreements that exchange the variable interest rate (three-month LIBOR plus 300 basis points) for a fixed interest rate (8.655%) over the term of the agreement. At December 31, 2011, the fair value of the interest rate swap totaled approximately \$2,700,000 of which approximately \$1,300,000 is classified as a current liability and approximately \$1,400,000 is classified as a long-term liability. The swap agreement was not designated as an effective hedge for accounting purposes and the change in fair market value and associated net settlements are recorded in interest expense.

The following table provides details regarding the Company's derivative financial instruments at December 31, 2012:

Consolidated Balance Sheet		Assets	Liabilities
Location			
Corn contracts	Commodity derivative instruments	\$ 1,683,138	\$ —
Corn contracts	Commodity derivative instruments	—	—
Totals		\$ 1,683,138	\$ —

The following table provides details regarding the Company's derivative financial instruments at December 31, 2011:

Consolidated Balance Sheet		Assets	Liabilities
Location			
Corn contracts	Commodity derivative instruments	\$ 240,213	\$ —
Interest rate swap	Interest rate swap – current	—	1,303,842
Interest rate swap	Interest rate swap – long-term	—	1,386,831
Totals		\$ 240,213	\$ 2,690,673

The following table provides details regarding gains and (losses) from the Company's derivative financial instruments in the statement of operations, none of which are designated as hedging instruments:

Consolidated Statement		Year ended	Year ended
of Operations Location		December 31, 2012	December 31, 2011
Corn contracts	Cost of goods sold	\$ 3,778,617	\$ (1,862,147)
Interest rate swap	Gain on interest rate swap	153,623	1,506,159
Total gain (loss)		\$ 3,932,240	\$ (355,988)

7. RELATED PARTY TRANSACTIONS

The Company has engaged CGB Enterprises Co. ("CGB"), an equity member to source corn for the Company under a long-term agreement on a fee per bushel basis (discussed further in Note 8).

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The Company has purchased chemicals used in its production process from Michlig Agricenter, Inc. (“Michlig”), on the basis of price and availability. There are no volume or price commitments by either party. The sole owner of Michlig is a Board member of the Company. Michlig was sold in 2011 and is no longer owned by the Board member.

Total amounts paid to related parties during the years ended December 31, 2012 and 2011 were as follows:

	<u>Year ended</u> <u>December 31, 2012</u>	<u>Year ended</u> <u>December 31, 2011</u>
CGB	\$ 299,034,055	\$ 282,254,429
Michlig	—	480,836
Totals	<u>\$ 299,034,055</u>	<u>\$ 282,735,265</u>

Total amounts payable to related parties at December 31, 2012 and 2011, which are included in accounts payable, were as follows:

	<u>2012</u>	<u>2011</u>
CGB	\$ 1,596,948	\$ 1,667,504

The Company has engaged Murex N.A, LTD, (“Murex”), an equity member, to market ethanol for the Company under a long term agreement on a percentage of revenue commission basis. Total amounts owed to the Company from Murex, as of December 31, 2012 and 2011 were \$1,272,774 and \$5,531,741, respectively.

8. COMMITMENTS AND CONTINGENCIES

Corn Origination Agreement

The Company has a corn origination agreement with CGB, an equity member of the Company, whereby they are entitled to the exclusive right for procurement of 100% of the corn needs for the plant. The contract commenced in 2008 and continues for four years from the first delivery date, with one automatic renewal for a one year term unless terminated by either party. The price of the corn purchased will be the bid price CGB establishes with the producer of corn plus a set fee per bushel. At December 31, 2012, the Company had open forward corn purchase commitments for 3,488,944 bushels at an average price of \$7.58 with CGB. At December 31, 2012, some of these forward purchase contracts are above market prices for corn. Given declining corn and ethanol prices, the Company would incur a loss upon delivery under these contracts. The loss is determined by calculating the net realizable value of the raw products similar to the lower of cost or market methodology used in valuing inventories. At December 31, 2012, the Company recorded a \$1,615,000 loss that is included in the Lower of Cost or Market Adjustment in the Consolidated Statement of Operations. Given the uncertainty and volatility of corn and ethanol prices, this loss may not be recovered, and further losses on the outstanding purchase commitments could be recorded in future periods. At December 31, 2011, the Company had open forward corn purchase commitments for 7,696,637 bushels at an average price of \$6.55 with CGB.

Ethanol Marketing Agreement

The Company has a marketing agreement with Murex, an equity member of the Company, whereby they are entitled to the exclusive right for sale and distribution of 100% the Company’s ethanol. The Company pays the buyer a percentage of the net sales price for certain marketing costs. The initial term is for five years beginning in August 2008 with one year renewal terms unless notice is given by either party at least 90 days prior to the end of the current term. During the year ended December 31, 2012, the Company had approximately \$276,900,000 of ethanol sales to Murex, of which approximately \$1,273,000 is included in accounts receivable at December 31, 2012. The Company had approximately \$309,400,000 of ethanol sales to Murex during 2011,

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of which approximately \$5,532,000 is included in accounts receivable at December 31, 2011. For the years ended December 31, 2012 and 2011, ethanol sales are recorded net of commissions totaling approximately \$2,700,000 and \$2,970,000, respectively.

Distillers Grains Marketing Agreement

The Company has a marketing agreement with CHS, Inc., whereby they are entitled to the exclusive right for sale and distribution of 100% of the plant's dried distiller's grains with solubles and wet distiller's grains with solubles. The initial term of the agreement was one year, but the agreement is to remain in effect until terminated by either party at its unqualified option, by providing written notice of not less than 90 days to the other party. Neither party to the agreement has provided such notice. For the year ended December 31, 2012, the Company recorded DDGS sales of approximately \$82,600,000 net of commissions of approximately \$700,000. For the year ended December 31, 2011, the Company recorded DDGS sales of approximately \$66,400,000 net of commissions of approximately \$920,000.

Natural Gas Contracts

At December 31, 2012, the Company had forward contracts to purchase approximately 230,000 British thermal units (MMBTU) of natural gas through January 2013 at an average price of approximately \$3.65 per MMBTU. At December 31, 2011, the Company had forward contracts to purchase approximately 1,098,000 British thermal units (MMBTU) of natural gas through September 2012 at an average price of approximately \$3.91 per MMBTU.

9. CONCENTRATIONS

For the year ended December 31, 2012 and 2011, two customers accounted for substantially all of the Company's revenues and trade accounts receivable. Accounts receivable for the ethanol marketer represented 37% and 80% of total outstanding receivables at December 31, 2012 and 2011, respectively. Accounts receivable for the dry distiller grains marketer represented 54% and 18% of total outstanding receivables at December 31, 2012 and 2011, respectively. Revenues for the ethanol marketer represented 75% and 81% of total revenues for the years ended December 31, 2012 and 2011, respectively. Revenues for the dry distiller grains marketer represented 22% and 17% of total revenues for the years ended December 31, 2012 and 2011, respectively. The Company began producing and selling corn oil in 2011, which accounted for 3% and 1% of total revenue for the years ended December 31, 2012 and 2011, respectively.

The Company has revenue and accounts receivable concentrations in ethanol and distillers grains due to the Company's use of one marketer for each product; however, the sale of these products could be achieved by using other marketers without any significant effect on operations.

10. MEMBERS' EQUITY

As specified in the Company's operating agreement, the Company has one class of membership units. The Company is authorized to issue up to 65,000 membership units. No additional units may be issued for less than \$500 per unit without the consent of the majority of the membership units then outstanding. Profits and losses of the Company are allocated to members based on the proportion of units held. As of December 31, 2012 and 2011 the Company had 45,607 and 45,741 membership units issued and outstanding, respectively.

During 2011, the Company paid a cash distribution of \$150.00 per membership unit for a distribution total to its unit holders of approximately \$6,900,000. The Company did not pay any distributions in 2012.

During 2012, the board approved the cash redemption of 134 membership units totaling \$187,600.

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11. FAIR VALUE MEASUREMENTS

The Company follows accounting guidance related to fair value disclosures. For the Company, this guidance applies to certain derivative investments. The authoritative guidance also clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

The following table sets forth, by level, the Company's assets that were accounted for at fair value on a recurring basis as of December 31, 2012:

	Carrying Amount in Balance Sheet	Fair Value	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable inputs (Level 3)
Financial Assets					
Corn derivative contracts	\$ 1,683,138	\$ 1,683,138	\$ 1,683,138	\$ —	\$ —

The following table sets forth, by level, the Company's liabilities that were accounted for at fair value on a recurring basis as of December 31, 2011:

	Carrying Amount in Balance Sheet	Fair Value	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable inputs (Level 3)
Financial Assets (Liabilities)					
Corn derivative contracts	\$ 240,213	\$ 240,213	\$ 240,213	\$ —	\$ —
Interest rate swap	\$ (2,690,673)	\$ (2,690,673)	\$ —	\$ (2,690,673)	\$ —

Fair values of interest rate swap agreements are obtained from the counterparty, who computes the values based on current market interest rates and yield curves, and have been evaluated for credit swap default risk. The fair value of corn contracts are based on quoted market prices in active markets.

12. OPERATING LEASES

The Company has various equipment leases under non-cancelable leases through June 2016. Rent expense for operating leases was approximately \$115,000 and \$127,000 for the years ended December 31, 2012 and 2011, respectively.

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At December 31, 2012, the Company had the following minimum lease commitments for payment of rentals under leases, which at inception had a non-cancelable term of over one year:

Periods ending December 31,	
2013	\$ 51,183
2014	48,243
2015	10,324
2016	4,302
Total minimum lease commitments	<u>\$ 114,052</u>

13. RISKS AND UNCERTAINTIES

The Company has certain risks and uncertainties that it experiences during volatile market conditions, which can have a significant impact on operating results. The Company's revenues are derived from the sale and distribution of ethanol and distillers grains to customers primarily located in the U.S. Corn for the production process is supplied to the Company's plant primarily from local agricultural producers and is purchased on the open market. For the year ended December 31, 2012 ethanol sales were 75% of total revenues and corn costs including lower of cost or market adjustments were 83% of cost of goods sold.

The Company's operating and financial performance is largely driven by the prices at which it sells ethanol and the cost at which it purchases corn. The price of ethanol and the cost of corn are both influenced, not necessarily in similar directions, by factors such as supply and demand, the weather, and by government policies and programs. Ethanol is also influenced by unleaded gasoline prices and the petroleum markets as a whole, which do not necessarily impact the cost of corn. Similarly, the cost of corn may be influenced, independently of ethanol, by other grain markets such as wheat and soybeans. The Company utilizes various risk management policies and programs to protect against the price volatility of these commodities, as well as those of natural gas and distillers grains.

14. LEGAL PROCEEDINGS

From time to time in the ordinary course of business, the Company may be named as a defendant in legal proceedings related to various issues, including without limitation, workers' compensation claims, tort claims, or contractual disputes. The Company is not currently a party to any material pending legal proceedings and we are not currently aware of any such proceedings contemplated by any third party or government authorities.