

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, 2012

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.)

2875 Needmore Road, Dayton, Ohio  
(Address of principal executive offices)

45414  
(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

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

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  No

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  No

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.

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(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  No

At the close of business on July 31, 2011 the aggregate market value of the registrant's outstanding Common Stock held by non-affiliates of the registrant (for purposes of this calculation, 2,800,735 shares beneficially owned by directors and executive officers of the registrant were treated as being held by affiliates of the registrant), was \$114,313,452.

There were 8,388,132 shares of the registrant's Common Stock outstanding as of April 6, 2012.

Documents Incorporated by Reference

Portions of REX American Resources Corporation's definitive Proxy Statement for its Annual Meeting of Shareholders on June 5, 2012 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, 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](http://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 2875 Needmore Road, Dayton, Ohio 45414. 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.

We completed our exit of the retail business as of July 31, 2009. Going forward, our only retail related activities consist of the administration of extended service plans we previously sold and the payment of related claims. Contract revenues and expenses related to extended service plans are classified as discontinued operations.

At January 31, 2012, we had lease agreements, as landlord, for six owned former retail stores and had 16 vacant former retail properties. We also own one former distribution center that is partially leased, partially occupied by our corporate office personnel and partially vacant. 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 five 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 2012.

Our ethanol operations are highly dependent on commodity prices, especially prices for corn, ethanol, distillers grains, 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 expect decisions to be made on an individual plant basis, as there are different market conditions at each of our ethanol 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 contracts for no more than three months into the future at any given time. As a result of the relatively short period of time our contracts cover, we generally cannot predict the future movements in the crush spread for more than three 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 2011 was subject to significant volatility. For calendar year 2011, the average Chicago Board of Trade ("CBOT") near-month corn price was approximately \$6.80 per bushel, ranging from a low of approximately \$5.88 per bushel in October 2011 to a high of approximately \$7.85 per bushel in June 2011. Ethanol prices had significant fluctuations ranging from approximately \$2.16 per gallon in December to approximately \$2.83 per gallon in July. Ethanol and corn prices have tended to trade in the same direction but with varying spreads. In 2011, the CBOT crush spread ranged from a low of approximately negative \$0.04 per gallon to a high of approximately \$0.44 per gallon. We believe ethanol demand in 2011 was impacted by the expiration of the Volumetric Ethanol Tax Credit Blender Credit as of December 31, 2011. Crush spreads have continued to decline in 2012 and have remained negative (absent the consideration of distillers grains and corn oil). Prices for distillers grains we sell generally trend with grain prices. These prices for distillers grains and prices of corn oil have partially offset the decline in the crush spread.

We reported segment profit (before income taxes and noncontrolling interests) from our alternative energy segment of approximately \$48.6 million in fiscal year 2011 compared to approximately \$13.4 million in fiscal year 2010. The increase in profitability primarily resulted from increased periods of ownership of the NuGen Energy, LLC ("NuGen") plant for the current year and impairment charges and loss on deconsolidation of Levelland Hockley County Ethanol, LLC ("Levelland Hockley") in fiscal year 2010 of approximately \$18.4 million. Levelland Hockley reported a loss from operations during fiscal year 2010, and ceased production in January 2011. 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 2011 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.

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 19 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, 2012, 2011 and 2010.

### **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 2011" means the period February 1, 2011 to January 31, 2012. 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 ongoing 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 characterized by strong plant construction partners and plant management, 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 five entities as of January 31, 2012, utilizing equity investments. As of January 31, 2012, all of the entities we are invested in are operating except for Levelland Hockley. The following table is a summary of our ethanol investments in operating plants at January 31, 2012:

Entity	Trailing 12 Months Ethanol Gallons Sold	REX's Current Ownership Interest	Current Effective Ownership of Trailing 12 Months Ethanol Gallons Sold
One Earth Energy, LLC	104.6 M	74%	77.4 M
NuGen Energy, LLC	114.6 M	98%	112.3 M
Patriot Renewable Fuels, LLC	114.8 M	26%	29.8 M
Big River Resources W Burlington, LLC	105.5 M	10%	10.5 M
Big River Resources Galva, LLC	106.4 M	10%	10.6 M
Big River United Energy, LLC	118.2 M	5%	5.9 M
Big River Resources Boyceville, LLC (1)	4.7 M	10%	0.5 M
Total	668.8 M		247.0 M

(1) Our current effective annual gallons sold represents one month of ownership of Big River Resources Boyceville, LLC.

### ***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 in the second quarter of fiscal year 2009 of its ethanol production facility in Gibson City, Illinois. The plant has an annual nameplate capacity of 100 million gallons of ethanol and 320,000 tons of dried distillers grains ("DDG").

One Earth commenced production operations late in the second quarter of fiscal year 2009 and began generating revenue in the third quarter of fiscal year 2009.

### ***NuGen Energy, LLC***

Effective July 1, 2010, we acquired a 48% equity interest in NuGen, which operates an ethanol producing facility in Marion, South Dakota with an annual nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG. 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 that we are entitled to until such balance is paid ("Contingent Consideration"). On November 1, 2011, we acquired an additional 50% equity interest in NuGen. Following the purchase, we own 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.

### ***Patriot Renewable Fuels, LLC***

We have invested approximately \$18.0 million in Patriot Renewable Fuels, LLC, or Patriot, for a 26% ownership interest. Patriot commenced production operations in the second quarter of fiscal year 2008. The

plant is located in Annawan, Illinois and has an annual nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG.

### ***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 with an annual nameplate capacity of 92 million gallons of ethanol and 294,000 tons of DDG. This plant is located in West Burlington, Iowa. The facility has been in operation since 2004.

Big River completed construction in the second quarter of fiscal year 2009 of its second plant which has an annual nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG. This plant is located in Galva, Illinois.

In August 2009, Big River acquired a 50.5% interest in an ethanol production facility which has an annual nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG. The plant 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 has an annual nameplate capacity of 55 million gallons of ethanol and 176,000 tons of DDG. The plant is located in Boyceville, Wisconsin.

Big River also operates five agricultural elevators with a storage capacity of 10 million bushels.

### ***Levelland Hockley County Ethanol, LLC***

Through a series of equity and convertible debt investments, we had acquired a 56% ownership interest in Levelland Hockley, LLC, or Levelland Hockley, which is located in Levelland, Texas. Levelland Hockley commenced production operations in the first quarter of fiscal year 2008.

The plant was shut down in early January 2011 as a result of industry wide low crush margins and the plant's inability to source grain at affordable prices. On January 31, 2011, we sold 814,000 of our membership units to Levelland Hockley for \$1, reducing our ownership interest in Levelland Hockley to 49%. As a result, we no longer have a controlling financial interest in Levelland Hockley, and, therefore, effective January 31, 2011, we deconsolidated Levelland Hockley. In connection with the deconsolidation, we recorded our remaining noncontrolling equity interest and our debt investments at fair value. Our estimate of fair value for all of our investments in Levelland Hockley was \$0 at January 31, 2011. We recorded a pretax charge of approximately \$18.4 million as a result of deconsolidating Levelland Hockley and writing our remaining investments in Levelland Hockley to \$0 at January 31, 2011. On April 27, 2011, Levelland Hockley voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, Northern District of Texas. As a result, we no longer can exercise significant influence over Levelland Hockley and began using the cost method of accounting. There has been no change in the carrying value of our investments in Levelland Hockley as a result of the change to the cost method of accounting.

### **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 demand in the east- and west-coast markets, primarily as a result of the stricter air quality requirements in large parts of those markets, and the limited ethanol production facilities.

According to the Renewable Fuels Association, or RFA, the United States fuel ethanol industry experienced record production of an estimated 13.9 billion gallons in 2011. As of January 2012, the number of operating ethanol plants increased to 209, up from 54 in 2000 and are located in 29 states with a total capacity of 14.9 billion gallons annually.

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 12.6 billion gallons per year in 2011, with an expected increase to at least 15.0 billion gallons per year by 2015. 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.

### ***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 total corn cost. We have recently installed corn oil extraction equipment at our One Earth and NuGen facilities and expect to begin generating revenues from corn oil sales in the first half of fiscal year 2012. 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. Blending ethanol allows refiners to produce more fuel from a given barrel of oil. Currently, ethanol is blended into approximately 95% 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 and light duty trucks made in 2007 and later. In January 2011, the EPA expanded this to include cars, pickups and SUV’s made in model years 2001 through 2006. Despite this, it

will take time for this measure to be implemented and currently several lawsuits have been filed to stop the expanded measure from moving forward.

**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 do not expect to receive additional income from these investments.

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 5 and 18 of the Notes to the Consolidated Financial Statements for further discussion.

### **Real Estate Operations**

At January 31, 2012, we had lease agreements, as landlord, for six owned former retail stores (77,000 square feet). We have 16 owned former retail stores (206,000 square feet), that are vacant at January 31, 2012. We are marketing these vacant properties to lease or sell. In addition, one former distribution center is partially leased (221,000 square feet), partially occupied by our corporate office personnel (10,000 square feet) and partially vacant (246,000 square feet).

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 \$1,317,000 and \$1,018,000 during fiscal years 2011 and 2010, 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. We plan to manage and administer these contracts and to recognize 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, 2012, we owned six former retail store properties that were leased to outside, unrelated parties. There were also 16 vacant former retail store properties that we were attempting to either lease or sell. In addition, we have one former distribution center that is partially leased, partially occupied by our corporate office and partially vacant. 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, 2012, we had six employees supporting our corporate functions. At January 31, 2012, One Earth and NuGen combined, had 99 employees. 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 our service mark "REX", and we own an application to register the mark "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 Synthetic Fuel Investments and Income Tax Benefits**

##### **We face synthetic fuel risks as future IRS audits may result in the disallowance of previously recognized tax credits.**

We have recognized investment income of approximately \$7.7 million from the sales of our partnership interests from years that the partnerships have not been audited by the Internal Revenue Service (IRS). Should the tax credits be denied on any future audit and we fail to prevail through the IRS or the legal

process, there could be significant refunds of previously recognized income with a significant adverse impact on earnings and cash flows.

The production and sale of synthetic fuel qualified for Section 29/45K tax credits if certain requirements were satisfied, including a requirement that the synthetic fuel differs significantly in chemical composition from the coal used to produce the synthetic fuel and that the fuel was produced from a facility placed in service before July 1, 1998.

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

We have approximately \$24.0 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 reduce our net income and could have a material adverse effect on our results of operations and our financial position.

**Risks Related to our Alternative Energy Business**

**Our ethanol investments are subject to the risks of an inexperienced business which could adversely affect returns on our ethanol investments and our results of operations.**

We do not have long term experience investing in the ethanol industry. We entered into our first agreement to invest in an ethanol plant in November 2005. At January 31, 2012, we were invested in five entities that own and operate seven ethanol production facilities. One facility has been in production since 2004, but the remaining facilities all became operational or were acquired in fiscal year 2008 or later. Our ethanol investments have been managed by our Chief Executive Officer, our Chief Operating Officer and our Chief Financial Officer. We do not otherwise have a dedicated ethanol development or management staff at the parent company level. As a consequence, our ethanol investments are subject to risks including an unproven business model, a lack of operating history and an undeveloped operating structure. These risks could result in our making investments in ethanol plants that perform substantially below our expectations, which would adversely affect our results of operations and financial condition.

**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.**

Our ethanol plants financed approximately 60% of plant construction cost with debt. The debt typically has a balloon payment due after five years. 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.**

In general, continued volatility in the capital markets has resulted in reduced availability of capital for the ethanol industry. 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 substantially 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 generally will be unable 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. 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 the financial returns on our ethanol investments and 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 spread or any further reduction in the spread between ethanol and corn prices, 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 corn oil to decrease.***

According to the RFA, domestic ethanol production nameplate capacity has increased to approximately 14.9 billion gallons per year at January 2012. The RFA estimates that, as of January 2012, approximately 140 million gallons per year of additional production capacity is under construction. Excess capacity in the ethanol industry would 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 corn oil as co-products, increased ethanol production will also lead to increased supplies of distillers grains and corn oil. An increase in the supply of distillers grains and corn oil, without corresponding increases in demand, could lead to lower prices or an inability to sell our ethanol plants' distillers grains and corn oil production. A decline in the price of distillers grains or 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 initiated an anti-dumping and anti-subsidy investigation regarding United States exports of ethanol to Europe and United States policies surrounding ethanol production and use. 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 elimination of the blender's credit could have a material adverse effect on the results of our ethanol operations.*** The American Jobs Creation Act of 2004 created the Volumetric Ethanol Tax Credit, referred to as the "blender's credit." This credit allowed gasoline distributors who blended ethanol with gasoline to receive a federal excise tax credit of \$0.45 per gallon of pure ethanol, or \$0.045 per gallon if blended with 10% ethanol (E-10), and \$0.3825 per gallon if blended with 85% ethanol (E-85). The \$0.45 per gallon incentive for ethanol expired on December 31, 2011. This credit was a significant benefit to our customers and the elimination of this credit makes our product less attractive to customers.

***The effect of the renewable fuel standard ("RFS") program in the Energy Independence and Security Act of 2007 (the "2007 Act") is uncertain.*** The domestic market for ethanol is largely dictated by federal mandates for blending ethanol with gasoline. The RFS mandate level for conventional biofuels for 2012 of 13.2 billion gallons is lower than current domestic production levels. Future demand will be largely dependent upon the economic incentives to blend based upon the relative value of gasoline versus ethanol, taking into consideration the relative octane value of ethanol, environmental requirements and the RFS. Any significant increase in production capacity beyond the RFS level could have a negative impact on ethanol prices. Additionally, the RFS mandate with respect to ethanol derived from grain could be reduced or waived entirely. A reduction or waiver of the RFS mandate could negatively affect ethanol prices and our future performance. The RFS Flexibility Act was introduced on October 5, 2011 in the U.S. House of Representatives to reduce or eliminate the volumes of renewable fuel use required by RFS based upon corn stocks-to-use ratios. The Domestic Alternative Fuels Act of 2012 was introduced on January 18, 2012 in the U.S. House of Representatives to modify the RFS to include ethanol and other fuels produced from fossil fuels like coal and natural gas. Our operations and resulting financial performance could be adversely impacted if the RFS Flexibility Act or the Domestic Alternative Fuels Act of 2012 are enacted into law.

***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 the Energy Independence and Security Act of 2007 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 (RFS2). 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 RFS2 mandate. To expand our plant capacity, we may be required to obtain additional permits, install advanced technology such as corn oil extraction, 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. On December 29, 2011, the U.S. District court for the Eastern District of California issued several rulings in federal lawsuits challenging the LCFS. One of the rulings preliminarily prevents CARB from enforcing these regulations during the pending litigation. On January 23, 2012, CARB unsuccessfully attempted to appeal these rulings in the U.S. District court for the Eastern District of California and on January 26, 2012 filed another appeal with the Ninth Circuit Court of Appeals. While this standard is currently being challenged by various lawsuits, implementation of such a standard may have an adverse impact on the market for corn based ethanol in California. While this standard is being challenged by lawsuits, implementation of such a 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 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.

At certain of our plants, we extract and sell non-edible corn oil immediately prior to the production of distillers grains. Several studies are trying to determine how corn oil extraction may impact the nutritional value of the resulting distillers grains. If it is determined that 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 China’s anti-dumping investigation of distillers grains originating in the United States.**

Estimates indicate that as much as 10 to 15 percent of the distiller grains produced in the United States will be exported to China in the coming year. However, this export market may be jeopardized if the Chinese government imposes trade barriers in response to the outcome of an antidumping investigation currently being conducted by the Chinese Ministry of Commerce. If producers and exporters of distiller grains are subjected to trade barriers when selling distiller grains to Chinese 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. Recently, 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 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 affect 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, which is sugarcane based, has historically been cheaper to produce than corn-based ethanol.

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.

**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.

**Our failure to effectively integrate the recently completed acquisition of NuGen could result in an inability to realize the anticipated benefits of the purchase and adversely affect our business and operating results.**

Our recent acquisition of NuGen will involve the integration of a company that had previously operated independently, which is challenging and time-consuming. The process of integrating NuGen, a previously privately held company, into REX, a publicly traded company, could result in the loss of key employees, the disruption of its ongoing businesses, or inconsistencies in the respective standards, controls, procedures, and policies of the two companies, any of which could adversely affect our ability to maintain relationships with customers, suppliers, and employees. In addition, the successful combination of the companies will require REX to dedicate significant management resources and to potentially expend additional funds for additional staffing, resources and control procedures, all of which could temporarily divert attention from the day-to-day business of the combined company. If we fail to complete an effective integration of NuGen into REX, anticipated growth in revenue, profitability, and cash flow resulting from the purchase of NuGen could be adversely affected.

**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. 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.

**Changes in interest rates could have a material adverse effect on the results of our ethanol operations.**

One Earth and Patriot have interest rate swaps at January 31, 2012 that, in essence, fix the interest rate on a portion of their variable rate debt. During fiscal years 2011, 2010 and 2009, we recognized losses on these swaps. Further reductions in interest rates could increase the liability position of the interest rate swaps, requiring us to record additional expense which could be material. The liability for these interest rate swaps could also result in a default of the term loan agreements’ restrictive financial covenants.

In addition, increases in interest rates could have a negative impact on results of operations as all of the debt our ethanol plants have is variable rate debt. Furthermore, the interest rate swaps do not fix the interest rate on the entire portion of the related debt.

**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.

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

**Our future costs associated with administering extended product service contracts may result in higher than expected costs.**

We will continue to administer extended product service contracts that have contractual maturities over the next three years. To the extent we do not have products or an adequate repair service network to satisfy warranty claims; we may incur material costs as we would be required to refund cash to customers for warranted products.

**We have a significant amount of vacant warehouse and retail space after the completion of the wind down of our retail business.**

At January 31, 2012, we own one distribution facility and 16 former retail store properties comprising approximately 452,000 square feet that are completely or partially vacant. We are currently marketing these facilities for lease or sale. 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.

**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.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Stuart Rose	57	Chairman of the Board and Chief Executive Officer*
Douglas Bruggeman	51	Vice President-Finance, Chief Financial Officer and Treasurer
Edward Kress	62	Secretary*
Zafar Rizvi	62	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.

<b>Fiscal Quarter Ended</b>	<b>High</b>	<b>Low</b>
April 30, 2010	\$ 18.40	\$ 14.87
July 31, 2010	19.30	15.19
October 31, 2010	16.83	12.96
January 31, 2011	17.23	14.84
April 30, 2011	\$ 17.45	\$ 13.36
July 31, 2011	17.66	14.69
October 31, 2011	18.90	14.15
January 31, 2012	26.16	15.85

As of April 5, 2012, there were 126 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 us dividends.

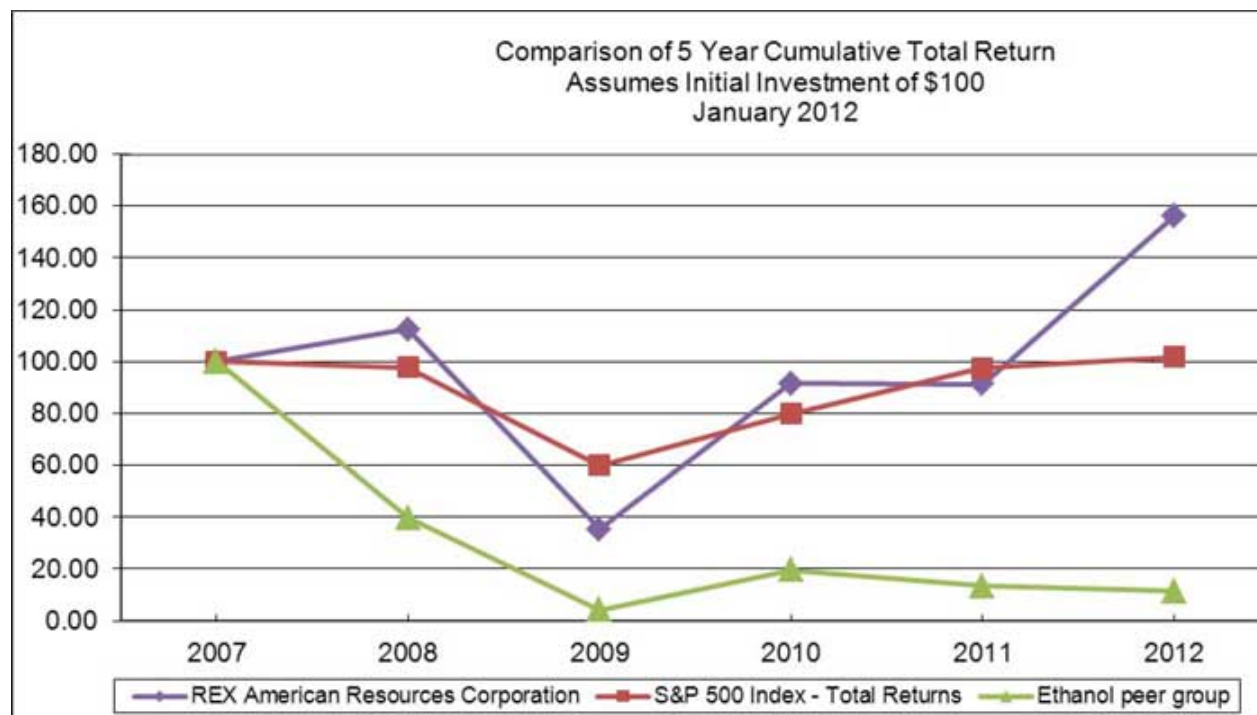
### Issuer Purchases of Equity Securities

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)</b>
November 1-30, 2011	55,788	\$ 17.82	55,788	162,455
December 1-31, 2011	12,063	\$ 21.39	—	162,455
January 1-31, 2012	—	\$ —	—	162,455
<b>Total</b>	<b>67,851</b>	<b>\$ 18.45</b>	<b>55,788</b>	<b>162,455</b>

- (1) A total of 12,063 shares of common stock were purchased by us other than through a publicly announced plan or program. These shares were acquired on December 16, 2011 in payment of the exercise price of stock options exercised by Douglas L. Bruggeman, our Chief Financial Officer pursuant to the Company's Stock-for-Stock and Cashless Option Exercise Rules and Procedures, adopted on June 4, 2001. The purchase price was \$21.39 per share.
- (2) On October 20, 2011, our Board of Directors increased our share repurchase authorization by an additional 500,000 shares. At January 31, 2012, a total of 162,455 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 consumer ethanol producers (\*) for the period commencing January 31, 2007 and ended January 31, 2012. The graph assumes an investment of \$100 in our Common Stock and each index on January 31, 2007 and reinvestment of all dividends.



\* The peer group (and the month the companies went public if within the five year period) is comprised of Pacific Ethanol, Inc., BioFuel Energy Corp. (June 2007) and Green Plains Renewable Energy, Inc. Returns for the peer group are included upon a full year's return being available as of January 31.

## 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 and certain real estate assets to discontinued operations as a result of our exit of the retail business and real estate sales. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of income from ethanol investments, derivative financial instruments, gain on sale of real estate, loss and impairment charges related to deconsolidation 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)

Years Ended January 31,	2012	2011	2010	2009	2008
Net sales and revenue (a)	\$ 409,952	\$ 301,407	\$ 169,777	\$ 68,408	\$ 185
Net (income) loss attributable to noncontrolling interests	\$ (5,428)	\$ (3,673)	\$ (3,900)	\$ 3,156	\$ 841
Income (loss) from continuing operations attributable to REX common shareholders, net of tax (a) (b) (c)	\$ 26,495	\$ 3,386	\$ 6,156	\$ (2,969)	\$ 19,936
Net income (loss) attributable to REX common shareholders (b) (c)	\$ 28,270	\$ 5,069	\$ 8,652	\$ (3,297)	\$ 33,867
Basic income (loss) per share from continuing operations attributable to REX common shareholders (a)	\$ 2.90	\$ 0.35	\$ 0.66	\$ (0.29)	\$ 1.91
Diluted income (loss) per share from continuing operations attributable to REX common shareholders (a)	\$ 2.88	\$ 0.34	\$ 0.65	\$ (0.29)	\$ 1.70
Basic net income (loss) per share attributable to REX common shareholders	\$ 3.10	\$ 0.53	\$ 0.93	\$ (0.32)	\$ 3.25
Diluted net income (loss) per share attributable to REX common shareholders	\$ 3.08	\$ 0.52	\$ 0.91	\$ (0.32)	\$ 2.89
Total assets	\$ 438,049	\$ 375,722	\$ 451,505	\$ 451,288	\$ 408,978
Long-term debt and capital lease obligations, net of current maturities	\$ 108,527	\$ 70,973	\$ 126,689	\$ 103,939	\$ 35,224
Long-term derivative financial instrument liability	\$ 2,541	\$ 3,688	\$ 4,055	\$ 4,032	\$ 2,308

- a) Amounts differ from those previously reported as the results of our former retail segment and certain real estate assets have been reclassified into discontinued operations. See Note 17 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, 2008 include significant amounts of income from the sale of ethanol investments and synthetic fuel partnerships.
- c) 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. Going forward, our only retail related activities will consist of the administration of extended service plans we previously sold and the payment of related claims. All activities related to extended service plans are classified as discontinued operations.

At January 31, 2012, we had lease agreements for all or parts of six former retail properties and had 16 vacant former retail properties. We also own one former distribution center, which is partially leased, partially occupied by our corporate office personnel and partially vacant. 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 five 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 2012.

Our ethanol operations are highly dependent on commodity prices, especially prices for corn, ethanol, distillers grains 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 expect these decisions to be made on an individual plant basis, as there are different market conditions at each of our ethanol 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 contracts for no more than three months into the future at any given time. As a result of the relatively short period of time our contracts cover, we generally cannot predict the future movements in the crush spread for more than three 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 2011 was subject to significant volatility. For calendar year 2011, the average Chicago Board of Trade ("CBOT") near-month corn price was approximately \$6.80 per bushel, ranging from a low of approximately \$5.88 per bushel in October 2011 to a high of approximately \$7.85 per bushel in June 2011. Ethanol prices had significant fluctuations ranging from approximately \$2.16 per gallon in December to approximately \$2.83 per gallon in July. Ethanol and corn prices have tended to trade in the same direction but with varying spreads. In 2011, the CBOT crush spread ranged from a low of



approximately negative \$0.04 per gallon to a high of approximately \$0.44 per gallon. We believe ethanol demand in 2011 was impacted by the expiration of the Volumetric Ethanol Tax Credit Blender Credit as of December 31, 2011. Crush spreads have continued to decline in 2012 and have remained negative (absent the consideration of distillers grains and corn oil). Prices for distillers grains we sell generally trend with grain prices. These prices have partially offset the decline in the crush spread.

We reported segment profit (before income taxes and noncontrolling interests) from our alternative energy segment of approximately \$48.6 million in fiscal year 2011 compared to approximately \$13.4 million in fiscal year 2010. The increase in profitability primarily resulted from increased periods of ownership of the NuGen plant for the current year and impairment charges and loss on deconsolidation of Levelland Hockley recognized in fiscal year 2010 of approximately \$18.4 million. Levelland Hockley reported a loss from operations in fiscal year 2010 and as a result of narrowing crush spreads was shut down in January 2011.

We expect that future operating results from our consolidated ethanol plants will be based upon combined annual production of between 200 and 230 million gallons of ethanol, which assumes that One Earth and NuGen 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 2011 results.

### 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. Historically, we invested in six entities (one of which was divested) and five of which we remain invested in as of January 31, 2012, utilizing equity investments.

The following table is a summary of our ethanol investments in operating plants at January 31, 2012:

Entity	Trailing 12 Months Ethanol Gallons Sold	REX's Current Ownership Interest	Current Effective Ownership of Trailing 12 Months Ethanol Gallons Sold
One Earth Energy, LLC	104.6 M	74%	77.4 M
NuGen Energy, LLC	114.6 M	98%	112.3 M
Patriot Renewable Fuels, LLC	114.8 M	26%	29.8 M
Big River Resources W Burlington, LLC	105.5 M	10%	10.5 M
Big River Resources Galva, LLC	106.4 M	10%	10.6 M
Big River United Energy, LLC	118.2 M	5%	5.9 M
Big River Resources Boyceville, LLC (1)	4.7 M	10%	0.5 M
Total (2)	668.8 M		247.0 M

(1) Our current effective annual gallons sold represents one month of ownership of Big River Resources Boyceville, LLC.

(2) The table excludes Levelland Hockley, which ceased production in January 2011.

One Earth commenced production operations late in the second quarter of fiscal year 2009 and began generating revenue in the third quarter of fiscal year 2009.

Effective November 1, 2011, we acquired an additional 50% equity interest in NuGen which operates an ethanol producing facility in Marion, South Dakota with an annual nameplate capacity of 100 million gallons

of ethanol and 320,000 tons of DDG per year. This acquisition resulted in our ownership interest in NuGen increasing to 98%.

Patriot commenced production operations in the second quarter of fiscal year 2008.

Big River completed construction in the second quarter of fiscal year 2009 of its second plant which has an annual nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. The plant is located in Galva, Illinois.

In August 2009, Big River acquired a 50.5% interest in an ethanol production facility which has an annual nameplate capacity of 100 million gallons of ethanol and 320,000 tons of DDG per year. The plant is located in Dyersville, Iowa.

In December 2011, Big River acquired a 100% interest in an ethanol production facility which has an annual nameplate capacity of 55 million gallons of ethanol and 176,000 tons of DDG per year. The plant is located in Boyceville, Wisconsin.

The Levelland Hockley plant was shut down in early January 2011 as a result of industry wide low crush spread margins and the plant's inability to source grain at affordable prices. On January 31, 2011 we sold 814,000 of our membership units to Levelland Hockley for \$1, reducing our ownership interest in Levelland Hockley to 49%. As a result, we no longer have a controlling financial interest in Levelland Hockley, and, therefore, effective January 31, 2011, we deconsolidated Levelland Hockley and began using the equity method of accounting to account for the results of Levelland Hockley. In connection with the deconsolidation, we recorded our remaining noncontrolling equity interest and our debt investments at fair value. Our estimate of fair value for all of our investments in Levelland Hockley was \$0 at January 31, 2011. We recorded a pretax charge of approximately \$18.4 million as a result of deconsolidating Levelland Hockley and writing our remaining investments in Levelland Hockley to \$0 at January 31, 2011. On April 27, 2011, Levelland Hockley voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, Northern District of Texas. As a result, we no longer can exercise significant influence over Levelland Hockley and began using the cost method of accounting. There has been no change in the carrying value of our investments in Levelland Hockley as a result of the change to the cost method of accounting.

### **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, 2012, we had lease agreements, as landlord, for six owned former retail stores (77,000 square feet). We have 16 owned former retail stores (206,000 square feet) that are vacant at January 31, 2012. We are marketing these vacant properties to lease or sell. In addition, one former distribution center is partially leased (221,000 square feet), partially occupied by our corporate office personnel (10,000 square feet) and partially vacant (246,000 square feet).

## Retail

We completed the exit of our retail business during the second quarter of fiscal year 2009. We offered extended service contracts to our customers which typically provide, inclusive of manufacturers' warranties, one to five years of warranty coverage. We plan to manage and administer these contracts over the life of the contracts. Service contract repair costs are charged to operations as incurred. We expect to continue recognizing extended service contract revenues and expenses (as discontinued operations) through January 2014, although the revenues will decline annually as we are no longer selling new contracts. We typically service a warranty claim through a network of third party repair and service providers. Warranty repair costs have been in the range of 13% to 25% of extended service contract revenue over the last three years; we expect these costs to average approximately 15% to 20% of extended service contract revenue in future years. Future expected amortization of deferred revenue and commission expense are as follows (amounts in thousands):

<b>Years Ended January 31,</b>	<b>Deferred Revenue</b>	<b>Deferred Commission Expense</b>
2013	\$ 1,864	\$ 565
2014	552	164
<b>Total</b>	<b>\$ 2,416</b>	<b>\$ 729</b>

## 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, 2012 and 2011

**Net Sales and Revenue** – Net sales and revenue in fiscal year 2011 were approximately \$410.0 million, a 36.0% increase from approximately \$301.4 million in fiscal year 2010. Net sales and revenue do not include sales from retail and real estate properties that have been sold and classified in discontinued operations. The increase was primarily caused by higher sales in our alternative energy segment of approximately \$108.2 million. This increase is primarily a result of higher commodity prices during fiscal year 2011 and the acquisition of NuGen completed during the fourth quarter of fiscal year 2011. Net sales and revenue from our real estate segment increased \$0.3 million over the prior year to approximately \$1.3 million.

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		
	2011	2010	2009
Ethanol	82%	83%	82%
Distillers grains	18	16	17
Leasing	—	1	1
Total	100%	100%	100%

**Gross Profit** – Gross profit was approximately \$33.8 million in fiscal year 2011, or 8.3% of net sales and revenue, versus approximately \$30.6 million in fiscal year 2010 or 10.2% of net sales and revenue. This represents an increase of approximately \$3.2 million. Gross profit for fiscal year 2011 increased by approximately \$4.0 million over the prior year as a result of operations in the alternative energy segment. Gross loss for fiscal year 2011 increased by approximately \$0.8 million compared to the prior year from our real estate segment.

**Selling, General and Administrative Expenses** – Selling, general and administrative expenses for fiscal year 2011 were approximately \$10.4 million (2.5% of net sales and revenue), an increase of approximately \$0.7 million or 6.7% from approximately \$9.7 million (3.2% of net sales and revenue) for fiscal year 2010. Compared to the prior year, these expenses increased approximately \$1.0 million in the alternative energy segment and decreased approximately \$0.4 million in the corporate and other category.

**Equity in Income of Unconsolidated Ethanol Affiliates** – During fiscal years 2011 and 2010, we recognized income of approximately \$21.5 million and \$14.6 million, respectively, from our equity investments in Big River, Patriot and NuGen. Big River has a plant with an annual nameplate capacity of 92 million gallons which has been in operation since 2004. Big River opened an additional plant with an annual nameplate capacity of 100 million gallons during the second quarter of fiscal year 2009, acquired a 50.5% ownership in a plant with an annual nameplate capacity of 100 million gallons in August 2009 and acquired a 100% ownership in a plant with an annual nameplate capacity of 55 million gallons in December 2011. Patriot has an ethanol facility with an annual nameplate capacity of 100 million gallons which has been in operation since the second quarter of fiscal year 2008. Effective November 1, 2011, we acquired an additional 50% equity interest in NuGen which operates an ethanol producing facility in Marion, South Dakota with an annual nameplate capacity of 100 million gallons. This acquisition increased our ownership in NuGen to 98%. We acquired our initial 48% equity interest in NuGen on July 1, 2010.

Income from Big River and Patriot in fiscal year 2011 was relatively consistent with fiscal year 2010 levels. Income from Big River was approximately \$6.9 million and \$5.4 million in fiscal years 2011 and 2010, respectively; Big River benefited in the current year from increases in by-product pricing and patronage dividends. Income from Patriot was approximately \$5.3 million and \$5.2 million in fiscal years 2011 and 2010, respectively.

Income from NuGen was approximately \$9.3 million and \$4.0 million in fiscal years 2011 and 2010, respectively. The increase results primarily from increased crush spreads realized and recognizing ten months of equity method income from NuGen in fiscal year 2011 versus six months of equity method income from NuGen in fiscal year 2010. Effective November 1, 2011, we ceased using the equity method of accounting for NuGen and began consolidating the results of NuGen.

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 (corn and natural gas pricing as well ethanol 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 2011 results.

**Impairment Charges and Loss on Deconsolidation** – During fiscal year 2010, we recognized losses totaling approximately \$18.4 million related to the impairment of notes receivable from Levelland Hockley and the deconsolidation of Levelland Hockley. Effective January 31, 2011, we sold a portion of our equity interest in Levelland Hockley. As a result, we no longer have a controlling financial interest in Levelland Hockley, and, therefore, effective January 31, 2011, we deconsolidated Levelland Hockley and recorded our retained investment at fair value as of January 31, 2011. We recognized an impairment loss related to the notes receivable of approximately \$8.9 million during fiscal year 2010. We also recognized a loss on deconsolidation of approximately \$9.5 million during fiscal year 2010.

**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 \$9.0 million related to the fair value of the assets acquired less liabilities assumed exceeding our consideration given for such net assets.

**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 amounts from the sale of our membership interest.

**Interest Income** – Interest income of approximately \$0.4 million for fiscal year 2011 was consistent with fiscal year 2010.

**Interest Expense** – Interest expense decreased to approximately \$3.5 million for fiscal year 2011 from approximately \$5.6 million for fiscal year 2010. The decrease in interest expense was primarily attributable to the alternative energy segment as we had higher interest expense in fiscal year 2010 as a result of consolidating the results of Levelland Hockley for a majority of the prior year. The decrease was partially offset as a result of consolidating NuGen effective November 1, 2011.

**Loss on Early Termination of Debt** – During fiscal years 2011 and 2010, 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 and \$48,000 during fiscal years 2011 and 2010, respectively, as loss on early termination of debt.

**Other Income** – Other income increased to approximately \$0.6 million in fiscal year 2011 compared to approximately \$0.3 million in fiscal year 2010. Income recognized by NuGen related to dividends paid by a co-operative during the current year is the primary reason for the increase. We do not expect other income to be significant in future periods.

**Losses on Derivative Financial Instruments** – We recognized losses of approximately \$1.1 million and \$2.1 million during fiscal years 2011 and 2010, respectively, related to forward interest rate swaps that One Earth entered into during fiscal year 2007. One of the swaps expired in July 2011 and one expires in July 2014. 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 2011 and 2010, we incurred losses on the interest rate swap. Should interest rates continue to decline, we would expect to experience continued losses on the remaining interest rate swap. We would expect to incur gains on the interest rate swap should interest rates increase. We cannot predict the future movements in interest rates; thus, we are unable to predict the likelihood or amounts of future gains or losses related to the interest rate swap.

**Income Taxes** – Our effective tax rate was 33.3% and 29.9% for fiscal years 2011 and 2010, 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 the current year as a result of domestic production activities deductions resulting from operations at certain of our ethanol plants.

**Income from Continuing Operations** – As a result of the foregoing, income from continuing operations was approximately \$31.9 million for fiscal year 2011 versus approximately \$7.1 million for fiscal year 2010.

**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 of these closings and certain other retail store and real estate property closings from prior years, we had income from discontinued operations, net of taxes, of approximately \$1.3 million in fiscal year 2011 compared to \$1.5 million in fiscal year 2010. This income includes the amortization of deferred income related to extended service contracts sold when we operated the former retail segment. Eight properties classified as discontinued operations were sold during fiscal year 2011, resulting in a gain, net of taxes, of approximately \$0.4 million. We sold or disposed of ten former retail store locations classified as discontinued operations in fiscal year 2010; as a result, we had a gain from disposal of discontinued operations, net of taxes, of approximately \$0.2 million in fiscal year 2010. We expect income from discontinued operations to decline in future periods as our extended service plan activities wind down.

**Noncontrolling Interests** – Income or (loss) related to noncontrolling interests was approximately \$5.4 million and \$3.7 million during fiscal years 2011 and 2010, respectively, and represents the owners' (other than us) share of the income or loss of One Earth (full year of fiscal year 2011) and NuGen (fourth quarter of fiscal year 2011) and One Earth and Levelland Hockley (fiscal year 2010). Noncontrolling interests of One Earth and NuGen were approximately \$5.2 million and \$0.2 million, respectively, during fiscal year 2011. Noncontrolling interests of One Earth and Levelland Hockley were approximately \$6.9 million and \$(3.2) million, respectively, during fiscal year 2010.

**Net Income Attributable to REX Common Shareholders** – As a result of the foregoing, net income attributable to REX common shareholders was \$28.3 million for fiscal year 2011 compared to \$5.1 million for fiscal year 2010.

## **Business Segment Results**

We have two segments: alternative energy and real estate. The real estate segment was formerly included in the retail segment. For former retail stores and warehouses closed which we have a retained interest in the related real estate, operations are now presented in the real estate segment based upon when retail operations ceased. 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 19, 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, 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. 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 and income from synthetic fuel investments. (Amounts in thousands):

	<b>Years Ended January 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Net sales and revenues:</b>			
Alternative energy	\$ 408,635	\$ 300,389	\$ 169,175
Real estate	1,317	1,018	602
<b>Total net sales and revenues</b>	<b>\$ 409,952</b>	<b>\$ 301,407</b>	<b>\$ 169,777</b>
<b>Segment gross profit (loss):</b>			
Alternative energy	\$ 35,179	\$ 31,173	\$ 21,923
Real estate	(1,343)	(543)	(1,041)
<b>Total gross profit</b>	<b>\$ 33,836</b>	<b>\$ 30,630</b>	<b>\$ 20,882</b>
<b>Segment profit (loss):</b>			
Alternative energy segment	\$ 48,580	\$ 13,403	\$ 17,811
Real estate	(1,539)	(770)	(1,225)
Corporate expenses	(2,307)	(2,724)	(1,870)
Interest expense	(111)	(205)	(338)
Interest income	319	372	263
Income from synthetic fuel investments	2,883	—	—
<b>Income from continuing operations before income taxes</b>	<b>\$ 47,825</b>	<b>\$ 10,076</b>	<b>\$ 14,641</b>

### **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. Effective January 31, 2011, we sold a portion of our ownership interest in Levelland Hockley. As a result, we no longer have a controlling financial interest in

Levelland Hockley, and therefore, we deconsolidated Levelland Hockley effective January 31, 2011. The results of Levelland Hockley are consolidated in the accompanying Consolidated Statements of Operations and Consolidated Statements of Cash Flows during fiscal years 2010 and 2009. The assets, liabilities and equity of Levelland Hockley are deconsolidated in the accompanying Consolidated Balance Sheets as of January 31, 2012 and 2011.

The following table summarizes sales from One Earth, NuGen and Levelland Hockley, by product group during periods of consolidation (amounts in thousands):

	<b>Years Ended January 31,</b>	
	<b>2012</b>	<b>2011</b>
	<hr/>	<hr/>
Ethanol	\$ 333,599	\$ 250,818
Dried distillers grains	71,663	41,625
Other	3,373	7,946
	<hr/>	<hr/>
Total	<b>\$ 408,635</b>	<b>\$ 300,389</b>
	<hr/>	<hr/>

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

	<b>Years Ended January 31,</b>	
	<b>2012</b>	<b>2011</b>
	<hr/>	<hr/>
Average selling price per gallon of ethanol	\$ 2.49	\$ 1.81
Average selling price per ton of dried distillers grains	\$ 196.46	\$ 126.25
Average cost per bushel of grain	\$ 6.66	\$ 4.10
Average cost of natural gas (per mmbtu)	\$ 4.88	\$ 4.80

Net sales and revenue for the current year increased approximately \$108.2 million over the prior year to approximately \$408.6 million, primarily as a result of increases in ethanol and dried distillers grains prices during the current year and the consolidation of NuGen's results effective November 1, 2011, which was partially offset by including the results of Levelland Hockley in the prior year. Ethanol sales increased from approximately \$250.8 million in the prior year to approximately \$333.6 million in the current year. The average selling price per gallon of ethanol increased from \$1.81 in the prior year to \$2.49 in the current year. Our ethanol sales were based upon approximately 134.0 million gallons in the current year compared to approximately 138.3 million gallons in the prior year. Dried distillers grains sales increased from approximately \$41.6 million in the prior year to approximately \$71.7 million in the current year. The average selling price per ton of dried distillers grains increased from \$126.25 in the prior year to \$196.46 in the current year. Our dried distillers grains sales were based upon approximately 365,000 tons in the current year compared to approximately 327,000 tons in the prior year.

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

Product	Annual Sales Quantity
<hr/>	<hr/>
Ethanol	200 million to 230 million gallons
Dried distillers grains	580,000 to 620,000 tons
Corn Oil	30 million to 40 million pounds



This expectation assumes that One Earth and NuGen will continue to operate at or near nameplate capacity, which is dependent upon the crush spread realized. This expectation also assumes that we will not consolidate any other ethanol plants.

Gross profit from alternative energy segment sales was approximately \$35.2 million during the current year compared to approximately \$31.2 million during the prior year. Gross profit improved primarily because of the prior year results including those of Levelland Hockley which produced at approximately 75% of capacity, and, thus was very inefficient with respect to gross profit. Grain accounted for approximately 84.6% (\$316.0 million) of our cost of sales during the current year compared to 76.8% (\$206.9 million) during the prior year. Natural gas accounted for approximately 5.0% (\$18.6 million) of our cost of sales during the current year compared to 7.0% (\$19.0 million) during the prior year. Given the inherent volatility in ethanol and grain prices, we cannot predict the trend of the spread between ethanol and grain prices in future periods compared to historical periods.

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 contracts for no more than three months into the future at any given time. As a result of the relatively short period of time our contracts cover, we generally cannot predict the future movements in the crush spread for more than three months. Less than 1% of our forecasted ethanol sales and approximately 9% of our forecasted distillers grains sales during the next 12 months has been sold under fixed-price contracts. As a result of these positions, the effect of a 10% adverse change in the price of ethanol and distillers grains from the current pricing would result in a decrease in revenues of approximately \$42.5 million and \$10.9 million, respectively. Similarly, approximately 1% of our estimated corn usage for the next 12 months was subject to fixed-price contracts. As a result of these positions, the effect of a 10% adverse change in the price of corn from current pricing would result in an increase in cost of sales of approximately \$44.6 million.

Selling, general and administrative expenses were approximately \$7.8 million in fiscal year 2011, a \$1.0 million increase from approximately \$6.8 million in fiscal year 2010. A majority of the increase results from higher incentive compensation expense related to higher segment profitability during the current fiscal year. We expect selling, general and administrative expenses in future years to increase by approximately \$4.0 million to \$4.5 million over the current year level as future results will include a full year of consolidated results of NuGen.

Income from equity method investments in Big River, Patriot and NuGen increased from approximately \$14.6 million in the prior year to approximately \$21.5 million in the current year.

We recognized approximately \$6.9 million of income from Big River in fiscal year 2011 which is approximately \$1.5 million above the prior year amount of approximately \$5.4 million. Big River benefited in the current year from increases in by-product pricing and patronage dividends.

We recognized approximately \$5.3 million of income from Patriot in fiscal year 2011, which is consistent with the approximately \$5.2 million in the prior year.

We recognized approximately \$9.3 million of income from NuGen in fiscal year 2011, which is approximately \$5.3 million higher than the approximately \$4.0 million in the prior year. The increase results primarily from increased crush spreads realized and recognizing ten months of equity method income from NuGen in fiscal year 2011 versus six months of equity method income from NuGen in fiscal year 2010. As we consolidate the results of NuGen effective November 1, 2011, we will not recognize income under the equity method for the results of NuGen in future periods.

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.

During fiscal year 2010, we recognized losses totaling approximately \$18.4 million related to the impairment and deconsolidation of Levelland Hockley. Effective January 31, 2011, we sold a portion of our equity interest in Levelland Hockley. As a result, we no longer have a controlling financial interest in Levelland Hockley, and, therefore, effective January 31, 2011, we deconsolidated Levelland Hockley and recorded our retained investment in Levelland Hockley at fair value as of January 31, 2011. We recognized an impairment loss on our note receivable of approximately \$8.9 million during fiscal year 2010. We also recognized a loss on deconsolidation of approximately \$9.5 million during fiscal year 2010.

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 \$9.0 million related to the fair value of the assets acquired less liabilities assumed exceeding our consideration given for such net assets.

Interest expense decreased approximately \$2.0 million in the current year from the prior year to approximately \$3.4 million, as we no longer consolidate Levelland Hockley. Based on current interest rates and debt levels, we expect interest expense to be in the range of \$4.0 million to \$4.5 million in fiscal year 2012.

Other income increased to approximately \$0.6 million in fiscal year 2011 compared to approximately \$0.3 million in fiscal year 2010. Income recognized by NuGen related to dividends paid by a co-operative during the current year is the primary reason for the increase. We do not expect other income to be significant in future periods.

Losses on derivative financial instruments held by One Earth were approximately \$1.1 million in the current year compared to approximately \$2.1 million in the prior year. Since the gains or losses on these derivative financial instruments are primarily a function of the movement in interest rates, we cannot predict the likelihood that such gains or losses in future periods will be consistent with current year results.

As a result of the factors discussed above, segment profit increased to \$48.6 million in the current year from \$13.4 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 and distribution center operations, our real estate leasing activities and certain administrative expenses. It excludes results from discontinued operations.

At January 31, 2012, we had lease agreements, as landlord, for six owned former retail stores (77,000 square feet). We have 16 owned former retail stores (206,000 square feet) that are vacant at January 31, 2012. We are marketing these vacant properties to lease or sell. In addition, one former distribution center is partially leased (221,000 square feet), partially occupied by our corporate office personnel (10,000 square feet) and partially vacant (246,000 square feet).

Net sales and revenue for the current year increased approximately \$0.3 million over the prior year to approximately \$1.3 million. The increase in revenue is primarily a result of a lease for a portion of a distribution center that was executed during the fourth quarter of fiscal year 2010. Gross loss from this

segment was approximately \$1.3 million during the current year compared to approximately \$0.5 million during the prior year. Gross loss increased primarily as a result of impairment charges of approximately \$1.2 million in the current year compared to approximately \$0.2 million in the prior year. We expect lease revenue in fiscal year 2012 to be consistent with fiscal year 2011 based upon leases currently executed.

Selling, general and administrative expenses were approximately \$0.3 million in fiscal year 2011, consistent with the \$0.2 million in fiscal year 2010. 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 \$1.5 million in the current year compared to approximately \$0.8 million in the prior year. Excluding any property sales that may occur in fiscal year 2012, we expect to generate another segment loss in fiscal year 2012 based upon the current number of vacant properties.

#### **Corporate and Other**

Corporate and other includes certain administrative expenses of the corporate headquarters, interest expense and interest income not directly allocated to the alternative energy or real estate segments and income from synthetic fuel investments.

Selling, general and administrative expenses were approximately \$2.3 million in the current year consistent with the approximately \$2.7 million of expenses in the prior year. We expect selling, general and administrative expenses in future periods to be consistent with current year levels.

Interest expense of approximately \$0.1 million in the current year is consistent with prior year expense.

Interest income of approximately \$0.3 million in the current year is consistent with prior year income.

#### **Comparison of Fiscal Years Ended January 31, 2011 and 2010**

**Net Sales and Revenue** – Net sales and revenue in fiscal year 2010 were approximately \$301.4 million, a \$131.6 million increase from approximately \$169.8 million in fiscal year 2009. Net sales and revenue do not include sales from retail and real estate operations classified in discontinued operations. The increase was primarily caused by higher sales in our alternative energy segment of approximately \$131.2 million and a full year of production at our One Earth facility. Net sales and revenue from our real estate segment increased approximately \$0.4 million over the prior year to approximately \$1.0 million.

**Gross Profit** – Gross profit was approximately \$30.6 million in fiscal year 2010 versus approximately \$20.9 million for fiscal year 2009. This represents an increase of approximately \$9.7 million. Gross profit for fiscal year 2010 increased by approximately \$9.3 million over the prior year as a result of operations in the alternative energy segment. Our real estate segment had gross loss for fiscal year 2010 of approximately \$0.5 million compared to approximately \$1.0 million in the prior year.

**Selling, General and Administrative Expenses**– Selling, general and administrative expenses for fiscal year 2010 were approximately \$9.7 million (3.2% of net sales and revenue), an increase of approximately \$3.6 million or 57.8% from approximately \$6.2 million (3.6% of net sales and revenue) for fiscal year 2009. Compared to the prior year, these expenses increased approximately \$2.6 million and \$0.9 million in the alternative energy segment and the corporate and other category, respectively.

**Equity in Income of Unconsolidated Ethanol Affiliates** – During fiscal years 2010 and 2009, we recognized income of approximately \$14.6 million and approximately \$6.0 million, respectively from our equity

investments in Big River, Patriot and NuGen. Big River has a plant with an annual nameplate capacity of 92 million gallons which has been in operation since 2004. Big River opened an additional plant with an annual nameplate capacity of 100 million gallons during the second quarter of fiscal year 2009 and acquired a 50.5% ownership in a plant with an annual nameplate capacity of 100 million gallons in August 2009. Patriot has an ethanol facility with an annual nameplate capacity of 100 million gallons which has been in operation since the second quarter of fiscal year 2008. Effective July 1, 2010, we acquired a 48% equity interest in NuGen which operates an ethanol production facility in Marion South Dakota, with an annual nameplate capacity of 100 million gallons.

Income from Big River was approximately \$5.4 million and approximately \$2.5 million in fiscal years 2010 and 2009, respectively. Although our proportionate 10% share of income from Big River has been consistent over the prior two years, Big River benefited in fiscal year 2010 from a full year of production at its Big River Galva and Big River United Energy facilities.

We recorded income of approximately \$5.2 million and approximately \$3.5 million from Patriot in fiscal years 2010 and 2009, respectively. Patriot experienced a decline in interest expense of approximately \$2.2 million, as its term debt is variable rate debt, and interest rates declined in fiscal year 2010. Patriot also recognized a gain on the early extinguishment of debt of approximately \$1.9 million.

We recognized approximately \$4.0 million of income from NuGen in fiscal year 2010. This was the first year we reported income from NuGen given that the acquisition of our interest in NuGen was effective July 1, 2010.

**Impairment Charges and Loss on Deconsolidation**— During fiscal year 2010, we recognized losses totaling approximately \$18.4 million related to the impairment of notes receivable from Levelland Hockley and the deconsolidation of Levelland Hockley. Effective January 31, 2011, we sold a portion of our equity interest in Levelland Hockley. As a result we no longer have a controlling financial interest in Levelland Hockley, and, therefore, effective January 31, 2011, we deconsolidated Levelland Hockley and recorded our retained investment in Levelland Hockley at fair value as of January 31, 2011. We recognized an impairment loss related to the notes receivable of approximately \$8.9 million during fiscal year 2010. We also recognized a loss on deconsolidation of approximately \$9.5 million during fiscal year 2010.

**Interest Income** – Interest income of approximately \$0.4 million for fiscal year 2010 was consistent with the prior year.

**Interest Expense** – Interest expense increased to approximately \$5.6 million for fiscal year 2010 from approximately \$4.7 million for fiscal year 2009. The increase in interest expense was primarily attributable to the alternative energy segment as we had higher amounts of average debt outstanding upon the completion of One Earth's ethanol plant and that we are no longer capitalizing interest costs.

**Loss on Early Termination of Debt** – During fiscal years 2010 and 2009, we completed the early payoff of approximately \$0.4 million and \$8.0 million, respectively, of mortgage debt prior to maturity. As a result, we expensed certain unamortized financing costs and prepayment penalties of approximately \$48,000 and \$89,000 during fiscal years 2010 and 2009, respectively.

**Other Income** – During fiscal year 2009, Levelland Hockley received notification from the United States Department of Agriculture that Levelland Hockley had been approved to receive funds under the Advanced Biofuel Producer Program. As a result, approximately \$0.3 million was recognized as other income during fiscal year 2010. We recognized approximately \$0.5 million of other income from this grant during fiscal year 2009.

During fiscal year 2009, Levelland Hockley entered into an agreement to settle litigation and received \$1.5 million as a condition of the settlement. Of the proceeds received, approximately \$0.3 million was recognized as other income during fiscal year 2009.

**Losses on Derivative Financial Instruments** – We recognized losses of approximately \$2.1 million and \$2.5 million during fiscal years 2010 and 2009, respectively, related to forward interest rate swaps that Levelland Hockley and One Earth entered into during fiscal year 2007. During fiscal year 2010, Levelland Hockley's loss was insignificant and One Earth's loss was approximately \$2.1 million. Levelland Hockley's swap expired in April 2010 while One Earth's swaps expire in July 2011 and July 2014. Since the gains or losses on these derivative financial instruments are primarily a function of the movement in interest rates, we cannot predict the likelihood that such gains or losses in future periods will be consistent with fiscal year 2010 results.

**Income Taxes**– Our effective tax rate was 29.9% and 31.3% for fiscal years 2010 and 2009, respectively. Our effective tax 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 for our portion of subsidiaries' income or loss with a noncontrolling interest.

**Loss/Income from Continuing Operations** – As a result of the foregoing, income from continuing operations was approximately \$7.1 million for fiscal year 2010 versus approximately \$10.1 million for fiscal year 2009.

**Discontinued Operations** – During fiscal year 2009, we closed our remaining retail store and warehouse operations and reclassified them as discontinued operations. As a result of these closings and certain other retail store and real estate property closings from prior years, we had income from discontinued operations, net of tax benefit, of approximately \$1.5 million in fiscal year 2010 compared to approximately \$1.3 million in fiscal year 2009. We sold ten properties classified as discontinued operations in fiscal year 2010 compared to selling or disposing of five properties in fiscal year 2009. As a result, we had a gain from disposal of discontinued operations, net of a tax provision, of approximately \$0.2 million in fiscal year 2010 compared to approximately \$1.2 million in fiscal year 2009.

**Noncontrolling Interests** – Income or (loss) related to noncontrolling interests was approximately \$3.7 million and approximately \$3.9 million for fiscal years 2010 and 2009, respectively, and represents the owners' (other than us) share of the income or loss of Levelland Hockley and One Earth. Noncontrolling interests of Levelland Hockley and One Earth was approximately \$(3.2) million and approximately \$6.9 million, respectively during fiscal year 2010 and approximately \$1.4 million and approximately \$2.5 million, respectively during fiscal year 2009.

**Net Loss/Income Attributable to REX Common Shareholders**– As a result of the foregoing, net income attributable to REX common shareholders was approximately \$5.1 million for fiscal year 2010 compared to approximately \$8.7 million for fiscal year 2009.

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 Levelland Hockley and One Earth, our other investments in ethanol facilities, the income 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.

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

	<b>Years Ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
Ethanol	\$ 250,818	\$ 140,443
Dried distillers grains	41,625	20,223
Other	7,946	8,509
<b>Total</b>	<b>\$ 300,389</b>	<b>\$ 169,175</b>

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

	<b>Years Ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
Average selling price per gallon of ethanol	\$ 1.81	\$ 1.68
Average selling price per ton of dried distillers grains	\$ 126.25	\$ 112.29
Average cost per bushel of grain	\$ 4.10	\$ 3.58
Average cost of natural gas (per mmbtu)	\$ 4.80	\$ 4.28

Net sales and revenue for fiscal year 2010 increased by approximately \$131.2 million over the prior year to approximately \$300.4 million, primarily a result of One Earth becoming fully operational during the third quarter of fiscal year 2009. Ethanol sales increased from approximately \$140.4 million in the prior year to approximately \$250.8 million in the current year. The average selling price per gallon of ethanol increased from \$1.68 in the prior year to \$1.81 in fiscal year 2010. Our ethanol sales were based upon approximately 138.3 million gallons in fiscal year 2010 compared to approximately 83.6 million gallons in the prior year. Dried distillers grains sales increased from approximately \$20.2 million in the prior year to approximately \$41.6 million in fiscal year 2010. The average selling price per ton of dried distillers grains increased from \$112.29 in the prior year to \$126.25 in fiscal year 2010. Our dried distillers grains sales were based upon approximately 327,000 tons in fiscal year 2010 compared to approximately 180,000 tons in the prior year.

Gross profit from these sales was approximately \$31.2 million during fiscal year 2010 compared to approximately \$21.9 million during fiscal year 2009. Gross profit improved primarily because of the volume increases in ethanol and distillers grains sold discussed above. This was offset slightly by a less favorable spread between ethanol and grain prices during fiscal year 2010 compared to fiscal year 2009.

Selling, general and administrative expenses were approximately \$6.8 million in fiscal year 2010, a \$2.7 million increase from approximately \$4.1 million in fiscal year 2009. We recognized higher selling expenses of approximately \$1.5 million at One Earth as One Earth was in production for the full year in fiscal year 2010.

During fiscal year 2010, we recognized losses totaling approximately \$18.4 million related to the impairment of notes receivable from Levelland Hockley and the deconsolidation of Levelland Hockley. Effective January 31, 2011, we sold a portion of our equity interest in Levelland Hockley. As a result we no longer have a controlling financial interest in Levelland Hockley, and, therefore, effective January 31, 2011, we deconsolidated Levelland Hockley and recorded our retained investment in Levelland Hockley at fair value as of January 31, 2011. We recognized an impairment loss related to the notes receivable of approximately

\$8.9 million during fiscal year 2010. We also recognized a loss on deconsolidation of approximately \$9.5 million during fiscal year 2010.

Interest expense increased approximately \$0.9 million in fiscal year 2010 compared to fiscal year 2009 to approximately \$5.4 million, as we no longer capitalize interest on the One Earth credit facility subsequent to the commencement of operations at the plant.

Income from equity method investments in Big River, Patriot and NuGen increased from approximately \$6.0 million in fiscal year 2009 to approximately \$14.6 million in fiscal year 2010. We recognized approximately \$5.4 million of income from our investment in Big River in fiscal year 2010 which is approximately \$2.9 million above the prior year amount of approximately \$2.5 million. Big River benefited in the current year from a full year of production at its Big River Galva and Big River United energy facilities during fiscal year 2010.

We recognized approximately \$5.2 million of income from our investment in Patriot in fiscal year 2010, which is approximately \$1.7 million higher than the approximately \$3.5 million in fiscal year 2009. Patriot experienced a decline in interest expense of approximately \$2.2 million, as its term debt is variable rate debt, and interest rates declined in fiscal year 2010. Patriot also recognized a gain on the early extinguishment of debt of approximately \$1.9 million.

We recognized approximately \$4.0 million of income from NuGen in fiscal year 2010. This was the first year we reported income from NuGen given that the acquisition of our interest in NuGen was effective July 1, 2010.

Losses on derivative financial instruments held by One Earth and Levelland were approximately \$2.1 million in fiscal year 2010 compared to approximately \$2.5 million in fiscal year 2009. Since the gains or losses on the derivative financial instruments are primarily a function of the movement in interest rates, we cannot predict the likelihood that such gains or losses in future periods will be consistent with the fiscal year 2010 results.

As a result of the factors discussed above, segment profit decreased to approximately \$13.4 million in fiscal year 2010 from approximately \$17.8 million in fiscal year 2009.

### **Real Estate**

The real estate segment includes all owned and sub-leased 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, 2011, we had lease agreements, as landlord, for all or parts of eight former retail stores (88,000 square feet leased and 10,000 square feet vacant). We have 22 owned former retail stores (281,000 square feet), that are vacant at January 31, 2011. We are marketing these vacant properties to lease or sell. In addition, one former distribution center is partially leased (266,000 square feet), partially occupied by our corporate office personnel (10,000 square feet) and partially vacant (190,000 square feet).

Net sales and revenue for fiscal year 2010 of approximately \$1.0 million increased approximately \$0.4 million over the fiscal year 2009 amount of approximately \$0.6 million. The increase in revenue is primarily a result of a lease for a portion of a distribution center that was executed during the fourth quarter of fiscal year 2009.

Gross loss from this segment was approximately \$0.5 million during fiscal year 2010 compared to approximately \$1.0 million during fiscal year 2009. Gross loss improved as a result of the increase in revenue discussed above.

Selling, general and administrative expenses were approximately \$229,000 in fiscal year 2010, consistent with the \$183,000 in fiscal year 2009.

As a result of the factors discussed above, segment loss was approximately \$0.8 million in fiscal year 2010 compared to approximately \$1.2 million in the prior year.

### **Corporate and Other**

Selling, general and administrative expenses were approximately \$2.7 million in fiscal year 2010 compared to approximately \$1.9 million in fiscal year 2009. Professional fees increased approximately \$0.3 million over the prior year. The remainder of the fluctuation results from increases in most general and administrative categories.

Interest expense of approximately \$0.2 million in fiscal year 2010 is consistent with the expense in the prior year.

Interest income of approximately \$0.4 million in fiscal year 2010 is consistent with the income in the prior year.

### **Liquidity and Capital Resources**

Our primary sources of financing have been income from operations, sales of real estate and debt financing. Our primary uses of cash have been investments in ethanol entities, construction of ethanol plants, long term debt repayments and stock repurchases.

**Outlook** – Our cash balance of approximately \$75.0 million includes approximately \$28.9 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 significant amounts of 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.

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.

During the first quarter of fiscal year 2012, we expect our financial performance from our ethanol plants to decline compared to the fourth quarter of fiscal year 2011 as the crush spread has decreased from 2011 levels. The near month crush spread (determined by information on CBOT) averaged approximately \$(0.06) per gallon of ethanol during the first quarter of fiscal year 2012 compared to approximately \$0.14 per gallon of ethanol during calendar year 2011.



**Operating Activities** – Net cash provided by operating activities was approximately \$34.9 million for fiscal year 2011 compared to \$27.9 million in fiscal year 2010. During fiscal year 2011, operating cash flow was provided by net income of approximately \$33.7 million including real estate impairment charges of approximately \$1.2 million and other adjustments to net income of approximately \$(7.2) million, which consist of depreciation and amortization, income from equity method ethanol investments, bargain purchase gain, net, income from synthetic fuel investments, derivative financial instruments, gain on disposal of real estate and property and equipment, deferred income and the deferred income tax provision. Cash was provided by dividends received from our equity method investees (as returns on investment) of approximately \$4.9 million, primarily a result of continued profitability at these entities. Additionally, cash was provided by a refund on income taxes of approximately \$7.9 million resulting from net operating losses carried back to prior years. Accounts receivable decreased approximately \$4.2 million, primarily a result of the timing of products shipped and the receipt of customer payments at One Earth and NuGen. Other liabilities increased approximately \$1.9 million, primarily a result of increased accrued incentive compensation expenses associated with the increase in profitability in the current year and an increase in accrued natural gas taxes. Prepaid expenses and other assets decreased approximately \$1.1 million, primarily as a result of decreases in deferred commission expense related to extended warranty plans sold when we operated our former retail segment. Inventory increased approximately \$14.0 million, primarily a result of One Earth utilizing additional grain storage facilities for which construction was completed in fiscal year 2011 and an increase in grain prices over fiscal year 2010. Accounts payable increased approximately \$1.2 million, primarily a result of inventory receipts and timing of vendor payments.

Net cash provided by operating activities was approximately \$27.9 million for fiscal year 2010. During fiscal year 2010, operating cash flow was provided by net income of approximately \$8.7 million including the impact of Levelland Hockley related impairment charges and the loss on deconsolidation of approximately \$16.1 million, real estate impairment charges of approximately \$1.0 million and non-cash items of approximately \$(0.9) million, which consist of deferred income, the deferred income tax provision, gain on disposal of real estate and property and equipment, income from ethanol investments, and depreciation and amortization. Cash was provided by dividends received from our equity method investees (as returns on investment) of approximately \$5.0 million, primarily a result of increased profitability at these entities. Additionally, cash was provided by a refund on income taxes of approximately \$4.3 million resulting from net operating losses carried back to prior years. Accounts receivable increased approximately \$2.5 million, primarily a result of the timing of products shipped and the receipt of customer payments at One Earth. Prepaid expense and other assets increased approximately \$1.1 million, primarily as a result of an increase in property taxes receivable that One Earth pays and then receives a partial rebate from various taxing authorities in connection with a tax increment financing district. Other liabilities decreased approximately \$1.7 million, primarily a result of payments we made related to our contingent consideration liability associated with the NuGen acquisition. Other long term assets increased approximately \$0.9 million, primarily a result of an increase in property taxes receivable that One Earth pays and then receives a partial rebate from various taxing authorities in connection with a tax increment financing district and an increase in various deposits One Earth is required to maintain with utility vendors.

**Investing Activities** – Net cash provided by investing activities was approximately \$10.6 million during fiscal year 2011 compared to cash used of approximately \$5.8 million for fiscal year 2010. Capital expenditures in fiscal year 2011 totaled approximately \$7.3 million, the majority of which was for the construction of corn oil extraction equipment at the One Earth and NuGen ethanol plants. We received approximately \$2.9 million as a final payment on the sale (in a prior year) of our interest in a synthetic fuel partnership. We will not receive additional payments in future periods related to this sale. We used cash of approximately \$1.9 million for the purchase of an additional ownership interest in Patriot. The acquisition of NuGen provided cash of approximately \$12.3 million which was primarily a result of NuGen's cash position at the time we acquired NuGen exceeding the cash we paid as consideration. Cash of approximately \$4.4 million was provided by proceeds from the sale of real estate and property and equipment.

Net cash used in investing activities was approximately \$5.8 million during fiscal year 2010. Capital expenditures in fiscal year 2010 totaled approximately \$6.0 million, the majority of which was for the construction of additional corn storage at One Earth's ethanol plant. We used cash of approximately \$9.2 million for our acquisition of NuGen. Cash of approximately \$8.0 million was provided by proceeds from the sale of real estate and property and equipment. We received cash of approximately \$1.0 million as Patriot repaid the remaining balance on their note payable to us.

**Financing Activities** – Net cash used in financing activities was approximately \$61.5 million during fiscal year 2011 compared to approximately \$31.5 million for fiscal year 2010. During fiscal year 2011, repayments of debt were approximately \$35.7 million. Stock option exercises in fiscal year 2011 generated cash of approximately \$0.4 million. We used cash of approximately \$0.6 million to pay for loan fees associated with NuGen's long term debt refinancing. We used cash of approximately \$2.1 million to purchase shares from and pay dividends to noncontrolling members of One Earth. We do not expect such payments to noncontrolling members of One Earth to increase significantly in fiscal year 2012. We used cash of approximately \$1.3 million to repay the contingent consideration liability related to the initial acquisition of NuGen in fiscal year 2010. During fiscal year 2011, we purchased approximately 1.3 million shares of our common stock for approximately \$22.2 million in open market transactions.

Net cash used in financing activities was approximately \$31.5 million for fiscal year 2010. During fiscal year 2010, repayments of debt totaled approximately \$24.8 million. Stock option exercises in fiscal year 2010 generated cash of approximately \$1.5 million. During fiscal year 2010, we purchased approximately 0.5 million shares of our common stock for approximately \$8.2 million in open market transactions.

At January 31, 2012, we had a remaining authorization from our Board of Directors to purchase 162,455 shares of our common stock. We plan to hold all acquired shares in treasury for possible future use.

At January 31, 2012, we had approximately \$123.7 million of debt outstanding at a weighted average interest rate of approximately 3.7%, with maturities from July 2014 to October 2016. During fiscal year 2011, we refinanced approximately \$63.5 million after acquiring NuGen. During fiscal year 2011, we paid off approximately \$35.7 million of long-term mortgage debt from scheduled repayments and early payoffs. During fiscal year 2010, we paid off approximately \$24.8 million of 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 revolving loan and a \$1,000,000 letter of credit with First National Bank of Omaha. The construction loan was converted into a term loan on July 31, 2009. The term loan bears interest at variable interest rates ranging from LIBOR plus 300 basis points to LIBOR plus 310 basis points (3.1% to 3.3% at January 31, 2012). Beginning with the first quarterly payment on October 8, 2009, 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 (July 31, 2014) for the remaining unpaid principal balance with accrued interest. This debt is recourse only to One Earth and not to REX American Resources Corporation or any of its other subsidiaries.

Borrowings are secured by all property of One Earth. As of January 31, 2012, approximately \$69.1 million was outstanding on the term loan. One Earth is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA, debt service coverage ratio requirements, net worth requirements and other common covenants. One Earth was in compliance with all covenants at January 31, 2012. One Earth paid approximately \$1,364,000 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, 2012, our proportionate share of restricted assets related to One Earth was approximately \$14.5 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 has no outstanding borrowings on the \$10,000,000 revolving loan as of January 31, 2012. One Earth also has access to a secondary revolving loan with First National Bank of Omaha, established as part of the original \$100,000,000 term loan and made accessible as a revolving loan as term loan payments were made. The amount available is reduced by \$250,000 on a quarterly basis as well as by 20% of excess cash flow calculated at year end pursuant to the debt covenant calculations of the loan agreement. At January 31, 2012 and 2011, One Earth had \$2,671,000 and \$5,384,000, respectively, available on the secondary revolving loan. One Earth does not have any borrowings on the secondary revolving loan at January 31, 2012 or 2011.

#### **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 20 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. 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, 2012, approximately \$53.6 million 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, debt service coverage ratio requirements, and other common covenants. NuGen was in compliance with all covenants, as applicable, at January 31, 2012. 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, 2012, our proportionate share of restricted assets related to NuGen was approximately \$3.6 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 has no outstanding borrowings on the \$10,000,000 revolving loan as of January 31, 2012.

On a consolidated basis, approximately 24.7% of our net assets (including equity method investees) are restricted pursuant to the terms of various loan agreements as of January 31, 2012. Including only our consolidated subsidiaries, approximately 7.2% of our net assets are restricted as of January 31, 2012.

#### **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, 2012 (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	\$ 123,749	\$ 15,222	\$ 69,776	\$ 38,751	\$ —
Interest on variable rate debt (a)	13,513	4,413	6,694	2,406	—
Interest on fixed rate debt	183	80	94	9	—
Other (b)	5,702	2,413	1,500	876	913
<b>Total (c)</b>	<b>\$ 143,147</b>	<b>\$ 22,128</b>	<b>\$ 78,064</b>	<b>\$ 42,042</b>	<b>\$ 913</b>

- (a) The interest rates effective as of January 31, 2012 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 contracts at One Earth Energy and NuGen.
- (c) We are not able to determine the likely settlement period for uncertain tax positions, accordingly, approximately \$2.5 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 period, if any, for interest rate swaps; accordingly approximately \$4.2 million of liabilities for derivative financial instruments have been excluded from the table above.

### Seasonality and Quarterly Fluctuations

The impact of seasonal and quarterly fluctuations has not been material to our results of operations for the past three fiscal years.

### 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 and distillers grains when title transfers to customers, upon shipment from our plant. Shipping and handling charges to ethanol and distillers grains 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 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.

We recognized income from synthetic fuel partnership sales as the synthetic fuel was produced and sold except for operations at the Gillette facility as we did not believe that collection of our proceeds for production occurring subsequent to September 30, 2006 was reasonably assured from that plant until the third quarter of fiscal year 2011. See Note 5 of the Notes to the Consolidated Financial Statements for a further discussion of synthetic fuel partnership sales.

**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 consolidated the results of two majority owned subsidiaries, Levelland Hockley and One Earth, on a one month lag during fiscal year 2010. As a result of losing control of Levelland Hockley at the end of fiscal year 2010, we deconsolidated the subsidiary's balance sheet and applied the equity method of accounting prospectively. However, during fiscal year 2011, Levelland Hockley filed for bankruptcy, at which time we began using the cost method to account for our investment in Levelland Hockley. Beginning November 1, 2011, we also consolidated the results of NuGen as that was the date we obtained a controlling financial interest in NuGen. Investments in businesses that we do not control, or maintain a majority voting interest or maintain a primary beneficial interest, but for which we have the ability to exercise significant influence over operating and financial matters, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial matters are accounted for using the cost method.

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. The write down of inventory was approximately \$153,000 at January 31, 2012. No write

down of inventory was recorded at January 31, 2011. 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 and distillers grains.

**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, 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.

Changes to the assumptions we used to estimate fair value could impact the recorded amounts for acquired assets and liabilities, including property, plant and equipment. Significant changes to these balances could have a material impact on our future reported results.

**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 continue to generate taxable income. We are projecting that the operations of One Earth and

NuGen will continue to 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 \$20.0 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 positive factors in our assessment. Although during fiscal years 2008, 2009 and 2010 we realized a taxable loss, we generated taxable income in fiscal year 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 \$1.6 million recorded at January 31, 2012. In addition, we have significant financial resources to deploy in future income producing activities.

The valuation allowance was approximately \$1.7 million and approximately \$1.2 million at January 31, 2012 and January 31, 2011, respectively. 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, 2012, total unrecognized tax benefits were approximately \$2.2 million, and accrued penalties and interest were approximately \$0.3 million. If we were to prevail on all unrecognized tax benefits recorded, approximately \$0.1 million 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.

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, each income producing property must be evaluated separately when events and circumstances indicate that the value of that asset may not be recoverable. We recognize an impairment loss when the fair value of the asset is less than its carrying amount. We generally use expected future cash flows on a discounted basis and appraisals of specific properties to estimate fair value. Changes in the real estate market for particular locations could result in changes to our estimates of the property's value upon disposal. In addition, changes in expected future cash flows from our ethanol plants could result in additional impairment charges. Any significant adverse change in the spread between ethanol and grain prices could result in triggering events, and thus, additional impairment charges.

#### **New Accounting Pronouncements**

Effective February 1, 2011, we adopted the amended guidance in ASC 805, which requires disclosure of pro forma revenue and earnings as if the business combination that occurred during the reporting period had

occurred as of the beginning of the comparable prior reporting year. The adoption of this amended guidance required expanded disclosure in the consolidated financial statements but did not impact financial results.

Effective February 1, 2011, we adopted the second phase of the amended guidance in ASC Topic 820, “*Fair Value Measurements and Disclosures*”, (“ASC 820”) which requires us to disclose information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis, separately for assets and liabilities. The adoption of this amended guidance required expanded disclosure in the consolidated financial statements but did not impact financial results.

Effective February 1, 2012, we will be required to adopt the third phase of amended guidance in ASC 820, which achieves common fair value measurement and disclosure requirements by improving comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and those prepared in conformity with International Financial Reporting Standards (“IFRS”). We have not determined the impact this amended guidance will have on our consolidated financial statements.

Effective February 1, 2012, we will be required to adopt the amended guidance in ASC Topic 220, “*Comprehensive Income*”, which increases the prominence of other comprehensive income in the financial statements. We have not determined the impact this amended guidance will have on our consolidated financial statements.

There were no other new accounting standards issued during fiscal year 2011 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 \$122.7 million in variable-rate debt as of January 31, 2012. Interest rates on our variable-rate debt are determined based upon the market interest rate of LIBOR plus 300 to 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 \$0.5 million per year in the aggregate. However, this change would be greater should LIBOR rates exceed 4.0%, which is the floor interest rate of the NuGen subsidiary level long term debt.

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 during fiscal years 2008 and 2007. The \$50.0 million swap fixed the variable interest rate of a portion of One Earth’s term loan at 7.9%, while the \$25.0 million swap fixed the variable interest rate of a portion of One Earth’s term loan at 5.49%. The swap settlements commenced on July 31, 2009; the \$50.0 million swap terminates on July 8, 2014 and the \$25.0 million swap terminated on July 31, 2011. A hypothetical 10% change (for example, from 4.0% to 3.6%) in market interest rates at January 31, 2012 would change the fair value of the interest rate swap by approximately \$0.4 million.



## 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, 2012, One Earth and NuGen combined have purchase commitments for approximately 10.3 million bushels of corn, the principal raw material for their ethanol plants. One Earth and NuGen expect to take delivery of the corn by July 2012. One Earth and NuGen have combined sales commitments for approximately 40.4 million gallons of ethanol and 59,300 tons of distillers grains. One Earth and NuGen expect to deliver the ethanol and distillers grains by April 2012. Less than 1% 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 \$42.5 million for the remaining forecasted ethanol sales. Approximately 9% 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 \$10.9 million for the remaining 91% of forecasted distillers grains sales. Similarly, approximately 1% of our estimated corn usage for the next 12 month was subject to fixed-price contracts. As a result, the effect of a 10% adverse move in the price of corn for current pricing would result in an increase in annual cost of goods sold of approximately \$44.6 million for the remaining 99% of forecasted corn usage.

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

	January 31,	
	2012	2011
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 75,013	\$ 91,019
Accounts receivable - net	12,784	9,619
Inventory - net	30,349	7,819
Refundable income taxes	1,816	8,503
Prepaid expenses and other	3,987	3,055
Deferred taxes - net	3,090	5,834
	<hr/>	<hr/>
Total current assets	127,039	125,849
Property and equipment - net	240,084	169,811
Other assets	7,884	5,907
Deferred taxes - net	—	5,206
Equity method investments	61,679	67,349
Restricted investments and deposits	1,363	1,600
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 438,049</b>	<b>\$ 375,722</b>

See notes to consolidated financial statements.

**REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
(Amounts in Thousands)

	January 31,	
	2012	2011
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long term debt – alternative energy	\$ 14,972	\$ 9,672
Current portion of long term debt – other	250	342
Accounts payable – trade	6,985	2,557
Deferred income	1,864	3,982
Accrued restructuring charges	—	146
Accrued real estate taxes	2,750	2,393
Accrued payroll and related items	2,882	829
Derivative financial instruments	1,694	1,835
Other current liabilities	5,844	2,811
<b>Total current liabilities</b>	<b>37,241</b>	<b>24,567</b>
<b>LONG TERM LIABILITIES:</b>		
Long term debt – alternative energy	107,706	69,049
Long term debt – other	821	1,924
Deferred taxes	4,642	—
Deferred income	552	2,416
Derivative financial instruments	2,541	3,688
Other long term liabilities	2,703	4,114
<b>Total long term liabilities</b>	<b>118,965</b>	<b>81,191</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY:</b>		
<b>REX shareholders' equity:</b>		
Common stock, 45,000 shares authorized, 29,853 shares issued at par	299	299
Paid in capital	142,994	142,293
Retained earnings	324,323	296,053
Treasury stock, 21,523 and 20,461 shares, respectively	(215,105)	(193,713)
<b>Total REX shareholders' equity</b>	<b>252,511</b>	<b>244,932</b>
Noncontrolling interests	29,332	25,032
<b>Total equity</b>	<b>281,843</b>	<b>269,964</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 438,049</b>	<b>\$ 375,722</b>

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,		
	2012	2011	2010
Net sales and revenue	\$ 409,952	\$ 301,407	\$ 169,777
Cost of sales	376,116	270,777	148,895
Gross profit	33,836	30,630	20,882
Selling, general and administrative expenses	(10,376)	(9,722)	(6,161)
Equity in income of unconsolidated ethanol affiliates	21,532	14,558	6,027
Impairment charges and loss on deconsolidation	—	(18,424)	—
Bargain purchase gain, net	3,541	—	—
Income from synthetic fuel investments	2,883	—	—
Interest income	417	447	445
Interest expense	(3,484)	(5,559)	(4,724)
Loss on early termination of debt	(1)	(48)	(89)
Other income	625	310	748
Losses on derivative financial instruments	(1,148)	(2,116)	(2,487)
Income from continuing operations before income taxes	47,825	10,076	14,641
Provision for income taxes	(15,902)	(3,017)	(4,585)
Income from continuing operations	31,923	7,059	10,056
Income from discontinued operations, net of tax	1,336	1,522	1,284
Gain on disposal of discontinued operations, net of tax	439	161	1,212
Net income	33,698	8,742	12,552
Net income attributable to noncontrolling interests	(5,428)	(3,673)	(3,900)
Net income attributable to REX common shareholders	\$ 28,270	\$ 5,069	\$ 8,652
Weighted average shares outstanding – basic	9,117	9,651	9,254
Basic income per share from continuing operations attributable to REX common shareholders	\$ 2.90	\$ 0.35	\$ 0.66
Basic income per share from discontinued operations attributable to REX common shareholders	0.15	0.16	0.14
Basic income per share on disposal of discontinued operations attributable to REX common shareholders	0.05	0.02	0.13
Basic net income per share attributable to REX common shareholders	\$ 3.10	\$ 0.53	\$ 0.93
Weighted average shares outstanding – diluted	9,187	9,825	9,551
Diluted income per share from continuing operations attributable to REX common shareholders	\$ 2.88	\$ 0.34	\$ 0.65
Diluted income per share from discontinued operations attributable to REX common shareholders	0.15	0.16	0.13
Diluted gain per share on disposal of discontinued operations attributable to REX common shareholders	0.05	0.02	0.13
Diluted net income per share attributable to REX common shareholders	\$ 3.08	\$ 0.52	\$ 0.91
Amounts attributable to REX common shareholders:			
Income from continuing operations, net of tax	\$ 26,495	\$ 3,386	\$ 6,156
Income from discontinued operations, net of tax	1,775	1,683	2,496
Net income	\$ 28,270	\$ 5,069	\$ 8,652

See notes to consolidated financial statements.

**REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED JANUARY 31, 2012, 2011 AND 2010  
(Amounts in Thousands)**

	REX Shareholders									
	Common Shares Issued		Treasury		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Equity	
	Shares	Amount	Shares	Amount						
Balance at January 31, 2009	29,853	\$ 299	20,471	\$ (186,057)	\$ 142,486	\$ 282,332	\$ —	\$ 24,573	\$ 263,633	
Net income						8,652		3,900	12,552	
Treasury stock acquired			1,257	(15,694)					(15,694)	
Stock based compensation					234				234	
Stock options and related tax effects			(1,683)	15,344	(1,022)				14,322	
Unrealized holding gains, net of tax	—	—	—	—	—	—	49	—	49	
Balance at January 31, 2010	29,853	299	20,045	(186,407)	141,698	290,984	49	28,473	275,096	
Net income						5,069		3,673	8,742	
Treasury stock acquired			515	(8,229)					(8,229)	
Reclassification adjustment for net gains included in net income, net of tax							(49)		(49)	
Deconsolidation of subsidiary								(7,114)	(7,114)	
Stock options and related tax effects	—	—	(99)	923	595	—	—	—	1,518	
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	

See notes to consolidated financial statements.

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

	Years Ended January 31,		
	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 33,698	\$ 8,742	\$ 12,552
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,086	17,943	10,603
Impairment charges and loss on deconsolidation, net of cash divested of \$2,304	—	16,120	—
Stock based compensation expense	—	—	234
Impairment charges on real estate	1,227	1,021	1,533
Income from equity method investments	(21,532)	(14,558)	(6,027)
Dividends received from equity method investments	4,918	4,965	702
Bargain purchase gain, net	(3,541)	—	—
Income from synthetic fuel investments	(2,883)	—	—
Derivative financial instruments	(1,288)	(361)	(144)
Gain on disposal of real estate and property and equipment	(683)	(293)	(2,003)
Deferred income	(3,982)	(7,816)	(16,559)
Deferred income tax	14,667	3,803	12,958
Changes in assets and liabilities, net of acquisition and deconsolidation:			
Accounts receivable	4,216	(2,472)	(4,926)
Inventory	(14,039)	(554)	15,676
Prepaid expenses and other assets	1,059	(2,022)	1,906
Income taxes refundable	7,852	4,310	(4,924)
Accounts payable-trade	1,191	761	(8,457)
Other liabilities	1,930	(1,668)	(2,146)
<b>Net cash provided by operating activities</b>	<b>34,896</b>	<b>27,921</b>	<b>10,978</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(7,342)	(6,033)	(35,652)
Proceeds from synthetic fuel investments	2,883	—	—
Purchase of investments	(1,947)	(9,214)	(25)
Acquisition of business, net of cash acquired	12,293	—	—
Proceeds of note receivable	—	965	—
Proceeds from sale of real estate and property and equipment	4,445	7,986	4,756
Restricted investments	237	500	184
<b>Net cash provided by (used in) investing activities</b>	<b>10,569</b>	<b>(5,796)</b>	<b>(30,737)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from long term debt	—	—	48,958
Payments of long term debt	(35,653)	(24,793)	(20,376)
Stock options exercised	362	1,518	6,038
Payments for loan fees	(627)	—	—
Payments to noncontrolling interests holders	(2,084)	—	—
Repayments of contingent consideration liability	(1,251)	—	—
Treasury stock acquired	(22,218)	(8,229)	(6,454)
<b>Net cash (used in) provided by financing activities</b>	<b>(61,471)</b>	<b>(31,504)</b>	<b>28,166</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(16,006)</b>	<b>(9,379)</b>	<b>8,407</b>
<b>CASH AND CASH EQUIVALENTS-Beginning of year</b>	<b>91,019</b>	<b>100,398</b>	<b>91,991</b>
<b>CASH AND CASH EQUIVALENTS-End of year</b>	<b>\$ 75,013</b>	<b>\$ 91,019</b>	<b>\$ 100,398</b>
Non cash activities-Cashless exercises of stock options	\$ 3,444	\$ —	\$ 9,239
Non cash activities-Accrued capital expenditures	\$ 882	\$ 102	\$ 265
Non cash activities-Payable related to plant construction refinanced to long term debt	\$ —	\$ —	\$ 9,749

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, 2012, the Company maintains ownership interests in five ethanol entities and manages a portfolio of real estate located in 12 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 although it will continue to recognize, 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 2011” means the period February 1, 2011 to January 31, 2012. 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, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company does not believe there is significant credit risk on its cash and cash equivalents. During fiscal years 2011(three customers), 2010 and 2009 (two customers), accounted for approximately 78%, 45% and 64%, respectively, of the Company’s net sales and revenue. At January 31, 2012 and 2011, these customers represented approximately 58% and 68%, respectively, of the Company’s accounts receivable balance. These customers (in fiscal year 2011) were Archer Daniels Midland, Biourja Trading, LLC 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. The write down of inventory was \$153,000 and \$0 at January 31, 2012 and 2011, respectively. Fluctuations in the write down of inventory generally relate to the levels and composition of such inventory at a given point in time.

The components of inventory at January 31, 2012, and January 31, 2011 are as follows (amounts in thousands):

	<u>2012</u>	<u>2011</u>
Ethanol and other finished goods, net	\$ 5,318	\$ 2,347
Work in process	3,819	1,705
Grain and other raw materials, net	21,212	3,767
	<u>          </u>	<u>          </u>
Total	<u>\$ 30,349</u>	<u>\$ 7,819</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, 2012 and 2011 are as follows (amounts in thousands):

	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 25,094	\$ 21,899
Buildings and improvements	40,710	44,297
Machinery, equipment and fixtures	212,797	124,439
Leasehold improvements	366	440
Construction in progress	7,194	4,578
	<u>          </u>	<u>          </u>
	286,161	195,653
Less: accumulated depreciation	<u>(46,077)</u>	<u>(25,842)</u>
	<u>          </u>	<u>          </u>
	<u>\$ 240,084</u>	<u>\$ 169,811</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 \$1,227,000 in fiscal year 2011, all of which is included in selling, general and administrative expenses. The Company recorded an impairment charge of \$1,021,000 in fiscal year 2010, of which \$165,000 is included in selling, general and administrative expenses and \$856,000 is classified as discontinued operations in the consolidated statements of operations. The Company recorded an impairment charge of \$1,533,000 in fiscal year 2009, of which \$663,000 is included in selling, general and administrative expenses and \$870,000 is classified as discontinued operations in the consolidated statements of operations. The impairment charges classified as selling, general and administrative expenses in fiscal years 2011, 2010 and 2009 relate to individual properties in the Company’s real estate segment. The impairment charges in fiscal years 2011, 2010 and 2009 classified as discontinued operations relate to individual stores in the Company’s former retail segment or 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. Generally, declining cash



flows from an ethanol plant or deterioration in local real estate market conditions are indicators of possible impairment.

Depreciation expense was approximately \$11,580,000, \$15,660,000 and \$10,462 000 in fiscal years 2011, 2010 and 2009, respectively.

**Investments and Deposits** – Restricted investments, which are principally money market mutual funds and cash deposits, are stated at cost plus accrued interest, which approximates market. Restricted investments at January 31, 2012 and 2011 are required by two states to cover possible future claims under extended service policies over the remaining live of the service policy contract. In accordance with ASC 320, “*Investments-Debt and Equity Securities*” the Company has classified these investments as held-to-maturity. The investments had maturity dates of less than one year at January 31, 2012 and 2011. The Company has the intent and ability to hold these securities to maturity.

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 one majority owned subsidiary, One Earth, with a one month lag as One Earth has a fiscal year end of December 31. The Company also consolidates the results of one majority owned subsidiary, NuGen, which 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 and distillers grains when title transfers to customers, upon shipment from the ethanol plant. Shipping and handling charges to ethanol and distillers grains 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 are deferred and amortized on a straight-line basis over the life of the contracts after the expiration of applicable manufacturers’ warranty periods. The Company retains 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.

The Company recognized income from synthetic fuel partnership sales as production was completed and collectability of receipts was reasonably assured. The Company was paid for actual tax credits earned as the synthetic fuel was produced with the exception of production at the Pine Mountain (Gillette) facility. See Note 5 for a further discussion of synthetic fuel partnership sales.

**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** – Interest expense of approximately \$4,724,000 for fiscal year 2009 is net of \$1,651,000 of interest capitalized related to equity investments and ethanol plant construction. No interest was capitalized during fiscal years 2011 and 2010. Cash paid for interest in fiscal years 2011, 2010 and 2009 was approximately \$3,174,000, \$4,701,000 and \$2,886,000, 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 statements of consolidated operations. The Company paid settlements of interest rate swaps of approximately \$2,436,000, \$2,477,000 and \$2,510,000 in fiscal years 2011, 2010 and 2009, 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 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. The Company adopted ASC 718 "Compensation-Stock Compensation", "(ASC 718)" on February 1,

2006. The Company chose the Modified Prospective Application (“MPA”) method for implementing this accounting standard. Under the MPA method, new awards, if any, are valued and accounted for prospectively upon adoption. Outstanding prior awards that were unvested as of February 1, 2006 are recognized as compensation cost over the remaining requisite service period. ASC 718 also required the Company to establish the beginning balance of the additional paid in capital pool (“APIC pool”) related to actual tax deductions from the exercise of stock options. This APIC pool is available to absorb tax shortfalls (actual tax deductions less than recognized compensation expense) recognized subsequent to the adoption of ASC 718. On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123R-3, “*Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards.*” This FASB Staff Position provided companies with the option to use either the transition method prescribed by ASC 718 or a simplified alternative method described in the staff position. The Company chose to utilize the transition method prescribed by ASC 718, which requires the calculation of the APIC pool as if the Company had adopted ASC 718 for fiscal years beginning after December 15, 1994.

No options were granted in the fiscal years ended January 31, 2012, January 31, 2011 or January 31, 2010. The following table summarizes options granted, exercised and canceled or expired during the fiscal year ended January 31, 2012:

	Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding—Beginning of year	726	\$ 10.16		
Granted	—	—		
Exercised	(457)	8.41		
Canceled or expired	—	—		
Outstanding and exercisable—End of year	269	\$ 13.15	1.6	\$ 3,374

The total intrinsic value of options exercised in the fiscal years ended January 31, 2012, 2011 and 2010, was approximately \$3.2 million, \$0.7 million and \$7.2 million, respectively, resulting in tax deductions to realize benefits of approximately \$1.2 million, \$0.3 million and \$0.5 million, respectively. At January 31, 2012, there was no unrecognized compensation cost related to nonvested stock options. See Note 12 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 and operations from its former retail segment in discontinued operations when the operations and cash flows of the store or 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 store or real estate assets 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 stores or 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 stores operations or real estate assets as discontinued operations. For stores and warehouses closed for which the Company has a retained interest in the related real estate, operations are presented in the real estate segment. 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.

**New Accounting Pronouncements** – Effective February 1, 2012, the Company will be required to adopt the third phase of amended guidance in ASC 820, which achieves common fair value measurement and disclosure requirements by improving comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and those prepared in conformity with International Financial Reporting Standards (“IFRS”). The Company has not determined the impact this amended guidance will have on its consolidated financial statements.

Effective February 1, 2012, the Company will be required to adopt the amended guidance in ASC Topic 220, “*Comprehensive Income*”, which increases the prominence of other comprehensive income in the financial statements. The Company has not determined the impact this amended guidance will have on its consolidated financial statements.

Effective February 1, 2011, the Company adopted the amended guidance is ASC 805, which requires disclosure of pro forma revenue and earnings as if the business combination that occurred during the reporting period had occurred as of the beginning of the comparable prior reporting year. The adoption of this amended guidance required expanded disclosure in the consolidated financial statements but did not impact financial results.

Effective February 1, 2011, the Company adopted the second phase of the amended guidance in ASC 820, which requires the Company to disclose information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis, separately for assets and liabilities. The adoption of this amended guidance required expanded disclosure in the consolidated financial statements but did not impact financial results.

## 2. INVESTMENTS AND DEPOSITS

The Company has \$743,000 at January 31, 2012 and 2011 on deposit with the Florida Department of Financial Services to secure its obligation to fulfill future obligations related to extended warranty contracts sold in the state of Florida.

In addition to the deposit with the Florida Department of Financial Services, the Company has \$620,000 and \$857,000 at January 31, 2012 and 2011, respectively, invested in a money market mutual fund to satisfy Florida Department of Financial Services regulations.

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, 2012 and

2011 (amounts in thousands):

Entity	Ownership Percentage	Carrying Amount January 31, 2012	Carrying Amount January 31, 2011
Big River Resources, LLC	10%	\$ 34,370	\$ 29,443
Patriot Renewable Fuels, LLC	26%	27,309	21,829
NuGen Energy, LLC (1)	48%	—	16,077
Total Equity Method Securities		\$ 61,679	\$ 67,349

(1) Ownership percentage through November 1, 2011.

During fiscal year 2007, the Company entered into an agreement to invest \$20 million in Big River, an Iowa limited liability company and holding company for several entities. The Company funded this investment in exchange for a 10% ownership interest. Big River Resources West Burlington, LLC, a wholly owned subsidiary of Big River, presently operates an ethanol manufacturing plant with an annual nameplate capacity of 92 million gallons. Big River Resources Galva, LLC, a wholly owned subsidiary of Big River, presently operates an ethanol manufacturing plant with an annual nameplate capacity of 100 million gallons. Big River Resources United Energy, LLC, a 50.5% owned subsidiary of Big River, operates an ethanol manufacturing plant with an annual nameplate capacity of 100 million gallons. Big River Resources Boyceville, LLC, a wholly owned subsidiary of Big River, presently operates an ethanol manufacturing plant with an annual nameplate capacity of 55 million gallons. The Company recorded income of approximately \$6,931,000, \$5,387,000 and \$2,487,000 as its share of earnings from Big River during fiscal years 2011, 2010 and 2009, respectively. At January 31, 2012, the carrying value of the investment in Big River is approximately \$34.4 million; the amount of underlying equity in the net assets of Big River is approximately \$32.8 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.

During fiscal year 2007, the Company entered into an agreement to invest \$16 million in Patriot. The Company funded this investment in exchange for a 23% ownership interest. During fiscal year 2011, the Company invested an additional \$1.9 million which increased its ownership interest (effective January 1, 2012) in Patriot to 26%. The facility has an annual nameplate capacity of 100 million gallons and began operations during the second quarter of fiscal year 2008. The Company recorded income of approximately \$5,274,000, \$5,159,000 and \$3,540,000 as its share of earnings or loss from Patriot during fiscal years 2011, 2010 and 2009, respectively. At January 31, 2012, the carrying value of the investment in Patriot is approximately \$27.3 million; the amount of underlying equity in the net assets of Patriot is approximately \$22.2 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 with an annual nameplate capacity of 100 million gallons. The Company's investment included approximately \$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 that REX was entitled to until such balance was paid ("Contingent Consideration"). The Company determined that the fair value of the Contingent Consideration, at the acquisition date, was approximately \$4,611,000. 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 98% equity interest in NuGen. The Company recorded income (under the equity method of accounting) of approximately \$9,327,000 and \$4,011,000 as its share of earnings from NuGen during fiscal years 2011 and 2010. Effective November 1, 2011, the Company ceased using the equity method of accounting and began consolidating the results of NuGen. Prior to fiscal year 2011, the Company recorded the results of NuGen on a one month lag. During fiscal year 2011, NuGen adopted the same fiscal year as the Company. As a result, the Company no longer records the results of NuGen on a one month lag. The impact of recording 13 months (ten months of equity method income and three months of consolidated operations) of NuGen's results in fiscal year 2011 was not material, representing an increase to net income of approximately \$0.9 million.

On September 30, 2006, the Company acquired 47% of the outstanding membership units of Levelland Hockley County Ethanol, LLC, or Levelland Hockley, for \$11.5 million. On December 29, 2006, the Company purchased a \$5.0 million convertible secured promissory note from Levelland Hockley. On July 1, 2007, the Company converted the note into equity and increased its ownership percentage to approximately 56%.

Levelland Hockley, which is located in Levelland, Texas, commenced production operations in the first quarter of fiscal year 2008. The plant has an annual nameplate capacity of 40 million gallons of ethanol and 135,000 tons of dried distillers grains.

The plant was shut down in early January 2011 as a result of industry wide low crush spread margins and the plant's inability to source grain at affordable prices. On January 31, 2011, the Company sold 814,000 of its membership units to Levelland Hockley for \$1, reducing the ownership interest in Levelland Hockley to 49%. As a result, the Company no longer has a controlling financial interest in Levelland Hockley, and, therefore, effective January 31, 2011, the Company deconsolidated Levelland Hockley and began using the equity method of accounting. In connection with the deconsolidation, the Company recorded its remaining noncontrolling equity interest and debt investments at fair value. The Company's estimate of fair value for all of its investments in Levelland Hockley was \$0 at January 31, 2011. The Company recorded a pretax charge of approximately \$18.4 million as a result of deconsolidating Levelland Hockley and writing its remaining investments in Levelland Hockley to \$0 at January 31, 2011. The deconsolidation loss was computed as the difference between the sales proceeds and fair value of the retained investment and the Company's carrying value of the investment prior to the transaction. The Company's continuing involvement as an equity method investor precludes classification of this transaction as discontinued operations. The Company also recorded a pretax loss from the operating results of Levelland Hockley (prior to deconsolidation) of approximately \$5.9 million. On April 27, 2011, Levelland Hockley voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, Northern District of Texas. As a result, the Company no longer could exercise significant influence over Levelland Hockley and began using the cost method of accounting. There was no change in the carrying value of the Company's investments in Levelland Hockley as a result of the change to the cost method of accounting.

Undistributed earnings of equity method investees totaled approximately \$22.8 million and \$18.4 million at January 31, 2012 and 2011, 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, 2011

	<b>Patriot</b>	<b>Big River</b>
	<u>          </u>	<u>          </u>
Current assets	\$ 24,972	\$ 139,858
Non current assets	168,518	406,522
	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b>\$ 193,490</b>	<b>\$ 546,380</b>
	<u>          </u>	<u>          </u>
Current liabilities	\$ 20,966	\$ 72,798
Long-term liabilities	76,103	111,928
	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	<b>\$ 97,069</b>	<b>\$ 184,726</b>
	<u>          </u>	<u>          </u>
Noncontrolling interests	\$ —	\$ 33,224
	<u>          </u>	<u>          </u>

As of December 31, 2010

	<b>Patriot</b>	<b>Big River</b>	<b>NuGen</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Current assets	\$ 20,648	\$ 149,690	\$ 35,521
Non current assets	174,087	358,155	87,487
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b>\$ 194,735</b>	<b>\$ 507,845</b>	<b>\$ 123,008</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Current liabilities	\$ 19,105	\$ 78,694	\$ 14,720
Long-term liabilities	94,963	129,936	86,563
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	<b>\$ 114,068</b>	<b>\$ 208,630</b>	<b>\$ 101,283</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Noncontrolling interests	\$ —	\$ 21,515	\$ —
	<u>          </u>	<u>          </u>	<u>          </u>

Summarized financial information for each of the Company's equity method investees except for NuGen is presented in the following table for the years ended December 31, 2011, 2010 and 2009. The summarized information for NuGen is presented for the ten months ended October 31, 2011 and for the

six months ended December 31, 2010 (amounts in thousands):

Periods Ended December 31 and October 31, 2011

	<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

Period Ended December 31, 2010

	<u>Patriot</u>	<u>Big River</u>	<u>Nugen</u>
Net sales and revenue	\$ 261,117	\$ 742,163	\$ 121,871
Gross profit	\$ 26,936	\$ 83,671	\$ 12,977
Income from continuing operations	\$ 21,385	\$ 52,478	\$ 9,772
Net income	\$ 21,385	\$ 52,478	\$ 9,772

Year Ended December 31, 2009

	<u>Patriot</u>	<u>Big River</u>
Net sales and revenue	\$ 231,077	\$ 448,145
Gross profit	\$ 25,711	\$ 43,317
Income from continuing operations	\$ 17,288	\$ 25,225
Net income	\$ 17,288	\$ 25,225

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, 2012 are approximately \$326.2 million. At January 31, 2012, the Company's proportionate share of restricted net assets of Patriot and Big River combined is approximately \$44.2 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, the Company has 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 for fiscal year 2011. The Company paid approximately \$10.4 million of cash and the fair value of the Company's previously held equity interest in NuGen was approximately \$18.6 million.

The acquisition was recorded by allocating the total purchase price to the assets acquired, including intangible assets and liabilities assumed, based on their estimated fair values at the acquisition date. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (amounts in thousands):

Cash	\$ 24,971
Accounts receivable	7,381
Inventory	8,491
Prepaid expenses and other current assets	711
Property, plant and equipment	78,618
Other	2,995
	<hr/>
Total assets acquired	123,167
Current liabilities	(19,167)
Long term debt	(65,000)
Noncontrolling interest	(955)
Gain on acquisition	(8,990)
	<hr/>
Cash paid	\$ 10,413
	<hr/>
Fair value of 48% equity method investment	\$ 18,642
	<hr/>

Prior to this acquisition, the Company owned 48% of NuGen. In accordance with ASC 805, the Company accounted for this transaction as a step acquisition, remeasured its previously held investment to fair value and recorded the approximately \$5.4 million difference between fair value and its carrying value as equity method remeasurement loss. The acquisition date fair value of the Company's 48% interest in NuGen was approximately \$18.6 million, and the carrying value was approximately \$24.0 million. This fair value was determined using a market and income approach, both of which contain significant unobservable inputs.

ASC 805 requires that when the fair value of the net assets acquired exceeds the purchase price, resulting in a bargain purchase gain, the acquirer must reassess the reasonableness of the values assigned to all of the net assets acquired, liabilities assumed and consideration transferred. The Company has performed such a reassessment and has concluded that the values assigned to the NuGen acquisition are reasonable. The net assets acquired less liabilities assumed exceeded the purchase price by approximately \$8.9 million which was recorded as bargain purchase gain. The fair value of the net assets acquired was determined using a market and income approach, both of which contain significant unobservable inputs.

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

The Company believes this transaction resulted in a bargain purchase because the previous owners of NuGen acquired the plant out of bankruptcy during fiscal year 2009 at a relatively low purchase price. Therefore, the purchase price the Company paid for NuGen provided an adequate rate of return to the previous owners. In addition, the preexisting relationship the Company had with the previous owners, by way of its initial 48% equity method investment and option to purchase up to 51% of NuGen, limited the ability of the previous owners to market the plant for sale.

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 2010 (in thousands, except per share amounts):

	Year Ended January 31, 2012	Year Ended January 31, 2011
Net sales and revenue	\$ 684,615	\$ 561,748
Net income	\$ 34,939	\$ 9,271
Basic net income per share	\$ 3.83	\$ 0.96
Diluted net income per share	\$ 3.80	\$ 0.94

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, restricted and other 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 shall be 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, 2012 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)	620	—	—	620
Investment in Cooperative (1)	—	—	219	219
<b>Total Assets</b>	<b>\$ 622</b>	<b>\$ —</b>	<b>\$ 219</b>	<b>\$ 841</b>
Interest Rate Swap Derivative Liabilities	\$ —	\$ 4,235	\$ —	\$ 4,235

Financial assets and liabilities measured at fair value at January 31, 2011 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)	857	—	—	857
<b>Total Assets</b>	<b>\$ 859</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 859</b>
Interest Rate Swap Derivative Liabilities	\$ —	\$ 5,523	\$ —	\$ 5,523

(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):

	<b>Investment in Cooperative</b>
Balance, January 31, 2011	\$ —
Equity allocation	218,777
Balance, January 31, 2012	\$ 218,777

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 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 2011, the Company determined that the carrying value of certain long-lived assets exceeded the fair value of these assets. Accordingly, the Company recorded long-lived asset impairment charges of approximately \$1,227,000 to properly reflect the carrying value of these assets.

Assets measured at fair value at January 31, 2012 on a non-recurring basis are summarized below (amounts in thousands):

	<b>Year Ended January 31, 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Losses</b>
Property and equipment, net	\$ 8,803	\$ —	\$ —	\$ 8,803	\$ 1,227

Assets measured at fair value at January 31, 2011 on a non-recurring basis are summarized below (amounts in thousands):

	<b>Year Ended January 31, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Losses</b>
Property and equipment, net	\$ 2,981	\$ —	\$ —	\$ 2,981	\$ 165
Noncontrolling equity investment in Levelland Hockley	\$ —	\$ —	\$ —	\$ —	\$ 9,487
Notes receivable from Levelland Hockley	\$ —	\$ —	\$ —	\$ —	\$ 8,937

Excluded from the table is information for losses on property and equipment, net that were classified as discontinued operations. Such losses totaled \$856,000 in fiscal year 2010.

#### 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 2010 and 2009. 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, 2012 and 2011 are as follows (amounts in thousands):

	<b>January 31,</b>	
	<b>2012</b>	<b>2011</b>
Deferred financing costs, net	\$ 1,306	\$ 1,006
Prepaid commissions	729	1,924
Deposits	2,564	505
Real estate taxes refundable	1,969	682
Other	1,316	1,790
<b>Total</b>	<b>\$ 7,884</b>	<b>\$ 5,907</b>

Deferred financing costs represent amounts paid to obtain both mortgage debt and borrowings under One Earth’s debt arrangements. Such amounts are amortized as interest expense. Future amortization

expense is as follows (amounts in thousands):

<u>Years Ended January 31,</u>	<u>Amortization</u>
2013	\$ 526
2014	428
2015	281
2016	69
2017	2
Total	<u>\$ 1,306</u>

Prepaid commissions represent sales commissions paid in connection with extended warranties sold by the Company's former retail sales staff. Such amounts are capitalized and amortized ratably over the life of the extended warranty plan sold. Future amortization of prepaid commissions is as follows (amounts in thousands):

<u>Years Ended January 31,</u>	<u>Amortization</u>
2013	\$ 565
2014	164
Total	<u>\$ 729</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. 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. The following table reconciles the basic and diluted net income per share from continuing operations computations for each

year presented for fiscal years 2011, 2010 and 2009 (amounts in thousands, except per-share amounts):

	<b>2011</b>		
	<b>Income</b>	<b>Shares</b>	<b>Per Share</b>
Basic net income per share from continuing operations attributable to REX common shareholders	\$ 26,495	9,117	\$ 2.90
Effect of stock options		70	
	<u>26,495</u>	<u>9,187</u>	<u>2.88</u>
Diluted net income per share from continuing operations attributable to REX common shareholders	\$ 26,495	9,187	\$ 2.88
	<u>26,495</u>	<u>9,187</u>	<u>2.88</u>
	<b>2010</b>		
	<b>Income</b>	<b>Shares</b>	<b>Per Share</b>
Basic net income per share from continuing operations attributable to REX common shareholders	\$ 3,386	9,651	\$ 0.35
Effect of stock options		174	
	<u>3,386</u>	<u>9,825</u>	<u>0.34</u>
Diluted net income per share from continuing operations attributable to REX common shareholders	\$ 3,386	9,825	\$ 0.34
	<u>3,386</u>	<u>9,825</u>	<u>0.34</u>
	<b>2009</b>		
	<b>Income</b>	<b>Shares</b>	<b>Per Share</b>
Basic net income per share from continuing operations attributable to REX common shareholders	\$ 6,156	9,254	\$ 0.66
Effect of stock options		297	
	<u>6,156</u>	<u>9,551</u>	<u>0.65</u>
Diluted net income per share from continuing operations attributable to REX common shareholders	\$ 6,156	9,551	\$ 0.65
	<u>6,156</u>	<u>9,551</u>	<u>0.65</u>

For fiscal year 2009, a total of 310,723 shares subject to outstanding options were not included in the common equivalent shares outstanding calculation as the effect from these shares is antidilutive. For fiscal years 2011 and 2010 all shares subject to outstanding options were dilutive.

## 8. LEASES

At January 31, 2012, the Company has lease agreements, as landlord, for six owned properties. All of the leases are accounted for as operating leases. The Company recognized lease revenue of approximately \$1,317,000, \$1,018,000 and \$602,000 in fiscal years 2011, 2010 and 2009, respectively.

As of January 31, 2012, future minimum annual rentals on such leases are as follows (amounts in thousands):

<b>Years Ended January 31</b>	<b>Minimum Rentals</b>
2013	\$ 1,199
2014	1,252
2015	1,060
2016	502
2017	437
Thereafter	1,452
	<u>\$ 5,902</u>

## 9. COMMON STOCK

During fiscal years 2011, 2010 and 2009, the Company purchased 1,518,877 shares, 514,657 shares and 1,256,604 shares, respectively, of its common stock for \$25,662,000, \$8,229,000 and \$15,694,000, respectively. Included in these amounts are shares the Company received totaling 213,288 and 659,957 for the years ended January 31, 2012 and 2010, 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 \$3,444,000 and \$9,239,000 for the years ended January 31, 2012 and January 31, 2010, respectively. At January 31, 2012, the Company had prior authorization by its Board of Directors to purchase, in open market transactions, an additional 162,455 shares of its common stock. Information regarding the Company's common stock is as follows (amounts in thousands):

	<b>January 31, 2012</b>	<b>January 31, 2011</b>
Authorized shares	45,000	45,000
Issued shares	29,853	29,853
Outstanding shares	8,330	9,392

## 10. 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 3.2% to 8.4% in fiscal years 2011 and 2010. Principal and interest are payable periodically over terms that generally range up to 5 years. The following provides information on rates



segregated as fixed or variable and by term for fiscal years 2011 and 2010:

**January 31, 2012**

Interest Rates	Maturity	Balance (in thousands)
Variable		
3.19% - 4.00%	Within five years	\$ 122,678
Fixed		
8.40%	Within five years	\$ 1,071

**January 31, 2011**

Interest Rates	Maturity	Balance (in thousands)
Variable		
3.27% - 3.75%	Within five years	\$ 79,313
Fixed		
8.40%	Within five years	\$ 1,674

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

Year Ending January 31,	
2013	\$ 15,222
2014	17,080
2015	52,696
2016	5,753
2017	32,998
	\$ 123,749

The fair value of the Company's long-term debt at January 31, 2012 and 2011 was approximately \$123.8 million and \$81.2 million, respectively. The fair value was estimated using a 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 their construction loan into a term loan. Beginning with the first quarterly payment on October 8, 2009, 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 (July 31, 2014) for the remaining unpaid principal balance with accrued interest. The term loan bears interest at rates ranging from LIBOR plus 300 basis points to LIBOR plus 310 basis points (3.2% to 3.4% at January 31, 2012). 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, 2012, approximately \$69.1 million was outstanding on the term loan. One Earth is also subject to certain financial covenants under the loan agreement, including required levels of EBITDA, working capital, debt service coverage ratio requirements and net worth requirements. One Earth was in compliance with these covenants at January 31, 2012.

One Earth has a \$10.0 million revolving loan facility that matures May 31, 2012. Borrowings under this facility bear interest at LIBOR plus 280 basis points. One Earth has no outstanding borrowings on the revolving loan as of January 31, 2012.

One Earth also has access to a secondary revolving loan with First National Bank of Omaha, established as part of the original \$100,000,000 term loan and made accessible as a revolving loan as term loan payments were made. The amount available is reduced by \$250,000 on a quarterly basis as well as by 20% of excess cash flow calculated at year end pursuant to the covenant calculations of the loan agreement. At January 31, 2012 and 2011, One Earth had \$2,671,000 and \$5,384,000, respectively, on the secondary revolving loan available. One Earth did not have any outstanding borrowings on the secondary revolving loan at January 31, 2012 or 2011.

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, 2012, the Company's proportionate share of restricted assets related to One Earth was approximately \$14.5 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, 2012 and 2011, One Earth recorded a liability of approximately \$4.2 million and \$5.5 million, respectively, related to the fair value of the swaps. 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 20 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. 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, 2012, approximately \$53.6 million 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 was in compliance with these covenants, as applicable, at January 31, 2012. 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, 2012, the Company's proportionate share of restricted assets related to NuGen was

approximately \$3.6 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 has no outstanding borrowings on the \$10,000,000 revolving loan as of January 31, 2012.

On a consolidated basis, approximately 24.7% of the Company's net assets (including equity method investees) are restricted as of January 31, 2012. Including only consolidated subsidiaries, approximately 7.1% of the Company's net assets are restricted as of January 31, 2012.

## 11. FINANCIAL INSTRUMENTS

The Company uses interest rate swaps 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, 2012, the notional value of the interest rate swap was approximately \$41.8 million. At January 31, 2012, the Company has recorded a liability of approximately \$4.2 million related to the fair value of the swap. The change in fair value was recorded in the Consolidated Statements of Operations. The notional amounts and fair values of derivatives, all of which are not designated as cash flow hedges at January 31, 2012 are summarized in the table below (amounts in thousands):

	Notional Amount	Fair Value Liability
Interest rate swaps	\$ 41,824	\$ 4,235

The notional amounts and fair values of derivatives, all of which are not designated as cash flow hedges at January 31, 2011 are summarized in the table below (amounts in thousands):

	Notional Amount	Fair Value Liability
Interest rate swaps	\$ 68,138	\$ 5,523

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 \$1,148,000 \$2,116,000 and \$2,487,000, in fiscal years 2011, 2010 and 2009, respectively.

Swap settlement payments to the counterparty totaled approximately \$2,436,000, \$2,477,000 and \$2,510,000 in fiscal years 2011, 2010 and 2009, respectively.

## 12. 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, 2012, 108,011 and 2,302,425 shares remain available for issuance under the 1995 and 1999 Plans, respectively.

The following summarizes stock option activity for fiscal years 2011, 2010 and 2009 (amounts in thousands, except per-share amounts):

	2011		2010		2009	
	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	726	\$ 10.16	824	\$ 10.14	2,715	\$ 9.63
Exercised	(457)	8.41	(98)	10.00	(1,683)	8.87
Canceled or expired	—	—	—	—	(208)	13.75
Outstanding—End of year	269	\$ 13.15	726	\$ 10.16	824	\$ 10.14
Exercisable—End of year	269	\$ 13.15	726	\$ 10.16	824	\$ 10.14

Price ranges and other information for stock options outstanding as of January 31, 2012 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
\$12.04 to \$16.04	269	\$ 13.15	1.6

### 13. RESTRUCTURING AND OTHER

During the fourth quarter of fiscal year 2008, the Company entered into an agreement with an unrelated company pursuant to which the Company agreed to sell certain appliance inventory, furniture, fixtures and equipment at 37 store locations to be leased by the unrelated company.

During the fourth quarter of fiscal year 2008, the Company recorded a restructuring charge of approximately \$4.2 million related to (i) a workforce reduction of a majority of employees located at its corporate headquarters, retail stores and distribution facilities and (ii) certain costs associated with the transition of the Company's retail business to the unrelated company.

On September 30, 2009, the Company entered into an agreement with the unrelated company pursuant to which (i) the unrelated company agreed to vacate all properties leased from the Company and turn

over possession of the leased premises to the Company and (ii) the Company and the unrelated company agreed to release and discharge each other from all claims or causes of action whatsoever. The Company completed its exit of the retail business as of July 31, 2009. The following is a summary of restructuring charges and payments (in thousands):

	<b>Employee Severance and Bonus Costs</b>	<b>Lease Termination Costs</b>	<b>Investment Banker Fees</b>	<b>Other</b>	<b>Total Restructuring Accrual</b>
Balance, January 31, 2009	\$ 2,839	\$ —	\$ 834	\$ 498	\$ 4,171
Restructuring charges	85	2,951	—	—	3,036
Reversal of restructuring charges	(706)	(41)	(325)	(287)	(1,359)
Payments of restructuring liabilities	(1,999)	(2,471)	(509)	(211)	(5,190)
Balance, January 31, 2010	219	439	—	—	658
Restructuring charges	63	—	—	—	63
Payments of restructuring liabilities	(282)	(293)	—	—	(575)
Balance, January 31, 2011	—	146	—	—	146
Restructuring charges	—	—	—	—	—
Payments of restructuring liabilities	—	(146)	—	—	(146)
Balance, January 31, 2012	\$ —	\$ —	\$ —	\$ —	\$ —

#### 14. COMMITMENTS

One Earth and NuGen have combined forward purchase contracts for approximately 10.3 million bushels of corn, the principal raw material for their ethanol plants. They expect to take delivery of the corn by July 2012.

One Earth and NuGen have combined sales commitments for approximately 40.4 million gallons of ethanol and 59,300 tons of distillers grains. They expect to deliver the ethanol and the distillers grains by April 2012.

Forward grain purchase, ethanol and distillers grains 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 and distillers grains 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 spread over 120 equal payments of \$36,500. Payments began in February 2009. One Earth paid approximately \$438,000, \$438,000 and \$402,000 pursuant to the lease in fiscal years 2011, 2010 and 2009, respectively.

One Earth has entered into an agreement with an unrelated party for the lease of railcars that will be used to ship ethanol. The lease expires on May 31, 2012, with an automatic 36-month extension,

unless either party notifies the other in writing 60 days prior to the initial expiration date. One Earth pays a monthly lease amount per railcar. One Earth paid approximately \$744,000, \$660,000 and \$344,000 pursuant to the lease in fiscal years 2011, 2010 and 2009, respectively.

One Earth has entered into an agreement with an unrelated party for the lease of railcars that will be used to ship ethanol. The lease expires on June 30, 2012, and shall continue under lease for successive one month terms, unless notified in writing 30 days prior to the initial expiration date or any successive term. One Earth pays a monthly lease amount per railcar. One Earth paid approximately \$449,000, \$662,000 and \$69,000 pursuant to the lease in fiscal years 2011, 2010 and 2009, 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 paid approximately \$627,000 and \$905,000 in fiscal years 2011 and 2010, respectively, 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 2011, 2010 and 2009. One Earth pays to Alliance Grain a certain amount per bushel for procurement fees. The term of the agreement expires Oct. 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 entered into an agreement with unrelated parties for the lease of railcars that will be used to ship ethanol and distillers grains. These leases expire during fiscal year 2012. NuGen paid approximately \$482,000 in fiscal year 2011 for the rail car leases.

## **15. INCOME TAXES**

The provision for income taxes from continuing operations for fiscal years 2011, 2010 and

2009 consists of the following (amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Federal:</b>			
Current	\$ 434	—	\$ (7,460)
Deferred	13,792	2,963	11,296
	<u>14,226</u>	<u>2,963</u>	<u>3,836</u>
<b>State and Local:</b>			
Current	685	—	422
Deferred	991	54	327
	<u>1,676</u>	<u>54</u>	<u>749</u>
	<u>\$ 15,902</u>	<u>\$ 3,017</u>	<u>\$ 4,585</u>

The tax effects of significant temporary differences representing deferred tax assets and liabilities are as follows as of January 31, 2012 and 2011 (amounts in thousands):

	<u>2012</u>	<u>2011</u>
<b>Assets:</b>		
Deferral of service contract income	\$ 590	\$ 1,566
Accrued liabilities	553	249
Installment sales of limited partnerships	288	1,297
Stock based compensation	406	406
Federal net operating loss carryforward	—	2,192
AMT credit carryforward	23,994	23,373
State net operating loss carryforward	2,338	2,407
Other items	1,305	2,505
Valuation allowance	(1,676)	(1,242)
	<u>27,798</u>	<u>32,753</u>
<b>Liabilities:</b>		
Basis in pass through entities, including depreciation	(29,068)	(21,713)
Other	(282)	—
	<u>(29,350)</u>	<u>(21,713)</u>
Net deferred tax (liability) asset	<u>\$ (1,552)</u>	<u>\$ 11,040</u>

The Company has approximately \$24.0 million and \$23.4 million of AMT credit carryforwards as of January 31, 2012 and 2011, 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 \$160 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 \$31.5 million, net of the federal benefit, which will begin to expire in fiscal year 2012.

The Company has a valuation allowance of approximately \$1,676,000 at January 31, 2012. The Company increased the valuation allowance by \$434,000 and \$664,000 in fiscal years 2011 and 2010, respectively. These adjustments to the valuation allowance are a result of estimates of realizing certain future state tax benefits. No adjustment was made in fiscal year 2009.

The Company paid income taxes of \$1,550,000, \$1,310,000 and \$14,000 in fiscal years 2011, 2010 and 2009, respectively. The Company received refunds of income taxes of \$7,208,000, \$5,691,000 and \$1,105,000 in fiscal years 2011, 2010 and 2009, respectively.

The effective income tax rate on consolidated pre-tax loss or income differs from the federal income tax statutory rate for fiscal years 2011, 2010 and 2009 as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Federal income tax at statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of federal tax benefit	4.1	4.1	3.9
Net increase in valuation allowance	1.0	9.8	—
Domestic production activities deduction	(3.2)	—	—
Uncertain tax positions	0.2	1.5	(0.3)
Noncontrolling interest	(4.1)	(17.7)	(8.0)
Other	0.3	(2.8)	0.5
	<u>          </u>	<u>          </u>	<u>          </u>
Total	33.3%	29.9%	31.1%
	<u>          </u>	<u>          </u>	<u>          </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, 2005 and prior.

The Company applies the provisions of ASC 740-10-25-5 for uncertain tax positions. As a result of the adoption of this accounting standard, the Company recorded a \$287,000 decrease to retained earnings. As of January 31, 2012, total unrecognized tax benefits were \$2,157,000, and accrued penalties and interest were \$327,000. If the Company were to prevail on all unrecognized tax benefits recorded, approximately \$82,000 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):

	<b>Years Ended January 31,</b>	
	<b>2012</b>	<b>2011</b>
Unrecognized tax benefits, beginning of year	\$ 2,976	\$ 2,338
Changes for tax positions for prior years	(492)	104
Changes for tax positions for current year	—	534
	<u>          </u>	<u>          </u>
Unrecognized tax benefits, end of year	<u>\$ 2,484</u>	<u>\$ 2,976</u>

## 16. COMPREHENSIVE INCOME

Comprehensive income includes net income and unrealized gains on securities classified as available for sale (net of the related tax effects), and are reported separately in shareholders' equity. The components of comprehensive income in fiscal years 2011, 2010 and 2009 are as follows (amounts in thousands):

	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Net income	\$ 33,698	\$ 8,742	\$ 12,552
Reclassification adjustment for net gains included in net income	—	(49)	—
Unrealized holding gains on available for sale securities, net	—	—	49
	<u>          </u>	<u>          </u>	<u>          </u>
Total comprehensive income	33,698	8,693	12,601
Comprehensive income attributable to noncontrolling interests	(5,428)	(3,673)	(3,900)
	<u>          </u>	<u>          </u>	<u>          </u>
Comprehensive income attributable to REX common shareholders	<u>\$ 28,270</u>	<u>\$ 5,020</u>	<u>\$ 8,701</u>

## 17. 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. The results of operations were previously reported in the Company's retail or real estate segment, depending on when the store ceased operations. Below is a table reflecting certain items of the Consolidated Statements of Operations that

were reclassified as discontinued operations for fiscal years 2011, 2010 and 2009 (amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net sales and revenue	\$ 4,121	\$ 8,136	\$ 35,534
Cost of merchandise sold	\$ 731	\$ 2,527	\$ 25,456
Income before income taxes	\$ 2,114	\$ 2,730	\$ 2,258
Provision for income taxes	(778)	(1,208)	(974)
Income from discontinued operations, net of tax	\$ 1,336	\$ 1,522	\$ 1,284
Gain on disposal before provision for income taxes	\$ 695	\$ 288	\$ 2,131
Provision for income taxes	(256)	(127)	(919)
Gain on disposal of discontinued operations, net of tax	\$ 439	\$ 161	\$ 1,212

## 18. CONTINGENCIES

The Company sold its entire interest, through a series of transactions, in three former partnerships (Colona, Somerset and Gillette) that owned synthetic fuel facilities. As such, the Company was no longer allocated Section 29/45K tax credits after fiscal year 2005. In connection with the Colona and Somerset sales, the Company received contingent payments based upon percentages of qualified Section 29/45K credits generated. In connection with the sale of the Gillette partnership, the Company was eligible to receive contingent payments based upon the amount of "qualified production." The Company has recognized approximately \$7.7 million of income from these sales from years the partnerships have open tax years with the IRS. In the event that the synthetic fuel tax credits are reduced as a result of IRS audits, the amount of proceeds realized from the sales could be significantly impacted.

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.

## 19. SEGMENT REPORTING

Beginning in the second quarter of fiscal year 2009, the Company realigned its reportable business segments to be consistent with changes to its management structure and reporting. The Company has two segments: alternative energy and real estate. In prior years, the real estate segment was formerly included in the retail segment and historical amounts have been reclassified to conform to the current year segment reporting presentation. For stores and warehouses closed for which the Company has a retained interest in the related real estate, operations are presented in the real estate segment when retail operations cease. 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,		
	2012	2011	2010
<b>Net sales and revenues:</b>			
Alternative energy	\$ 408,635	\$ 300,389	\$ 169,175
Real estate	1,317	1,018	602
<b>Total net sales and revenues</b>	<b>\$ 409,952</b>	<b>\$ 301,407</b>	<b>\$ 169,777</b>
<b>Segment gross profit (loss):</b>			
Alternative energy	\$ 35,179	\$ 31,173	\$ 21,923
Real estate	(1,343)	(543)	(1,041)
<b>Total gross profit</b>	<b>\$ 33,836</b>	<b>\$ 30,630</b>	<b>\$ 20,882</b>
<b>Segment profit (loss):</b>			
Alternative energy segment profit	\$ 48,580	\$ 13,403	\$ 17,811
Real estate segment (loss)	(1,539)	(770)	(1,225)
Corporate expenses	(2,307)	(2,724)	(1,870)
Interest expense	(111)	(205)	(338)
Interest income	319	372	263
Income from synthetic fuel investments	2,883	—	—
<b>Income from continuing operations before income taxes</b>	<b>\$ 47,825</b>	<b>\$ 10,076</b>	<b>\$ 14,641</b>
<b>Sales of products alternative energy segment:</b>			
Ethanol	82%	84%	83%
Distillers grains	18%	16%	17%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Sales of services real estate segment:</b>			
Leasing	100%	100%	100%
<b>Interest income:</b>			
Alternative energy	\$ 47	\$ 75	\$ 182
Real estate	51	—	—
Unallocated	319	372	263
<b>Total interest income</b>	<b>\$ 417</b>	<b>\$ 447</b>	<b>\$ 445</b>

	Years Ended January 31,		
	2012	2011	2010
Depreciation and amortization expense:			
Alternative energy	\$ 11,653	\$ 17,354	\$ 9,643
Real estate	392	328	224
Unallocated	—	182	—
<b>Total depreciation and amortization expense</b>	<b>\$ 12,045</b>	<b>\$ 17,864</b>	<b>\$ 9,867</b>
Equity in income of unconsolidated affiliates:			
Alternative energy	\$ 21,532	\$ 14,558	\$ 6,027
Real estate	—	—	—
<b>Total equity in income of unconsolidated affiliates:</b>	<b>\$ 21,532</b>	<b>\$ 14,558</b>	<b>\$ 6,027</b>

	Years Ended January 31,		
	2012	2011	2010
Additions to property and equipment:			
Alternative energy	\$ 7,276	\$ 5,677	\$ 35,320
Real estate	66	356	332
<b>Total additions to property and equipment</b>	<b>\$ 7,342</b>	<b>\$ 6,033</b>	<b>\$ 35,652</b>
Assets:			
Alternative energy	\$ 367,029	\$ 257,202	\$ 302,228
Real estate	17,458	22,235	31,796
Corporate and other	53,562	96,285	117,481
<b>Total assets</b>	<b>\$ 438,049</b>	<b>\$ 375,722</b>	<b>\$ 451,505</b>
Additions to other long lived assets:			
Alternative energy	\$ 2,624	\$ 10,112	\$ 25
Real estate	—	—	—
<b>Total additions to other long lived assets</b>	<b>\$ 2,624</b>	<b>\$ 10,112</b>	<b>\$ 25</b>
Long term debt and capital lease obligations			
Alternative energy	\$ 107,706	\$ 69,049	\$ 124,093
Real estate	—	—	—
Corporate and other	821	1,924	2,596
<b>Total long term debt and capital lease obligations</b>	<b>\$ 108,527</b>	<b>\$ 70,973</b>	<b>\$ 126,689</b>

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 \$28.9 million held by One Earth and NuGen will be used primarily to fund working capital needs for the subsidiaries.

## 20. QUARTERLY UNAUDITED INFORMATION

The following tables set forth the Company's net sales and revenue, gross profit, 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, 2011	July 31, 2011	October 31, 2011	January 31, 2012
Net sales and revenue (a)	\$ 81,163	\$ 73,796	\$ 84,524	\$ 170,469
Gross profit (loss) (a)	4,699	(263)	8,989	20,411
Net income	5,556	2,033	8,327	17,782
Net income attributable to REX common shareholders	4,652	2,347	6,482	14,789
Basic net income per share attributable to REX common shareholders (b)	\$ 0.49	\$ 0.25	\$ 0.70	\$ 1.77
Diluted net income per share attributable to REX common shareholders (b)	\$ 0.49	\$ 0.25	\$ 0.70	\$ 1.76

	Quarters Ended (In Thousands, Except Per Share Amounts)			
	April 30, 2010	July 31, 2010	October 31, 2010	January 31, 2011
Net sales and revenue (a)	\$ 71,589	\$ 65,393	\$ 70,613	\$ 93,812
Gross profit (a)	8,654	5,563	7,335	9,078
Net income (loss)	5,605	1,094	5,101	(3,058)
Net (loss) income attributable to REX common shareholders	4,188	1,234	4,250	(4,603)
Basic net (loss) income per share attributable to REX common shareholders (b)	\$ 0.43	\$ 0.13	\$ 0.45	\$ (0.49)
Diluted net (loss) income per share attributable to REX common shareholders (b)	\$ 0.42	\$ 0.12	\$ 0.44	\$ (0.49)

- 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.

- c) The quarter ended January 31, 2012 includes the results of NuGen in the consolidated information. Effective November 1, 2011, the Company ceased using the equity method to account for NuGen's and began consolidating NuGen's results.

## **21. RELATED PARTIES**

During fiscal years 2011 and 2010, One Earth purchased approximately \$265.5 million and \$157.4 million, respectively, of corn from the Alliance Grain Elevator, an equity investor.

\* \* \* \* \*

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, 2012 and 2011, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2012. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated financial statement schedule based on our audits. We did not audit the financial statements of Patriot Renewable Fuels, LLC, an equity method investment for which the Company's equity method investment of \$27,309,000 and \$21,829,000 as of January 31, 2012 and 2011, respectively, and equity in income of unconsolidated affiliates of \$5,274,000, \$5,159,000, and \$3,540,000 for the years ended January 31, 2012, 2011, and 2010, 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 Renewable Fuels, 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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, 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 17, the consolidated financial statements have been adjusted for the retrospective presentation of the Company's retail business as discontinued operations. Additionally, as discussed in Note 2 to the consolidated financial statements, the Company deconsolidated the assets and liabilities of a significant subsidiary as of January 31, 2011. 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, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 9, 2012, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Cincinnati, Ohio

April 9, 2012



REX AMERICAN RESOURCES CORPORATION AND SUBSIDIARIES

Schedule II - VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED JANUARY 31, 2012, 2011 AND 2010  
(Amounts in thousands)

	Balance Beginning of Year	Additions  Charged to Cost and Expenses	Deductions  Charges for Which Reserves Were Created	Balance End of Year
2012:				
Allowance for doubtful accounts	\$ 10	\$ —	\$ 10	\$ —
2011:				
Allowance for doubtful accounts	\$ 168	\$ —	\$ 158	\$ 10
2010:				
Allowance for doubtful accounts	\$ 447	\$ —	\$ 279	\$ 168
2012:				
Deferred tax valuation allowance	\$ 1,242	\$ 434	\$ —	\$ 1,676
2011:				
Deferred tax valuation allowance	\$ 578	\$ 664	\$ —	\$ 1,242
2010:				
Deferred tax valuation allowance	\$ 578	\$ —	\$ —	\$ 578

**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

On November 1, 2011, the Company completed the acquisition of NuGen and is in the process of integrating the processes and controls specific to NuGen into the Company's existing system of internal control over financial reporting. As a result, this process may result in additions or changes to the Company's system of internal control over financial reporting. Otherwise, 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, 2012 based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon this assessment, our management concluded that our internal control over financial reporting was effective as of January 31, 2012 based on those criteria. Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include an assessment of certain elements of internal controls over financial reporting of NuGen Energy, LLC acquired on November 1, 2011. NuGen Energy, LLC accounts for 26% of total assets, 21% of revenues and 14% of net income of the consolidated financial statement amounts as of and for the year ended January 31, 2012.

The effectiveness of our internal control over financial reporting as of January 31, 2012 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	Chairman of the Board and Chief Executive
Stuart A. Rose	Officer (principal executive officer) April 9, 2012
DOUGLAS L. BRUGGEMAN	Vice President-Finance, Chief Financial Officer and Treasurer
Douglas L. Bruggeman	(principal financial and accounting officer) April 9, 2012

## 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, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in *Management’s Annual Report on Internal Control Over Financial Reporting*, management excluded from its assessment the internal control over financial reporting at NuGen Energy, LLC, which was acquired on November 1, 2011 and whose financial statements constitute 19% and 26% of net and total assets, respectively, 21% of revenues, and 14% of net income of the consolidated financial statement amounts as of and for the year ended January 31, 2012. Accordingly, our audit did not include the internal control over financial reporting at NuGen Energy, LLC. 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, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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 schedule as of and for the year ended January 31, 2012 of the Company and our report dated April 9, 2012 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Company's retrospective presentation of the retail business as discontinued operations, the deconsolidation of the assets and liabilities of a significant subsidiary as of January 31, 2011, 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, 2012

**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 5, 2012, 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 5, 2012 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 5, 2012 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 5, 2012 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 5, 2012 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, 2012 and 2011

Consolidated Statements of Operations for the years ended January 31, 2012, 2011 and 2010

Consolidated Statements of Cash Flows for the years ended January 31, 2012, 2011 and 2010

Consolidated Statements of Shareholders' Equity for the years ended January 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

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

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

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, Patriot Renewable Fuels, LLC and NuGen Energy, LLC required pursuant to Rule 3-09 of Regulation S-X are filed as Exhibits 99(a), 99(b) and 99(c) to this report.

(a)(3) Exhibits

See Exhibit Index at page 96 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, 2012

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, 2012
DOUGLAS L. BRUGGEMAN Douglas L. Bruggeman	Vice President-Finance, Chief Financial Officer and Treasurer (principal financial and accounting officer)	April 9, 2012
LAWRENCE TOMCHIN Lawrence Tomchin	Director	April 9, 2012
EDWARD M. KRESS Edward M. Kress	Director	April 9, 2012
ROBERT DAVIDOFF Robert Davidoff	Director	April 9, 2012
CHARLES A. ELCAN Charles A. Elcan	Director	April 9, 2012
DAVID S. HARRIS David S. Harris	Director	April 9, 2012
MERVYN L. ALPHONSO Mervyn L. Alphonso	Director	April 9, 2012
LEE FISHER Lee Fisher	Director	April 9, 2012

- (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)(1) By-Laws, as amended (incorporated by reference to Registration Statement No. 2-95738, Exhibit 3(b), filed February 8, 1985)
  - 3(b)(2) Amendment to By-Laws adopted June 29, 1987 (incorporated by reference to Exhibit 4.5 to Form 10-Q for quarter ended July 31, 1987, File No. 0-13283)
- (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) 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)

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the registrant has not filed as an exhibit to this Form 10-K certain instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees to furnish a copy of such instruments to the Commission upon request.

(10) *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, 2012 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 8, 2012 and February 8, 2011, 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 Christianson & Associates, PLLP to use its report dated November 14, 2011 relating to the financial statements of NuGen Energy, LLC included in this annual report on Form 10-K into the Registration Statements \_\_\_\_\_

23(d) Consent of Boulay, Heutmaker, Zibell & Co, P.L.L.P. to use its reports dated March 13, 2012 and March 14, 2011 relating to the financial statements of Patriot Renewable Fuels, 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) Consolidated financial statements of Big River Resources, LLC for the years ended December 31, 2011, 2010 and 2009  
\_\_\_\_\_

99(b) Financial statements of Patriot Renewable Fuels, LLC for the years ended December 31, 2011, 2010 and 2009  
and (b) 1 \_\_\_\_\_

99(c) Financial statements of NuGen Energy, LLC for the years ended July 31, 2011 and 2010 \_\_\_\_\_

(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, 2012, 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, 2875 Needmore Road, Dayton, Ohio 45414.**

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

## SUBSIDIARIES OF REX AMERICAN RESOURCES CORPORATION

<u>Name</u>	<u>State of Incorporation or Organization</u>
Rex Radio and Television, Inc. <sup>(1)</sup>	Ohio
Stereo Town, Inc.	Georgia
Kelly & Cohen Appliances, Inc. <sup>(1)</sup>	Ohio
AVA Acquisition Corp.	Delaware
Rex Alabama, Inc. <sup>(2)(3)</sup>	Ohio
REX Investment, LLC <sup>(5)</sup>	Ohio
Rex Acquisition, LLC <sup>(2)(3)</sup>	Ohio
Farmers Energy Incorporated	Delaware
Farmers Energy Big River Holding, LLC <sup>(6)</sup>	Ohio
Farmers Energy Big River, LLC <sup>(7)</sup>	Ohio
Farmers Energy Cardinal Holding, LLC <sup>(3)(6)</sup>	Ohio
Farmers Energy Cardinal, LLC <sup>(3)(7)</sup>	Ohio
Farmers Energy Highwater Holding, LLC <sup>(3)(6)</sup>	Ohio
Farmers Energy Highwater, LLC <sup>(3)(7)</sup>	Ohio
Farmers Energy Levelland Holding, LLC <sup>(6)</sup>	Ohio
Farmers Energy Levelland, LLC <sup>(7)</sup>	Ohio
Farmers Energy Millennium Holding, LLC <sup>(3)(6)</sup>	Ohio

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Farmers Energy Millennium, LLC <sup>(3)(7)</sup>	Ohio
Farmers Energy One Earth Holding, LLC <sup>(6)</sup>	Ohio
Farmers Energy One Earth, LLC <sup>(7)</sup>	Ohio
One Earth Energy, LLC <sup>(8)</sup>	Illinois
Farmers Energy Patriot Holding, LLC <sup>(6)</sup>	Ohio
Farmers Energy Patriot, LLC <sup>(7)</sup>	Ohio
FEI Investment Incorporated	Delaware
REX NuGen Holding, LLC <sup>(6)</sup>	South Dakota
REX NuGen, LLC <sup>(7)</sup>	South Dakota
NuGen Energy, LLC <sup>(8)</sup>	South Dakota

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(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) Wholly-owned subsidiary of Kelly & Cohen Appliances, Inc.

(5) 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.

(6) First-tier wholly-owned subsidiary of Farmers Energy Incorporated.

(7) Second-tier wholly-owned subsidiary of Farmers Energy Incorporated.

(8) Third-tier majority-owned subsidiary of Farmers Energy Incorporated.

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**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, 2012, relating to the consolidated financial statements and consolidated financial statement schedule 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 the Company's retail business as discontinued operations, the deconsolidation of the assets and liabilities of a significant subsidiary as of January 31, 2011, 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, 2012.

/s/ DELOITTE & TOUCHE LLP  
April 9, 2012

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**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 8, 2012, relating to the financial statements of Big River Resources, LLC as of December 31, 2011 and 2010 and for the years ended December 31, 2011 and 2010 and our report dated February 8, 2011 relating to the financial statements as of December 31, 2010 and 2009 and for the years ended December 31, 2010 and 2009, appearing in this annual Report on Form 10-K of REX American Resources Corporation and subsidiaries for the year ended January 31, 2012.

/S/ Christianson & Associates, PLLP

Willmar, Minnesota

April 9, 2012

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**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 November 14, 2011, relating to the financial statements of NuGen Energy, LLC as of July 31, 2011 and 2010, 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, 2012.

/S/ Christianson & Associates, PLLP

Willmar, Minnesota  
April 9, 2012

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**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 March 13, 2012, relating to the financial statements of Patriot Renewable Fuels, LLC as of December 31, 2011 and 2010 and for the years then ended, and our report dated March 14, 2011, relating to the financial statements of Patriot Renewable Fuels, LLC as of December 31, 2010 and 2009 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, 2012.

/s/ Boulay, Heutmaker, Zibell & Co. P.L.L.P.  
Certified Public Accountants

Minneapolis, Minnesota  
April 9, 2012

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## 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, 2012

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

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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, 2012

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

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**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, 2012, 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, 2012

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**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended December 31, 2011 and 2010**  
**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 balance sheets of **Big River Resources, LLC** (an Iowa limited liability company) as of December 31, 2011 and 2010 and the related consolidated statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. 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 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 provide a reasonable basis for our 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, 2011 and 2010 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.

CHRISTIANSON & ASSOCIATES, PLLP  
Certified Public Accountants and Consultants

February 8, 2012

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**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 27,484,477	\$ 20,071,789
Receivables	13,279,833	8,327,216
Inventories	83,315,365	82,006,748
Prepaid expenses	1,821,442	1,684,999
Derivative instruments	13,956,547	37,599,399
	<hr/>	<hr/>
<b>TOTAL CURRENT ASSETS</b>	139,857,664	149,690,151
<b>PROPERTY AND EQUIPMENT</b>		
Land and land improvements	41,449,528	32,251,260
Building structure	78,435,674	64,759,061
Grain equipment	42,791,885	36,471,131
Process equipment	321,559,477	277,690,382
Other equipment	9,291,731	7,667,487
Construction in progress	35,583	143,292
	<hr/>	<hr/>
	493,563,878	418,982,613
Accumulated depreciation	(96,395,970)	(68,056,674)
	<hr/>	<hr/>
	397,167,908	350,925,939
<b>OTHER ASSETS</b>		
Investments	7,318,962	5,082,606
Deposits	200,000	200,000
Notes receivable	307,541	311,979
Financing costs, net of amortization	1,528,186	1,634,262
	<hr/>	<hr/>
	9,354,689	7,228,847
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 546,380,261</b>	<b>\$ 507,844,937</b>

See notes to consolidated financial statements.



**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Checks written in excess of funds on deposit	\$ 1,262,066	\$ —
Payables		
Trade	8,344,706	9,577,487
Grain	26,851,627	11,700,616
Accrued expenses	6,134,052	5,036,097
Deferred sales	2,748,123	1,610,851
Note payable - revolving line of credit	—	6,000,000
Current maturities of long-term debt	27,457,874	44,769,030
	<u>72,798,448</u>	<u>78,694,081</u>
<b>LONG-TERM DEBT, less current maturities</b>	111,928,348	129,936,180
<b>MEMBERS' EQUITY</b>		
Members' capital	328,429,511	277,699,596
Noncontrolling interest	33,223,954	21,515,080
	<u>361,653,465</u>	<u>299,214,676</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u>\$ 546,380,261</u>	<u>\$ 507,844,937</u>

See notes to consolidated financial statements.

**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>SALES</b>	\$ 1,162,307,802	\$ 742,162,967
<b>COST OF SALES</b>	1,057,101,237	658,996,076
<b>GROSS PROFIT</b>	105,206,565	83,166,891
<b>OPERATING EXPENSES</b>	15,861,359	12,121,056
<b>INCOME FROM OPERATIONS</b>	89,345,206	71,045,835
<b>OTHER INCOME (EXPENSES)</b>		
Interest expense	(6,994,003)	(7,739,203)
Other income	5,196,230	293,314
	<u>(1,797,773)</u>	<u>(7,445,889)</u>
<b>NET INCOME BEFORE NONCONTROLLING INTEREST</b>	87,547,433	63,599,946
<b>NONCONTROLLING INTEREST IN SUBSIDIARY'S INCOME</b>	(16,163,118)	(11,121,621)
<b>NET INCOME</b>	<u>\$ 71,384,315</u>	<u>\$ 52,478,325</u>

See notes to consolidated financial statements.

**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY**  
**Years Ended December 31, 2011 and 2010**

	<b>Members' Equity</b>	<b>Noncontrolling Interest</b>
<b>Balance - December 31, 2009</b>	\$ 241,744,791	\$ 11,892,077
Distributions to members	(16,523,520)	(1,498,618)
Net income	52,478,325	11,121,621
	277,699,596	21,515,080
<b>Balance - December 31, 2010</b>		
Distributions to members	(20,654,400)	(4,454,244)
Net income	71,384,315	16,163,118
	328,429,511	33,223,954
<b>Balance - December 31, 2011</b>	\$ 328,429,511	\$ 33,223,954

See notes to consolidated financial statements.

**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 71,384,315	\$ 52,478,325
Charges to net income not affecting cash		
Depreciation and amortization	28,810,264	27,810,317
Loss on derivative instruments	40,131,892	22,411,659
Investment earnings	(2,541,918)	(377,704)
Noncontrolling interest in subsidiaries' gain	16,163,118	11,121,621
Decrease (increase) in current assets		
Receivables	(4,952,617)	17,970,238
Inventories	(1,308,617)	(49,560,665)
Net cash paid on derivative instruments	(16,489,040)	(57,139,918)
Prepaid expenses	(135,443)	1,313,616
Increase (decrease) in current liabilities		
Accounts payable	14,175,250	4,737,436
Accrued expenses	858,976	(34,224)
Deferred sales	1,137,272	1,610,851
	<u>147,233,452</u>	<u>32,341,552</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Payments for financing costs	(225,376)	—
Purchase of property and equipment	(74,738,822)	(13,335,402)
Proceeds from sale (purchase) of investments	309,000	(807,979)
	<u>(74,655,198)</u>	<u>(14,143,381)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>FINANCING ACTIVITIES</b>		
Principal payments on long-term debt borrowings	(64,361,097)	(32,583,353)
Proceeds from long-term debt borrowings	53,250,000	—
Net borrowings (payments) on long-term revolving loan	(24,207,891)	6,207,891
Net borrowings (payments) on revolving line of credit	(6,000,000)	6,000,000
Checks written in excess of funds on deposit	1,262,066	—
Noncontrolling distributions	(4,454,244)	(1,498,618)
Distribution to members	(20,654,400)	(16,523,520)
	<u>(65,165,566)</u>	<u>(38,397,600)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
	<u>7,412,688</u>	<u>(20,199,429)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>20,071,789</u>	<u>40,271,218</u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u>\$ 27,484,477</u>	<u>\$ 20,071,789</u>

See notes to consolidated financial statements.

**BIG RIVER RESOURCES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**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 grade corn oil and distiller 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, distiller grains and non-food grade corn 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, distiller grains, and non-food grade corn oil for commercial sales throughout the United States on December 1, 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, 2011, 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, distiller grains and non-food grade corn 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.

**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 corn 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 corn oil are generally shipped FOB shipping point. Undenatured 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 distiller grains and non-food grade corn oil. The company generally bills weekly with payments due within 10 days of the invoice date, and considers accounts older than 120 days 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, 2011 and 2010, 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. Depreciation is computed using the straight-line method over the following estimated useful lives:

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**PROPERTY AND EQUIPMENT (continued)**

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

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, 2011 and 2010.

**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. Investments include real estate properties near Dyersville, Iowa which are held for re-sale. The company carries these investments on the balance sheet at fair market value.

**BIG RIVER RESOURCES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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, 2011 and 2010 is approximately \$4,300 which is included in other 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.

**NONCONTROLLING INTEREST** - This 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.

**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, 2011 and 2010, the company has received \$2,748,123 and \$1,610,851 respectively in advances for shipments which have not met the revenue recognition criteria.

**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, 2011 and 2010 that would require adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis.



**BIG RIVER RESOURCES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)** - The carrying value of cash and cash equivalents, 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, 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, 2011, the company is no longer subject to U.S. federal and state income tax examinations by tax authorities for tax years before 2008.

**RECLASSIFICATIONS** - Certain amounts in the 2010 financial statements have been reclassified to conform with 2011 classifications. These reclassifications had no effect on net income as previously reported.

**NOTE B: INVENTORIES**

	<b>2011</b>	<b>2010</b>
Ethanol	\$ 26,596,823	\$ 28,503,119
Production in process	8,868,315	7,826,334
Distiller grains	1,993,608	1,880,214
Corn	19,241,805	16,338,527
Corn oil	126,913	151,239
Spare parts	4,026,725	2,460,020
Chemicals and ingredients	1,924,992	1,293,971
Corn and soybeans held at elevators	20,536,184	23,553,324
	\$ 83,315,365	\$ 82,006,748

**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.

**BIG RIVER RESOURCES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**NOTE C: DERIVATIVE INSTRUMENTS (continued)**

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, 2011 to be realized within the next fiscal year.

The open derivative instruments as of December 31, 2011 are as follows:

Ethanol Plants

Forward purchase contracts	
Corn	23,400,000 Bu
Natural gas	193,000 MMBtu
Forward sales contracts	
Ethanol	2,221,000 Gal
Distillers grains	115,000 Ton
Corn oil	3,207,000 Pounds
Positions on the Chicago Board of Trade	
Corn (short)	22,400,000 Bu
Ethanol (short)	22,900,000 Gal

Grain Elevators

Forward purchase contracts	
Corn	1,100,000 Bu
Soybeans	137,000 Bu
Forward sales contracts	
Corn	354,000 Bu
Positions on the Chicago Board of Trade	
Corn (short)	3,680,000 Bu
Soybeans (short)	160,000 Bu

**BIG RIVER RESOURCES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**NOTE C: DERIVATIVE INSTRUMENTS (continued)**

The following tables provide details regarding the company's derivative financial instruments at December 31, 2011 and 2010, none of which are designated as hedging instruments:

		2011	
	Balance Sheet location	Assets	Liabilities
Commodity contracts	Derivative instruments	\$ 13,956,547	\$ —
		<b>Statement of Operations location</b>	<b>Loss recognized for the year ended December 31, 2011</b>
Commodity contracts	Cost of sales	\$	(40,131,892)
		2010	
	Balance Sheet location	Assets	Liabilities
Commodity contracts	Derivative instruments	\$ 37,599,399	\$ —
		<b>Statement of Operations location</b>	<b>Loss recognized for the year ended December 31, 2010</b>
Commodity contracts	Cost of sales	\$	(22,411,659)

**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, 2011 and 2010:

		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)	
<b>Financial Assets</b>					
Derivative instruments	\$ 13,956,547	\$ 11,412,775	\$ 2,543,772	\$ —	

**BIG RIVER RESOURCES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE D: FAIR VALUE MEASUREMENTS (continued)**

	2010			
	Carrying Value in Balance Sheet at December 31, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Financial Assets</b>				
Derivative instruments	\$ 37,599,399	\$ 5,993,300	\$ 31,606,099	\$ —

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, 2012. Interest is paid in accordance with one or more of the following interest rate options: a one-month fixed rate equal to 2.95% above the rate quoted by the British Bankers Association, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.25% at December 31, 2011). 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 0.25% 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.

**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, 2012. Interest is paid in accordance with one or more of the following interest rate options: a one-month fixed rate equal to 2.95% above the rate quoted by the British Bankers Association, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.25% as of December 31, 2011). 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, 2011 and 2010**

**NOTE E: SHORT-TERM DEBT (continued)**

**Galva (continued)**

In addition, the company agrees to pay a monthly commitment fee at a rate of 0.25% 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, 2012. Interest is paid in accordance with one or more of the following interest rate options: a one-month fixed rate equal to 3.25% above the rate quoted by the British Bankers Association, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 3.25% (3.55% at December 31, 2011). 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, 2011, 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 AgStar. The company can advance up to a maximum of \$17,000,000 until expiration on May 30, 2012. Interest is paid at a variable rate of 3% plus the greater of the one-month LIBOR rate or 2% (5% at December 31, 2011). 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 0.5% of the average daily unused portion of the commitment until May 30, 2012. As of December 31, 2011 and 2010, the company has \$0 and \$6,000,000, respectively, outstanding under this line of credit.

**NOTE F: LONG-TERM DEBT**

	<b>2011</b>	<b>2010</b>
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 5.246%), maturing December 2016, secured by personal property including investments	\$ 10,000,000	\$ —

**BIG RIVER RESOURCES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**NOTE F: LONG-TERM DEBT (continued)**

	2011	2010
<u>West Burlington</u>		
Term loan	\$ 30,000,000	\$ 27,005,222
Revolving term loan	—	6,601,059
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.	300,000	350,000
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.	122,222	166,666
<u>Galva</u>		
Construction and term loan	23,470,653	55,233,088
Construction and revolving loan	—	712,538
<u>Boyceville</u>		
Revolving term loan	25,973,588	—
<u>Big River United Energy, LLC</u>		
Fixed rate term loan	25,477,164	28,517,427
Variable rate term loan	24,042,595	39,224,916
Revolving term loan	—	16,894,294
	139,386,222	174,705,210
Current maturities	(27,457,874)	(44,769,030)
	\$ 111,928,348	\$ 129,936,180

Long-term debt maturities are as follows:

<u>Years Ending December 31,</u>	
2012	\$ 27,457,874
2013	35,748,400
2014	29,244,850
2015	34,335,082
2016	12,050,016
Thereafter	550,000
	\$ 139,386,222

**NOTE F: LONG-TERM DEBT (continued)**

**West Burlington**

The company entered into a credit agreement with CoBank which includes a term loan for \$55,000,000 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 one-month fixed rate equal to 2.95% above the rate quoted by the British Bankers Association, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.25% at December 31, 2011). 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, require minimum debt service coverage, net worth and working capital requirements. As of December 31, 2011 and 2010, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

**Term loan**

The loan was amended in 2011 with the company drawing the maximum allowed funding of \$30,000,000 per the amendment. 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. In addition to the required payments, the company, beginning with the fiscal year ending 2008 and ending with the fiscal year 2010, was required to make additional principal payments equal to 75% of the company's excess cash flow as defined in the loan agreement not to exceed an aggregate total of \$9,000,000. Based on the operating results for the year ended December 31, 2010, the company was required to make an additional principal payment of \$3,505,222 in 2011 and no amount is included in the current maturities of long-term debt for the year ended December 31, 2011.

**Revolving term loan**

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	—

**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, the company agrees to pay a monthly commitment fee at a rate of 0.5% of the average daily unused portion of the commitment.

**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 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 one-month fixed rate equal to 2.95% above the rate quoted by the British Bankers Association, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.25% as of December 31, 2011). 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 capital expenditures, require minimum debt service coverage, net worth and working capital requirements. As of December 31, 2011 and 2010, 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 25 quarterly principal installments of \$2,625,000 which began in December 2009 until December 2015 with a final installment in an amount equal to the remaining unpaid balance in January 2016. In addition to the required payments, beginning with the year ending 2009, the company is 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 is required to make an additional principal payment of \$11,556,425 in 2012, of which \$10,000,000 has been prepaid prior to December 31, 2011. The remaining \$1,556,425 is included in current maturities of long-term debt. For the year ended December 31, 2010, the company was required to make an additional principal payment of \$8,637,435.



**NOTE F: LONG-TERM DEBT (continued)**

**Galva (continued)**

Revolving term loan

For the \$20,000,000 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, 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 one-month fixed rate equal to 3.5% above the rate quoted by the British Bankers Association, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 3.5% (3.80% at December 31, 2011). 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 such that the available amount as of December 31, 2012 which would be considered long term will be \$24,500,000.

The \$4,000,000 revolving term loan requires the company to pay interest monthly on the unpaid balance based on a one-month fixed rate equal to 3.5% above the rate quoted by the British Bankers Association (3.80% at December 31, 2011). 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	—

**NOTE F: LONG-TERM DEBT (continued)**

**Boyceville (continued)**

In December 2011, the company made a \$4,000,000 prepayment on this revolving term loan, which can be drawn against for future working capital. At December 31, 2011, no amount was outstanding on this revolving term loan.

**Big River United Energy, LLC**

The company entered into a credit agreement with AgStar to finance the purchase of the plant. Under the credit agreement, the lender has provided a term loan for \$76,000,000 and a term revolving loan of \$20,000,000. 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, 2011, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

**Term loan**

In June 2010, the company converted a portion of its variable rate term loan to a fixed rate term loan.

The variable rate portion required the company to make interest only payments beginning in January 2010 based on a variable interest rate of 3.0% plus the greater of the one-month LIBOR or 2.0% (5% at December 31, 2011) until July 2010. Monthly principal and interest payments began in August 2010 with a final installment in an amount equal to the remaining unpaid balance on September 15, 2015.

In addition to the required payments the company is 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 and 2010, the company is required to make additional payments of \$5,000,000. The payment due for the year ended December 31, 2011 was paid prior to year end.

The fixed rate portion requires the company to make monthly principal and interest payments until January 2013 when the rate will convert back to a variable interest rate of 3.0% plus the greater of the one-month LIBOR or 2.0% until September 2015.

**NOTE F: LONG-TERM DEBT (continued)**

**Big River United Energy, LLC (continued)**

Revolving Term Loan

For the \$20,000,000 revolving term loan, the company is required to make interest only payments based on a variable interest rate of 3.0% plus the greater of the one-month LIBOR or 2.0% (5% at December 31, 2011) until maturity on September 15, 2015.

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 until September 15, 2015. As of December 31, 2011 and 2010, the company has \$0 and \$16,894,294, respectively outstanding under this line of credit.

**NOTE G: MEMBER'S 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, 2011, 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, 2011 and 2010, the company had 362 and 359 members and the following membership units issued, respectively:

	2011	2010
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
	20,654.40	20,654.40

**BIG RIVER RESOURCES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 7,521,515	\$ 8,891,717

**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 2010 and was automatically extended for an additional one year term and shall automatically extend 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 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, 2011 and 2010, company matching contributions to the plan were \$364,830 and \$290,314, respectively.

**NOTE K: LEASES**

The company leases rail cars under long-term operating lease agreements expiring at various times through February 2017. The company is required to pay executory costs such as maintenance and insurance.

**BIG RIVER RESOURCES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

**NOTE K: LEASES (continued)**

Minimum fixed future lease payments consist of:

<u>Years Ending December 31,</u>		
2012	\$	4,725,131
2013		2,714,145
2014		875,720
2015		256,800
2016		234,800
Thereafter		31,800
Total minimum future lease payments	\$	<u>8,838,396</u>

Total rent expense of \$4,633,461 and \$4,522,014 was incurred in 2011 and 2010, respectively.

The company subleases rail cars to Platinum Ethanol, LLC under a long-term operating lease agreement expiring in June 2012. The company will receive reimbursements of lease expenses including executory costs such as maintenance and insurance totaling \$310,500 over the remaining term of the agreement and has received \$621,000 and \$595,459 for years ended December 31, 2011 and 2010, 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 15,868,000 gallons.

Big River Resources West Burlington, LLC and Big River United Energy, LLC have issued letters of credit totaling \$2,199,759 which expire at various times through September 2012 as security to certain vendors and lenders. There are no amounts drawn against these letters of credit as of December 31, 2011.

**NOTE M: COMMITMENTS AND CONTINGENCIES (continued)**

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, 2011.

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, 2011 and 2010, 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 8, 2012, the date the financial statements were available to be issued.

**BIG RIVER RESOURCES, LLC**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2010 and 2009**

**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 balance sheets of **Big River Resources, LLC** (an Iowa limited liability company) as of December 31, 2010 and 2009 and the related consolidated statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. 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 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 provide a reasonable basis for our 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, 2010 and 2009 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.

CHRISTIANSON & ASSOCIATES, PLLP  
Certified Public Accountants and Consultants

February 8, 2011

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**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATED BALANCE SHEETS**  
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 20,071,789	\$ 40,271,218
Receivables		
Trade	7,759,961	24,881,446
Other	567,255	1,416,008
Inventories	82,006,748	32,446,083
Prepaid expenses	1,684,999	2,998,615
Derivative instruments	37,599,399	2,871,140
	<u>149,690,151</u>	<u>104,884,510</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land and land improvements	32,251,260	31,916,240
Building structure	64,759,061	62,762,668
Grain equipment	36,471,131	30,901,632
Process equipment	277,690,382	273,491,957
Other equipment	7,667,487	6,221,051
Construction in progress	143,292	587,425
	<u>418,982,613</u>	<u>405,880,973</u>
Accumulated depreciation	(68,056,674)	(40,617,012)
	<u>350,925,939</u>	<u>365,263,961</u>
<b>OTHER ASSETS</b>		
Investments	5,082,606	4,208,902
Deposit	200,000	200,000
Note receivables	311,979	—
Covenant not to compete, net of amortization	—	33,333
Financing costs, net of amortization	1,634,262	1,963,163
	<u>7,228,847</u>	<u>6,405,398</u>
<b>TOTAL ASSETS</b>	<u>\$ 507,844,937</u>	<u>\$ 476,553,869</u>

See notes to consolidated financial statements.

**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATED BALANCE SHEETS**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Payables		
Trade	\$ 9,504,497	\$ 8,539,833
Grain	11,700,616	7,969,243
Construction	72,990	243,382
Deferred sales	1,610,851	—
Accrued expenses	5,036,097	5,083,871
Note payable - revolving line of credit	6,000,000	—
Current maturities of long-term debt	44,769,030	24,325,696
	<u>78,694,081</u>	<u>46,162,025</u>
<b>LONG-TERM DEBT, less current maturities</b>	129,936,180	176,754,976
<b>MEMBERS' EQUITY</b>		
Members' capital	277,699,596	241,744,791
Noncontrolling interest	21,515,080	11,892,077
	<u>299,214,676</u>	<u>253,636,868</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u>\$ 507,844,937</u>	<u>\$ 476,553,869</u>

See notes to consolidated financial statements.

**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>SALES</b>	\$ 742,162,967	\$ 448,145,300
<b>COST OF SALES</b>	658,492,388	402,121,201
<b>GROSS PROFIT</b>	83,670,579	46,024,099
<b>OPERATING EXPENSES</b>	12,624,744	10,173,451
<b>INCOME FROM OPERATIONS</b>	71,045,835	35,850,648
<b>OTHER INCOME (EXPENSES)</b>		
Interest income	44,121	109,158
Interest expense	(7,739,203)	(4,844,667)
Real estate investment expenses	(721,848)	—
Miscellaneous income	971,041	536,314
	<u>(7,445,889)</u>	<u>(4,199,195)</u>
<b>NET INCOME BEFORE NONCONTROLLING INTEREST</b>	63,599,946	31,651,453
<b>NONCONTROLLING INTEREST IN SUBSIDIARY'S INCOME</b>	(11,121,621)	(4,081,131)
<b>NET INCOME</b>	<u>\$ 52,478,325</u>	<u>\$ 27,570,322</u>

See notes to consolidated financial statements.

**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY**  
**Years Ended December 31, 2010 and 2009**

	<b>Members' Equity</b>	<b>Noncontrolling Interest</b>
<b>Balance - December 31, 2008, as previously reported</b>	\$ 220,364,253	\$ 810,946
Cumulative effect of change in recording inventory	467,489	—
<b>Balance - December 31, 2008, as restated</b>	220,831,742	810,946
Exercise of unit options, issuance of 84 membership units	355,013	—
Issuance of employee unit options	216,754	—
Distributions to members	(7,229,040)	—
Capital Contributions	—	7,000,000
Net income	27,570,322	4,081,131
<b>Balance - December 31, 2009</b>	241,744,791	11,892,077
Distributions to members	(16,523,520)	(1,498,618)
Net income	52,478,325	11,121,621
<b>Balance - December 31, 2010</b>	<b>\$ 277,699,596</b>	<b>\$ 21,515,080</b>

See notes to consolidated financial statements.

**BIG RIVER RESOURCES, LLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 52,478,325	\$ 27,570,322
Charges to net income not affecting cash		
Depreciation and amortization	27,810,317	18,136,930
Loss on firm purchase commitments	—	(4,941,011)
Compensation recognized from stock options	—	216,754
Loss on derivative instruments	22,411,659	6,307,451
Investment earnings	(377,704)	(80,665)
Noncontrolling interest in subsidiaries' gain	11,121,621	4,548,620
Decrease (increase) in current assets		
Receivables	17,970,238	(17,605,830)
Inventories	(49,560,665)	(14,061,998)
Net paid on derivative instruments	(57,139,918)	(8,223,357)
Prepaid expenses	1,313,616	(2,455,045)
Increase (decrease) in current liabilities		
Accounts payable	4,737,436	582,555
Accrued expenses	(34,224)	3,716,985
Deferred sales	1,610,851	—
	<u>32,341,552</u>	<u>13,711,711</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Payments for deposits	—	(200,000)
Purchase of property and equipment	(13,335,402)	(39,464,390)
Purchase of investments	(807,979)	—
	<u>(14,143,381)</u>	<u>(39,664,390)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>FINANCING ACTIVITIES</b>		
Principal payments on long-term debt borrowings	(32,583,353)	(19,302,634)
Proceeds from long-term debt borrowings	—	42,466,580
Net proceeds (payments) on long-term revolving loan	6,207,891	(7,000,000)
Net borrowings on revolving line of credit	6,000,000	—
Payment for financing costs	—	(313,446)
Member contributions	—	355,013
Noncontrolling investment	—	7,000,000
Noncontrolling distributions	(1,498,618)	—
Distribution to member	(16,523,520)	(7,229,040)
	<u>(38,397,600)</u>	<u>15,976,473</u>
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		
	(20,199,429)	(9,976,206)
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>40,271,218</u>	<u>50,247,424</u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u>\$ 20,071,789</u>	<u>\$ 40,271,218</u>

See notes to consolidated financial statements.

## 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), 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 West Burlington plant produces ethanol, non-food grade corn oil and distiller grains for commercial sales throughout the United States and exports which accounted for approximately 91 percent of West Burlington's fiscal 2010 net sales. The company operates grain elevators near Monmouth and Edgington, Illinois which buys corn and soybeans from farmers as a corn supply to the ethanol operation in West Burlington, Iowa and for soybean sales throughout the United States.

In 2010, the West Burlington purchased the assets of Martin's Aledo Addition, Inc. and Martin's Grain, Inc., grain elevators which buy corn and soybeans from farmers near Aledo and Taylor Ridge, Illinois as a reserve corn supply to the company's ethanol operations and for soybean sales throughout the United States and exports. The assets were purchased for an aggregate cash purchase price of \$2,700,000. In addition, the seller has signed a covenant not to compete for a five-year period and the seller has received a credit of \$100,000 for future services to be provided to the seller, both of which are included in the purchase agreement consideration.

The company recorded these acquisitions using the purchase method of accounting in accordance with Accounting Standards Codification (ASC) 805 - Business Combinations. The purchase price equaled the estimated fair value of the identifiable net assets acquired less acquisition-related costs of the transaction.

Big River Resources Galva, LLC, an Illinois limited liability company, owns and operates a 100 million gallon annual production nameplate capacity ethanol plant near Galva, Illinois. The company produces ethanol, distiller grains and non-food grade corn oil for commercial sales throughout the United States and exports. Construction was completed and the ethanol plant became operational in May 2009.

Big River United Energy, LLC was formed on August 1, 2009 to acquire and operate an ethanol plant located in Dyersville, Iowa with an annual production nameplate capacity of 100 million gallons of denatured ethanol. The company began production of ethanol and distiller grains for commercial sales throughout the United States and exports on September 16, 2009.

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. As of December 31, 2010, the company has no formal plans to develop the plant.

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**PRINCIPALS 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, corn oil and grain merchandising are recorded at the time title to the goods and all risks of ownership transfers to customers and a settlement price is realizable. Ethanol, distillers grains, corn oil and grains are generally shipped FOB shipping point. Undenatured 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.

**TRADE RECEIVABLES** - The company has engaged the services of a national marketer to sell substantially all of its ethanol production and the majority of the distillers production at Big River United Energy, LLC. The company has engaged the services of national marketers to sell substantially all of its ethanol and a portion distillers production at West Burlington and Galva. 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 a portion of its own local distiller grains and grain. The company generally bills weekly with payments due within 10 days of the invoice date, and considers accounts older than 120 days 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, 2010 and 2009, there was no allowance for uncollectible amounts.



**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**INVENTORIES** - For the year ended December 31, 2010, the company changed its method of accounting for ethanol, ethanol production in process, co-products and corn inventories from the lower of cost (average cost method) or market method (LCM) to net realizable value (NRV). Management believes the NRV method provides more meaningful financial reporting since this method better matches the fair value recording of the forward and futures positions that hedge the inventory. Comparative financial statements of prior years have been adjusted to apply the new method retrospectively. The following financial statement line items for 2010 and 2009 were affected by the change in accounting principle.

**2010**

	<b>As Reported under LCM</b>	<b>As Computed under NRV</b>	<b>Effect of Change</b>
Inventories	\$ 78,391,859	\$ 82,006,748	\$ 3,614,889
Total Assets	502,769,174	506,384,063	3,614,889
Cost of Sales	674,869,655	671,254,766	(3,614,889)
Gross Profit	66,957,160	70,572,049	3,614,889
Net Income	60,517,403	64,132,292	3,614,889

**2009**

	<b>As Reported under LCM</b>	<b>As Computed under NRV</b>	<b>Effect of Change</b>
Inventories	\$ 29,271,292	\$ 32,446,083	\$ 3,174,791
Total Assets	469,756,357	472,931,148	3,174,791
Cost of Sales	408,544,550	405,837,248	(2,707,302)
Gross Profit	43,316,797	46,024,099	2,707,302
Net Income	29,006,595	31,713,897	2,707,302

Retained earnings as of the beginning of 2009 has been increased by \$467,489 for the effect of retrospective application of the new accounting method. The parts, chemicals and ingredients inventories are recorded at the lower of cost (average cost method) or market method (LCM). Soybeans and corn held at the elevators are recorded at net realizable value.

**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 and ethanol markets. The company's cash balances are maintained in bank depositories and periodically exceed federally insured limits.

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 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 undiscounted future cash flows is less than the carrying amount of the asset. The amount of the loss is determined by comparing the fair market values of the asset to the carrying amount of the asset. The company did not recognize any long-lived asset impairment loss for the years ended December 31, 2010 and 2009.

**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.

Additionally, the company evaluates its contracts to determine whether the contracts are derivatives. Certain contracts that literally meet the definition of a derivative may be exempted as "normal purchases or normal sales". Normal purchases and normal sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period of time in the normal course of business.

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**DERIVATIVE INSTRUMENTS (continued)** - The company has elected to record 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, in the company's national ethanol marketer and membership units in an ethanol plant located in Mitchell County, Iowa. The company records the investments in the lending cooperative bank and in the company's national ethanol marketer at cost which includes its share of the allocated patronage equities. The membership units in the ethanol plant are recorded at cost. Investments include real estate properties near Dyersville, Iowa which are held for re-sale. The company carries these investments on the balance sheet at fair market value.

**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 for a term of 30 years, maturing in 2040 with an interest rate of 5.5%. The current portion of these notes as of December 31, 2010 is approximately \$4,300 which is included in other receivables.

**COVENANT NOT TO COMPETE** - The company established a non-compete agreement with the former owners of the elevator at the acquisition date. The agreement requires annual payments of \$50,000 for 5 years in exchange for the former owners' compliance with the agreement. The intangible asset is being amortized over the 5 year term of the agreement using the straight-line method. This agreement expired in September 2010.

**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.

**NONCONTROLLING INTEREST** - Noncontrolling interests represent the minority partners' shares 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.

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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, 2010 and 2009 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 E, there are no readily determinable similar instruments on which to base an estimate of fair value. The company estimates that the fair value of all financial instruments at December 31, 2010 and 2009 approximates their carrying values in the accompanying balance sheets.

**DEFERRED SALES** - The company receives advances for ethanol shipments (FOB destination) 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, 2010 and 2009, the company received \$1,610,851 and \$0 in advances for shipments which have not met the revenue recognition criteria.

**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 member 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 and Illinois. As of December 31, 2010, the company is no longer subject to U.S. federal and state income tax examinations by tax authorities for tax years before 2007.

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**STOCK-BASED COMPENSATION** - The company accounts for stock-based payment transactions in which an enterprise receives employee services in exchange for equity instruments of the company using a fair value based method. The company uses the Black-Scholes-Merton ("BSM") option-pricing model to determine the fair value of stock-based awards. The company had no outstanding options as of December 31, 2010 and 2009.

**RECLASSIFICATIONS** - Certain amounts in prior year financial statements have been reclassified to conform to 2010 classification. These reclassifications had no effect on the total assets or net income as previously reported.

**NOTE B: INVENTORIES**

	<u>2010</u>	<u>2009</u>
Ethanol	\$ 28,503,119	\$ 6,257,797
Production in process	7,826,334	6,111,904
Distiller grains	1,880,214	1,071,937
Corn	16,338,527	9,603,667
Corn Oil	151,239	53,406
Repair parts	2,460,020	1,901,817
Chemicals and ingredients	1,293,971	1,199,794
Corn and soybeans held at elevators	23,553,324	6,245,761
	<u>\$ 82,006,748</u>	<u>\$ 32,446,083</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, as a holder of derivative instruments, is required to provide 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.

During 2010 and 2009, the company entered into corn, distillers grains, corn oil, natural gas, and ethanol derivative instruments. The company is required to record derivative financial instruments as either assets or liabilities at fair value in the statement of financial position. 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.

**NOTE C: DERIVATIVE INSTRUMENTS (continued)**Commodity Contracts

The company hedges substantially all of its corn, 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.

These derivatives are not designated as 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. Management expects all open positions outstanding as of December 31, 2010 to be realized within the next year.

The open derivative instruments as of December 31, 2010 are as follows:

Ethanol Plants

Forward purchase contracts		
Corn	26,204,000	Bu
Forward sales contracts		
Ethanol	2,300,000	Gal
Distillers grains	133,000	Ton
Corn Oil	2,698,000	Pounds
Positions on the Chicago Board of Trade		
Corn (short)	28,415,000	Bu

**NOTE C: DERIVATIVE INSTRUMENTS (continued)**

Grain Elevators

Forward purchase contracts		
Corn	2,200,000	Bu
Soybeans	536,000	Bu
Forward sales contracts		
Corn	119,000	Bu
Soybeans	261,000	Bu
Positions on the Chicago Board of Trade		
Corn (short)	3,610,000	Bu
Soybeans (short)	890,000	Bu

The following tables provide details regarding the company's derivative financial instruments at December 31, 2010 and 2009, none of which are designated as hedging instruments:

		<b>2010</b>		
		<u>Balance Sheet location</u>	<u>Assets</u>	<u>Liabilities</u>
Commodity contracts	Derivative instruments		\$ 37,599,399	\$ —
		<u>Statement of Operations location</u>	<u>Gain (loss) recognized for the year ended December 31, 2010</u>	
Commodity contracts	Cost of sales			(22,411,659)
		<b>2009</b>		
		<u>Balance Sheet location</u>	<u>Assets</u>	<u>Liabilities</u>
Commodity contracts	Derivative instruments		\$ 2,871,140	\$ —
		<u>Statement of Operations location</u>	<u>Gain (loss) recognized for the year ended December 31, 2009</u>	
Commodity contracts	Cost of sales			(6,307,451)

**NOTE D: FAIR VALUE MEASUREMENTS**

The following table provides information on those assets measured at fair value on a recurring basis.

	2010			
	Carrying Value in Balance Sheet at December 31, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Financial Assets</b>				
Derivative instruments	\$ 37,599,399	\$ 5,993,300	\$ 31,606,099	\$ —
	2009			
	Carrying Value in Balance Sheet at December 31, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Financial Assets</b>				
Derivative instruments	\$ 2,871,140	\$ 3,325,063	\$ (453,923)	\$ —

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 trading levels from the Chicago Board of Trade. The fair value measurements for Level 2 inputs consider observable data that may include dealer quotes and live trading levels from the Chicago Board of Trade adjusted for basis.

**NOTE E: LONG-TERM DEBT**

	2010	2009
<u>West Burlington</u>		
Term loan, further terms detailed below.	\$ 27,005,222	\$ 38,936,061
Revolving term loan, further terms detailed below.	6,601,059	—



NOTE E: LONG-TERM DEBT (continued)

	2010	2009
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.	\$ 350,000	\$ 400,000
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.	166,666	211,111
Non-interest bearing note payable to Iowa Department of Economic Development payable at \$1,750 per month until February 2010 when \$106,750 is due, secured by substantially all assets of the company.	—	108,500
Non-interest bearing non-compete agreement payable at \$50,000 per year until September 2010, unsecured.	—	50,000
<u>Galva</u>		
Construction and term loan, further terms detailed below.	55,233,088	67,375,000
Construction and revolving loan, further terms detailed below.	712,538	5,000,000
<u>Big River United Energy, LLC</u>		
Term loan, further terms detailed below.	67,742,343	76,000,000
Revolving term loan, further terms detailed below.	16,894,294	13,000,000
	174,705,210	201,080,672
Current maturities	(44,769,030)	(24,325,696)
	<u>\$ 129,936,180</u>	<u>\$ 176,754,976</u>

**:NOTE E: LONG-TERM DEBT (continued)**

Long-term debt maturities are as follows:

Years Ending December 31,	
2011	\$ 44,769,030
2012	28,037,301
2013	24,969,254
2014	19,912,192
2015	49,603,836
Thereafter	7,413,597
	<hr/>
	\$ 174,705,210

**West Burlington**

The company entered into a credit agreement with CoBank to partially finance the construction of the plant expansion. Under the credit agreement, the lender has provided a construction and term loan for \$55,000,000 and a construction and 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 one-month fixed rate equal to 2.7% above the rate quoted by the British Bankers Association, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.7% (2.97% at December 31, 2010). 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, require minimum debt service coverage, net worth and working capital requirements. As of December 31, 2010 and 2009, 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 24 quarterly principal installments of \$2,250,000 beginning in August 2008 until May 2014 with a final installment in an amount equal to the remaining unpaid balance on August 2014. In addition to the required payments, the company, beginning with the fiscal year ending 2008 and ending with the fiscal year 2010, is required to make additional principal payments equal to 75% of the company's excess cash flow as defined in the loan agreement not to exceed an aggregate total of \$9,000,000. Based on the operating results for the year ended December 31, 2010, the company is required to make an additional principal payment of \$3,505,222 in 2011 which is included in current maturities of long-term debt. This year's requirement meets the \$9,000,000 aggregate total.

**NOTE E: LONG-TERM DEBT (continued)**Revolving term loan

The company is required to make semi-annual principal payments beginning on March 2015 until March 2017 of a reducing commitment amount as follows

Payment Date	Commitment Amount
March 1, 2015	\$ 16,000,000
September 1, 2015	12,000,000
March 1, 2016	8,000,000
September 1, 2016	4,000,000
March 1, 2017	—

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.

**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 one-month fixed rate equal to 2.95% above the rate quoted by the British Bankers Association, an agent quoted fixed per annum rate or a fixed rate of LIBOR plus 2.95% (3.22% of December 31, 2010). 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 capital expenditures, require minimum debt service coverage, net worth and working capital requirements. As of December 31, 2010 and 2009, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

**Construction and term loan**

The company is required to make 25 quarterly principal installments of \$2,625,000 which began in December 2009 until December 2015 with a final installment in an amount equal to the remaining unpaid balance in January 2016.

**NOTE E: LONG-TERM DEBT (continued)**

In addition to the required payments, beginning with the year ending 2009, the company is 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, 2010, the company is required to make an additional principal payment of \$8,637,435 in 2011, which is included in current maturities of long-term debt. For the year ended December 31, 2009, the company was required to make an additional principal payment of \$1,641,912.

Construction and 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.

**Big River United Energy, LLC**

The company entered into a credit agreement with AgStar to finance the purchase of the plant. Under the credit agreement, the lender has provided a term loan for \$76,000,000, a term revolving loan of \$20,000,000 and a revolving line of credit of \$12,000,000. The loans are secured by substantially all assets and 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, 2010, the company was in compliance with all financial and non-financial covenants.

Specific terms for each loan are as follows:

Term loan

In June 2010, the company converted a portion of its term loan to a fixed rate term loan.

The variable rate portion requires the company to make interest only payments beginning in January 2010 based on a variable interest rate of 3.0% plus the greater of the one month LIBOR Rate or 2.0% (5% at December 31, 2010) until March 2011. Monthly principal and interest payments begin in April 2011 with a final installment in an amount equal to the remaining unpaid balance on September 15, 2015. As of December 31, 2010, this variable rate portion balance was \$39,224,916.

**NOTE E: LONG-TERM DEBT (continued)**

The fixed rate portion requires the company to make monthly principal and interest payments until January 2013 when the rate will convert back to being based on a variable interest rate of 3.0% plus the greater of the one month LIBOR Rate or 2.0% until September 2015. As of December 31, 2010, this fixed rate portion balance was \$28,517,427.

**Revolving term loan**

The company is required to make interest only payments beginning in January 2010 based on a variable interest rate of 3.0% plus the greater of the one month LIBOR Rate or 2.0% (5% at December 31, 2010) until maturity, September 15, 2015, when the amount of unpaid principal balance shall be payable in full.

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 until September 15, 2015.

**Revolving Line of Credit**

The company is required to make interest only payments on any drawn funds beginning in January 2010 based on a variable interest rate of 4.0% plus the greater of the one month LIBOR Rate or 2.0% (6% at December 31, 2010) until maturity, September 15, 2015 when the amount of unpaid principal balance and all other amounts due shall be due.

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 until September 15, 2015. As of December 31, 2010 and 2009, the company has \$6,000,000 and \$0 drawn under this line of credit.

**NOTE F: MEMBER'S 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.

**NOTE F: MEMBER'S EQUITY (continued)**

As of December 31, 2010, 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, 2010 and 2009, the company had 359 and 363 members and the following membership units issued, respectively:

	<u>2010</u>	<u>2009</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 G: SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

The following is a schedule of supplemental disclosure of cash flow information for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2008</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest (net of capitalized interest of \$0 and \$84,619 in 2010 and 2009, respectively)	\$ 8,891,717	\$ 3,206,237
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Accounts payable incurred for construction in progress	\$ 18,041	\$ 243,382
Acquisition of net assets of RBF Acquisition III, LLC		
Assets acquired		
Inventories	\$ —	\$ 1,523,926
Property and equipment	—	94,476,074
Issuance of long-term debt	<u>\$ —</u>	<u>\$ 96,000,000</u>

## **NOTE H: CONCENTRATIONS**

The company has an ethanol marketing agreement with an unrelated party which covers the entire ethanol marketing for the company. The agreement is renewed annually 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 with a minimum and maximum cost per gallon. The ethanol could be marketed by other marketers without any significant effect on operations.

In August 2009, the company entered into a co-products marketing agreement with an unrelated party which covers all of the distillers grain marketing for Big River United Energy, LLC. The initial term of the agreement ended August 2010 and was automatically extended for an additional one year term and shall automatically extend thereafter, unless with 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.

## **NOTE I: 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, 2010 and 2009, company matching contributions to the plan were \$290,314 and \$162,231, respectively.

## **NOTE J: EQUITY-BASED COMPENSATION**

In 2009, the company approved an equity-based compensation plan which provides for the issuance of unit options to purchase an aggregate of 123 units of the company to members of the board of directors and management for the purpose of providing services to facilitate the completion of the construction of Galva's ethanol plant. The unit options were issued in August 2009 and were exercisable at purchase prices between \$1 and \$5,000 per unit until October 2009.

The following assumptions were used to estimate the fair values of the options granted using the BSM option-pricing formula: The risk-free interest rate of 0.1% to 0.03% is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of 3 months and the expected volatility of 70.27% are based on the average reported lives and volatilities of a representative sample of a comparable company in the ethanol industry sector. The intrinsic value is calculated as the difference between the \$5,000 per unit exercise price of the options and the \$5,900 estimated current fair market value.

In October 2009, the members exercised 84 unit options and the company issued 84 Class D membership units for a total contribution of \$355,013.





## **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 September 2010, the company entered into a sponsorship agreement in which it made a \$250,000 sponsorship payment in September 2010 for the 2011 race season. The agreement requires an initial term of six years 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 \$11,500 each subsequent year during the term of this agreement.

### **BIG RIVER RESOURCES WEST BURLINGTON, LLC**

The company has issued unsecured promissory notes for the specific purpose of letter of credits totaling \$577,778, which expire through September 2011, as security of certain debts. There is no amount drawn against these promissory notes as of December 31, 2010.

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, 2010.

### **BIG RIVER RESOURCES GALVA, LLC**

In October 2006, the company 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 intends to construct the ethanol facility. The company was obligated to compensate the City of Kewanee an amount equal to 20% of the gross value of any retailer's occupation tax exemption for which the company is eligible. Based on construction cost estimates at the time of execution of the agreement, an amount of \$300,000 was estimated and paid within three months after the completion of construction.

**NOTE M: COMMITMENTS AND CONTINGENCIES (continued)**

**BIG RIVER RESOURCES GALVA, LLC**

In addition, 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 per year is estimated to be payable in quarterly installments. The term of the agreement commenced on the date of execution and shall expire December 31, 2017. For the years ended December 31, 2010 and 2009, the company made payments totaling \$160,000 and \$406,668, respectively under this agreement.

**BIG RIVER UNITED ENERGY, LLC**

In September 2010, the company entered into a sponsorship agreement in which it made a \$125,000 sponsorship payment in September 2010 for the 2011 race season. The agreement requires an initial term of six years 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 \$6,000 each subsequent year during the term of this agreement.

In addition to the forward contracts marked to market and identified as derivative instruments, the company has entered into unpriced forward ethanol sales contracts for delivery in 2011 of approximately 93,531,000 gallons.

**NOTE N: SUBSEQUENT EVENTS**

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through February 8, 2011, the date the financial statements were available to be issued.

# ***Patriot Renewable Fuels, LLC***

*Financial Statements for the Years Ended December 31, 2011 and December 31, 2010*

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# PATRIOT RENEWABLE FUELS, LLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
Patriot Renewable Fuels, LLC  
Annawan, Illinois

We have audited the accompanying balance sheet of Patriot Renewable Fuels, LLC as of December 31, 2011 and 2010 and the related statements of operations, changes in members' equity, and cash flows for each of the years in the two-year period ended December 31, 2011. Patriot Renewable Fuels, LLC's management is responsible for these financial statements. Our responsibility is to express an opinion on these 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Patriot Renewable Fuels, LLC as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years in the two-year period ended December 31, 2011, 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 13, 2012

**PATRIOT RENEWABLE FUELS, LLC**

Balance Sheet

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 3,844,194	\$ 5,350,666
Restricted cash	183,644	1,352,276
Accounts receivable, net	6,887,155	3,673,146
Inventory	12,169,973	9,170,120
Commodity derivative instruments	240,213	—
Prepaid expenses and other current assets	931,939	1,102,232
	<hr/>	<hr/>
Total current assets	24,257,118	20,648,440
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Property, plant, and equipment, at cost	161,492,610	157,764,916
Accumulated depreciation	(29,951,783)	(20,627,139)
	<hr/>	<hr/>
Property, plant, and equipment, net	131,540,827	137,137,777
<b>OTHER NON-CURRENT ASSETS</b>		
Deferred financing costs, net	242,556	415,646
Long-term investments	533,575	333,100
Notes receivable	28,226,201	30,235,783
Interest receivable	7,973,993	5,964,411
	<hr/>	<hr/>
Total other non-current assets	36,976,325	36,948,940
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 192,774,270</b>	<b>\$ 194,735,157</b>
	<hr/>	<hr/>
<b><u>LIABILITIES AND MEMBERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,739,259	\$ 3,668,313
Accrued expenses and other current liabilities	2,148,637	2,323,434
Commodity derivative instruments	—	1,980,225
Current portion of interest rate swap	1,303,842	1,507,124
Current portion of long-term debt	12,058,569	9,625,439
	<hr/>	<hr/>
Total current liabilities	20,250,307	19,104,535
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	45,630,613	61,064,371
Interest rate swap	1,386,831	2,685,152
Deferred income	29,085,375	31,213,573
	<hr/>	<hr/>
Total long-term liabilities	76,102,819	94,963,096
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>MEMBERS' EQUITY</b> , 65,000 units authorized; 45,741 units issued and outstanding	96,421,144	80,667,526
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 192,774,270</b>	<b>\$ 194,735,157</b>
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Notes to the Financial Statements are an integral part of this Statement.

**PATRIOT RENEWABLE FUELS, LLC**

## Statement of Operations

	Years Ended December 31,	
	2011	2010
<b>REVENUES</b>	\$ 377,249,524	\$ 261,116,700
<b>COST OF GOODS SOLD</b>	348,042,328	234,180,432
<b>GROSS MARGIN</b>	29,207,196	26,936,268
<b>OPERATING EXPENSES</b>	3,276,329	2,334,448
<b>OPERATING INCOME</b>	25,930,867	24,601,820
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	(5,003,263)	(6,190,729)
Gain on debt extinguishment	—	1,929,828
Interest income	—	864,397
Gain on interest rate swap	1,506,159	98,530
Other income	181,005	80,832
Total other expense, net	(3,316,099)	(3,217,142)
<b>NET INCOME</b>	\$ 22,614,768	\$ 21,384,678

Notes to the Financial Statements are an integral part of this Statement.

# PATRIOT RENEWABLE FUELS, LLC

## Statement of Changes in Members' Equity

<b>BALANCE – December 31, 2009</b>	\$ 70,143,997
Reacquisition of beneficial conversion feature upon retirement of convertible subordinated debt	(4,000,000)
Member distributions	(6,861,149)
Net income for the year ended December 31, 2010	<u>21,384,678</u>
<b>BALANCE – December 31, 2010</b>	80,667,526
Member distributions	(6,861,150)
Net income for the year ended December 31, 2011	<u>22,614,768</u>
<b>BALANCE – December 31, 2011</b>	<u>\$ 96,421,144</u>

Notes to the Financial Statements are an integral part of this Statement.



**PATRIOT RENEWABLE FUELS, LLC**

Statement of Cash Flows

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 22,614,768	\$ 21,384,678
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,369,536	7,003,031
Loss on disposal of property and equipment	—	16,815
Interest income on tax increment financing notes receivable	—	(864,396)
Change in fair value of interest rate swap	560,690	2,148,345
Change in fair value of commodity derivative instruments	1,862,147	3,366,896
Non-cash interest expense related to debt discount amortization	—	466,865
Gain on debt extinguishment	—	(1,929,828)
Patronage dividend received	(200,475)	(333,100)
Changes in operating assets and liabilities:		
Restricted cash – commodity margin account	1,168,632	(1,352,276)
Accounts receivable	(3,214,009)	2,913,937
Inventory	(2,999,853)	(3,406,023)
Prepays and other current assets	170,293	284,479
Commodity derivative instruments	(4,082,585)	(1,476,926)
Accounts payable	1,056,866	971,968
Interest rate swap	(2,066,849)	(2,246,875)
Accrued expenses	(170,241)	(969,812)
Net cash flows provided by operating activities	<u>22,068,920</u>	<u>25,977,778</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant, and equipment	(3,713,614)	(2,174,792)
Net cash flows used in investing activities	<u>(3,713,614)</u>	<u>(2,174,792)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long-term debt	(13,000,628)	(18,620,065)
Retirement of convertible subordinated debt	—	(4,000,000)
Distributions paid	(6,861,150)	(6,861,149)
Net cash flows used in financing activities	<u>(19,861,778)</u>	<u>(29,481,214)</u>
<b>NET DECREASE IN CASH</b>	<u>(1,506,472)</u>	<u>(5,678,228)</u>
<b>CASH – BEGINNING OF PERIOD</b>	<u>5,350,666</u>	<u>11,028,894</u>
<b>CASH – END OF PERIOD</b>	<u>\$ 3,844,194</u>	<u>\$ 5,350,666</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 4,800,052</u>	<u>\$ 6,346,351</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Property, plant, and equipment additions included in accounts payable and accrued expenses	<u>\$ 14,080</u>	<u>\$ 166,861</u>
Reduction of deferred income for exchange of constructed roadway	<u>\$ —</u>	<u>\$ 385,815</u>

Notes to the Financial Statements are an integral part of this Statement.

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**1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business** – Patriot Renewable Fuels, L.L.C. (an Illinois Limited Liability Company, the “Company”) is 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 and inventory purchase commitments, valuation of notes receivable arising from tax increment financing, valuation of 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, 2011 and 2010, 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 distilled grain products, commissions due to the marketers are deducted from the gross sales price as earned. These commissions are recorded net of revenues 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, 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 its accounts at three financial institutions. Beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all Federal Deposit Insurance Corporation (“FDIC”) insured institutions. On December 31, 2011 and 2010, the Company had cash balances in non-interest bearing accounts at three FDIC insured financial institutions totaling approximately \$3,448,000 and \$5,271,000. The Company has not

# PATRIOT RENEWABLE FUELS, LLC

Notes to Financial Statements  
December 31, 2011 and 2010

experienced any losses in such accounts or any losses in connection with these balances. The Company does not believe it is exposed to any significant credit risk on cash.

**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, 2011 or 2010. 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:

<b>Asset Description</b>	<b>Years</b>
Land improvements	10-30 years
Buildings	15-30 years
Process equipment	10-20 years
Grain handling equipment	10 years
Railroad and rail equipment	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.

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

# PATRIOT RENEWABLE FUELS, LLC

## Notes to Financial Statements December 31, 2011 and 2010

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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 has identified no such impairment losses for the years ended December 31, 2011 or 2010.

**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 the acquisition of financing for the ethanol plant discussed in Note 5 were deferred and amortized over the term of the respective financing using the effective interest method. Accumulated amortization was \$659,308 and \$486,218 at December 31, 2011 and 2010, respectively.

**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 entered into derivative contracts to fix the interest rate for a portion of its long-term debt. The Company records 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.

**Convertible Debt** – On June 30, 2010, the Company retired \$4,000,000 of convertible subordinated notes, which were issued on November 25, 2008. The proceeds of the notes were recorded as long term debt, at a discount based on the conversion feature. The notes bore interest at a rate of 16%, compounded quarterly, and were convertible to units each year at the anniversary date as follows: \$1,500 per unit at November 25, 2009, \$1,000 per unit at November 25, 2010, and \$500 per unit at November 25, 2011. No conversion ever occurred. The intrinsic value of the beneficial conversion feature at the time of issuance was recorded as a discount on the notes and a component of members’ equity. The discount was amortized to expense on a straight line basis over the three year term of the convertible subordinated debt. Non-cash amortization expense of \$466,865 was recorded for the year ended December 31, 2010. See Note 5 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, 2011 or 2010. The Company is no longer subject to federal or state income tax examinations by tax authorities for years before 2008.

**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, 2011 or 2010 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 cash, restricted cash, accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short maturity of these instruments. Fair values of interest rate swap agreements are obtained from the counterparty, who computes the values based on nominal and current interest rates, and have been evaluated for credit swap default risk. 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, 2011, the Company believes the carrying amount of the long-term debt approximates the fair value due to the variable market rate charged by the lenders.

**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, 2011, and 2010 and the Company is not currently a party to any unsettled environmental legal proceedings at December 31, 2011.

**Reclassifications** – Certain reclassifications have been made to the previously issued 2010 balance sheet, statement of operations, and cash flows for comparability purposes. This reclassification had no effect on the reported net income, members' equity, and operating cash flows as previously reported.

# PATRIOT RENEWABLE FUELS, LLC

Notes to Financial Statements  
December 31, 2011 and 2010

**Subsequent Events** – The Company has evaluated subsequent events through March 13, 2012, the date the financial statements were available to be issued.

## 2. INVENTORY

A summary of inventory at December 31, 2011 and 2010 is as follows:

	2011	2010
Raw materials	\$ 3,685,195	\$ 3,648,999
Work in progress	1,353,138	1,404,402
Finished goods	5,427,803	2,924,560
Spare parts	1,703,837	1,192,159
<b>Totals</b>	<b>\$ 12,169,973</b>	<b>\$ 9,170,120</b>

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 not required to record a lower of cost or market charge to any inventories for the years ended December 31, 2011 or 2010.

## 3. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2011 and 2010 is as follows:

	2011	2010
Land and land equipment	\$ 18,149,120	\$ 18,089,340
Process and grain handling equipment	115,184,474	110,713,369
Buildings	26,198,661	26,198,663
Furniture, fixtures and computer equipment	1,960,355	1,620,744
Construction in progress	—	1,142,800
	161,492,610	157,764,916
Accumulated depreciation	(29,951,783)	(20,627,139)
<b>Total property and equipment, net</b>	<b>\$ 131,540,827</b>	<b>\$ 137,137,777</b>

## 4. TAX INCREMENT FINANCING

During the years ended December 31, 2009, 2008 and 2007, the Company received amounts from the Village of Annawan, Illinois 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

# PATRIOT RENEWABLE FUELS, LLC

## Notes to Financial Statements December 31, 2011 and 2010

receivable. As of December 31, 2011, 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 deferred income related to the amounts received was \$41,754,979. Included in the statement of operations for the years ended December 31, 2011 and 2010, the Company amortized \$2,128,198 and \$2,000,856 of deferred income, respectively, which was netted against depreciation expense and is included as a component of costs of goods sold. In 2010, the Company reduced deferred income by \$385,815 related to the transfer of construction costs for the plant access road from the Company to the Village. The fair value of this asset was deemed to approximate the cost basis due to the recent construction.

As of December 31, 2011 and 2010, the unamortized deferred income balance was \$29,085,375 and \$31,213,573, respectively. The notes, net of the valuation allowance discussed below, had accrued interest receivable of \$7,973,993 and \$5,964,411 at December 31, 2011 and 2010, 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, 2011 and 2010, and was included in the statements of operations as interest income. At December 31, 2011 and 2010, the Company has recorded a valuation allowance of \$4,528,778 and \$2,519,196, 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>2011</u>	<u>2010</u>
Secured by substantially all assets:		
Fixed rate note, variable rate interest of 90 day LIBOR plus 300 basis points, swapped to a fixed rate of 8.655%, due October 2013	\$ 35,746,154	\$ 39,528,635
Variable rate note, variable interest of 90 day LIBOR plus 450 basis points with a minimum rate of 5.5%, due October 2013	13,943,028	20,661,175
Long-term reducing revolving note, variable interest of 90 day LIBOR plus 450 basis points with a minimum rate of 5.5%, due October 2013	8,000,000	10,500,000
Total debt	57,689,182	70,689,810
Less: current maturities	(12,058,569)	(9,625,439)
Total long-term debt	<u>\$ 45,630,613</u>	<u>\$ 61,064,371</u>

The Company currently has a definitive loan agreement (the "Agreement") with a financial institution (the "Bank") for three term loans. One term loan, the Fixed Rate Note, is for \$46,950,000, and the balance is subject to the interest rate swap agreement (see Note 6). The Company also has in place with the Bank a Variable Rate Note of \$33,050,000 and a Long-Term Reducing Revolving Loan of \$20,000,000. Interest is payable quarterly on outstanding borrowings.

In addition, the Company has amended the Agreement to include a Revolving Loan agreement with the Bank for \$8,000,000 that expires on June 1, 2012. At December 31, 2011 and at December 31, 2010 the Company did not have any borrowings outstanding under the Revolving Loan.

# PATRIOT RENEWABLE FUELS, LLC

## Notes to Financial Statements December 31, 2011 and 2010

The Restated Agreement contains various restrictive covenants which, among other matters, require that the Company meet certain financial ratios. The Company is in compliance with the financial covenants of the Restated Agreement as of December 31, 2011 and 2010 and expects to remain in compliance throughout 2012.

The Fixed Rate Note bears interest at a variable rate of 90 day LIBOR plus 300 basis points. The Variable Rate Note, and the Long Term Reducing Revolving Loan, bear interest at a variable rate of 90 day LIBOR plus 450 basis points, with a minimum rate of 5.5%. The minimum rate of 5.5% was in effect at December 31, 2011 and 2010. The Revolving Loan bears interest at a variable rate of 90 day LIBOR plus 350 basis points, with a minimum rate of 4%. The borrowings under the Agreement are collateralized by substantially all of the assets of the Company. The term loans require quarterly interest and principal payments and mature in October 2013. In addition, the Company must make additional annual principle payments up to a maximum of \$4,000,000 based on an excess cash flow calculation, as defined in the Restated Agreement. As of December 31, 2011 and 2010, the Company owed approximately \$4,000,000 and \$2,100,000, respectively, as a result of this calculation and both amounts are included in the current portion of long-term debt on the balance sheet for the respective years.

Annual expected maturities for long-term debt as December 31, 2011 are as follows:

2012	\$	12,058,569
2013		45,630,613
Total	\$	<u>57,689,182</u>

On November 25, 2008, the Company issued Convertible Subordinated Debt totaling \$4,000,000 to five related parties (see Note 7). The Subordinated Debt bore interest at a rate of 16%, had a term of three years, and was convertible to membership units at each anniversary date at a cost of \$1,500, \$1,000, and \$500 per unit, respectively, on November 25, 2009, 2010, and 2011. Due to the favorable conversion rate of this debt, the Company recognized a beneficial conversion feature of \$4,000,000, resulting in a discount of \$4,000,000 to the convertible subordinated debt. This discount was amortized and recognized as interest expense over the term of the debt. The Company recognized non-cash interest expense related to amortization of this debt discount of \$466,865 during 2010. On June 30, 2010, the Company paid \$4,000,000 to retire this debt and reacquire the beneficial conversion feature and recognized a non-cash gain on the early extinguishment of this debt of \$1,929,828 which represents the total settlement amount paid being less than the current carrying value.

## 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, 2011, the Company had an outstanding interest rate swap agreement along with corn derivative instruments. 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



**PATRIOT RENEWABLE FUELS, LLC**

Notes to Financial Statements  
December 31, 2011 and 2010

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.

**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, 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. At December 31, 2010, the total notional amount of the Company's outstanding corn derivative instruments was approximately 3,560,000 bushels that were entered into to hedge forecasted corn purchases through December 2011.

**Interest Rate Contact**

In accordance with the Agreement 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 Loan subsequent to the Completion Date at 8.655%. The Swap is effective as of October 8, 2008 and terminates on October 8, 2013.

At December 31, 2011, the Company had approximately \$35.7 million 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. At December 31, 2010, the fair value of the interest rate swap totaled approximately \$4,200,000, of which approximately \$1,500,000 is classified as a current liability and approximately \$2,700,000 is classified as a current liability. These agreements are 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, 2011:

	<b>Balance Sheet Location</b>	<b>Assets</b>	<b>Liabilities</b>
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
		<hr/>	<hr/>
Totals		\$ 240,213	\$ 2,690,673
		<hr/>	<hr/>

**PATRIOT RENEWABLE FUELS, LLC**

Notes to Financial Statements  
December 31, 2011 and 2010

The following table provides details regarding the Company's derivative financial instruments at December 31, 2010:

	<u>Balance Sheet Location</u>	<u>Assets</u>	<u>Liabilities</u>
Corn contracts	Commodity derivative instruments	\$ —	\$ 1,980,225
Interest rate swap	Interest rate swap – current	—	1,507,124
Interest rate swap	Interest rate swap – long-term	—	2,685,152
Totals		<u>\$ —</u>	<u>\$ 6,172,501</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:

	<u>Statement of Operations Location</u>	<u>Year ended December 31, 2011</u>	<u>Year ended December 31, 2010</u>
Corn contracts	Cost of goods sold	\$ (1,862,147)	\$ (3,366,896)
Interest rate swap	Gain on interest rate swap	1,506,159	98,530
Total loss		<u>\$ (355,988)</u>	<u>\$ (3,268,366)</u>

**7. RELATED PARTY TRANSACTIONS**

The Company has engaged CGB Enterprises Co. ("CGB"), an equity member to source corn for the plant under a long-term agreement on a fee per bushel basis (discussed further in Note 8).

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, 2011 and 2010 were as follows:

	<u>Year ended December 31, 2011</u>	<u>Year ended December 31, 2010</u>
CGB	\$ 282,254,429	\$ 171,432,515
Michlig	480,836	895,077
Totals	<u>\$ 282,735,265</u>	<u>\$ 172,327,592</u>

Total amounts payable to related parties at December 31, 2011 and 2010, which are included in accounts payable, were as follows:

	<u>2011</u>	<u>2010</u>
CGB	\$ 1,667,504	\$ 1,437,265
Michlig	—	55,459
Totals	<u>\$ 1,667,504</u>	<u>\$ 1,492,724</u>

The Company has engaged Murex N.A, LTD, ("Murex"), an equity member, to market ethanol for the plant under a long term agreement on a percentage of revenue commission basis. Total amounts owed to the Company from Murex, as of December 31, 2011 and 2010 were \$5,531,741 and \$2,261,462, respectively

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**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. 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, 2011, the Company had open forward corn purchase commitments for 7,696,637 bushels at an average price of \$6.55 with CGB. At December 31, 2010, the Company had open forward corn purchase commitments for 14,024,519 bushels at an average price of \$6.28 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 plant'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, 2011, the Company had approximately \$309,400,000 of ethanol sales to Murex, of which approximately \$5,500,000 is included in accounts receivable at December 31, 2011. The Company had approximately \$219,800,000 of ethanol sales to Murex during 2010, of which approximately \$2,261,000 is included in accounts receivable at December 31, 2010. For the years ended December 31, 2010 and 2009, ethanol sales are recorded net of commissions totaling approximately \$2,970,000 and \$2,050,000, 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, 2011, the Company recorded DDGS sales of approximately \$66,400,000 net of commissions of approximately \$920,000. For the year ended December 31, 2010, the Company recorded DDGS sales of approximately \$43,700,000 net of commissions of approximately \$905,000.

**Natural Gas Contracts**

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. At December 31, 2010, the Company had forward contracts to purchase approximately 354,000 British thermal units (MMBTU) of natural gas during the months of January and February 2011 at an average price of approximately \$4.65 per MMBTU.

**9. CONCENTRATIONS**

For the year ended December 31, 2011 and 2010, two customers accounted for substantially all of the Company's revenues and trade accounts receivable. Accounts receivable for the ethanol marketer represented 80% and 62% of total outstanding receivables at December 31, 2011 and 2010, respectively. Accounts receivable for the dry distiller grains marketer represented 18% and 29% of total outstanding receivables at December 31, 2011 and 2010, respectively. Revenues for the ethanol marketer represented 81% and 83% of total revenues for the years ended December 31, 2011 and 2010, respectively. Revenues for the dry distiller grains marketer represented 18% and 17% of total revenues for the years ended December 31, 2011 and 2010,

**PATRIOT RENEWABLE FUELS, LLC**

Notes to Financial Statements  
December 31, 2011 and 2010

respectively. In 2011, the Company began producing and selling corn oil, which accounted for one per cent of total revenue for the year ended December 31, 2011.

**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, 2011 and 2010 the Company had 45,741 membership units issued and outstanding.

During 2011 and 2010, the Company paid a cash distribution of \$150.00 per membership unit for a distribution total to its unit holders of approximately \$6.9 million in each of the years 2011 and 2010.

**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 and 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)
<b>Financial Assets (Liabilities)</b>					
Corn derivative contracts	\$ 240,213	\$ 240,213	\$ 240,213	\$ —	\$ —
Interest rate swap	(2,690,673)	(2,690,673)	—	(2,690,673)	—

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, 2010:

	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)
<b>Financial (Liabilities)</b>					
Corn derivative contracts	\$ (1,980,225)	\$ (1,980,225)	\$ (1,980,225)	\$ —	\$ —
Interest rate swap	(4,192,276)	(4,192,276)	—	(4,192,276)	—

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.

# PATRIOT RENEWABLE FUELS, LLC

Notes to Financial Statements  
December 31, 2011 and 2010

## 12. OPERATING LEASES

The Company has various equipment leases under non-cancelable leases through June 2016. Rent expense for operating leases was approximately \$127,000 and \$142,000 for the years ended December 31, 2011 and 2010, respectively.

At December 31, 2011, 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,	
2012	\$ 114,085
2013	10,324
2014	10,324
2015	10,324
2016	4,302
Total minimum lease commitments	<u>\$ 149,359</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, 2011 ethanol sales were 81% of total revenues and corn costs were 82% 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.

*Anti-dumping Investigation*

In October 2011, the European Union ("EU") initiated an anti-dumping and anti-subsidy investigation against the United States over federal and state tax credits and other subsidy support for producers of ethanol. In January 2012, the EU informed the Company that it was one of three ethanol exporters selected as part the fact-finding process in order to determine whether the Company's ethanol export price of the product imported to the EU was less than its normal value in the ordinary course of trade. The Company has responded to the EU's request for information and is currently waiting for a response based on their investigation. Based on the results of the investigation, additional duties may be imposed on all ethanol imports into the EU from the United States which could have an adverse affect on the selling price of ethanol to the EU in the future. The Company is unable to determine at this time if the investigation will have a material adverse effect on the Company.

# ***Patriot Renewable Fuels, LLC***

***Financial Statements for the Years Ended December 31,  
2010 and December 31, 2009***

***And Report of Independent Registered Public  
Accounting Firm***

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# PATRIOT RENEWABLE FUELS, LLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
Patriot Renewable Fuels, LLC  
Annawan, Illinois

We have audited the accompanying balance sheets of Patriot Renewable Fuels, LLC as of December 31, 2010 and 2009 and the related statements of operations, changes in members' equity, and cash flows for each of the years in the two-year period ended December 31, 2010. Patriot Renewable Fuels, LLC's management is responsible for these financial statements. Our responsibility is to express an opinion on these 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Patriot Renewable Fuels, LLC as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years in the two-year period ended December 31, 2010, 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 14, 2011

**PATRIOT RENEWABLE FUELS, LLC**

Balance Sheets

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 5,350,666	\$ 11,028,894
Restricted cash	1,352,276	—
Accounts receivable, net	3,673,146	6,587,083
Inventory	9,170,120	5,764,097
Prepaid expenses and other current assets	1,102,232	1,386,711
	<hr/>	<hr/>
Total current assets	20,648,440	24,766,785
<b>PROPERTY AND EQUIPMENT</b>		
Property and equipment, at cost	157,764,916	155,859,646
Accumulated depreciation	(20,627,139)	(11,799,466)
	<hr/>	<hr/>
Property and equipment, net	137,137,777	144,060,180
<b>OTHER NON-CURRENT ASSETS</b>		
Deferred financing costs, net	415,646	558,107
Long-term investments	333,100	—
Notes receivable	32,754,979	32,754,979
Interest receivable	3,445,215	2,580,819
	<hr/>	<hr/>
Total other non-current assets	36,948,940	35,893,905
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 194,735,157</b>	<b>\$ 204,720,870</b>
	<hr/>	<hr/>
<b><u>LIABILITIES AND MEMBERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 3,668,313	\$ 2,529,484
Accrued expenses and other current liabilities	2,323,434	3,218,317
Commodity derivative instruments	1,980,225	90,255
Current portion of interest rate swap	1,507,124	1,618,486
Current portion of long-term debt	9,625,439	15,484,485
	<hr/>	<hr/>
Total current liabilities	19,104,535	22,941,027
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	61,064,371	75,288,353
Interest rate swap	2,685,152	2,747,249
Deferred income	31,213,573	33,600,244
	<hr/>	<hr/>
Total long-term liabilities	94,963,096	111,635,846
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>MEMBERS' EQUITY</b> , 65,000 units authorized; 45,741 units issued and outstanding	80,667,526	70,143,997
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 194,735,157</b>	<b>\$ 204,720,870</b>
	<hr/>	<hr/>

Notes to the Financial Statements are an integral part of this Statement.

**PATRIOT RENEWABLE FUELS, LLC**

## Statements of Operations

	Years Ended December 31,	
	2010	2009
<b>REVENUES</b>	\$ 261,116,700	\$ 231,077,345
<b>COST OF GOODS SOLD</b>	234,180,432	205,366,591
<b>GROSS MARGIN</b>	26,936,268	25,710,754
<b>OPERATING EXPENSES</b>	2,334,448	2,446,600
<b>OPERATING INCOME</b>	24,601,820	23,264,154
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	(6,190,729)	(8,381,686)
Gain on debt extinguishment	1,929,828	—
Interest income	864,397	551,127
Interest rate swap gain	98,530	1,796,231
Other income	80,832	58,033
Total other expense, net	(3,217,142)	(5,976,295)
<b>NET INCOME</b>	<b>\$ 21,384,678</b>	<b>\$ 17,287,859</b>

Notes to the Financial Statements are an integral part of this Statement.

# PATRIOT RENEWABLE FUELS, LLC

## Statements of Changes in Members' Equity

<b>BALANCE – December 31, 2008</b>	\$ 52,856,138
Net income for the year ended December 31, 2009	17,287,859
<b>BALANCE – December 31, 2009</b>	70,143,997
Reacquisition of beneficial conversion feature upon retirement of convertible subordinated debt	(4,000,000)
Member distributions	(6,861,149)
Net income for the year ended December 31, 2010	21,384,678
<b>BALANCE – December 31, 2010</b>	<b>\$ 80,667,526</b>

Notes to the Financial Statements are an integral part of this Statement.

**PATRIOT RENEWABLE FUELS, LLC**

Statements of Cash Flows

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 21,384,678	\$ 17,287,859
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,003,031	6,953,274
Loss on disposal of property and equipment	16,815	—
Interest income on tax increment financing notes receivable	(864,396)	(547,313)
Change in fair value of interest rate swap	(98,530)	(1,796,231)
Change in fair value of derivative instruments	3,366,896	(364,959)
Interest expense related to debt discount amortization	466,865	1,333,333
Gain on debt extinguishment	(1,929,828)	—
Patronage dividend received	(333,100)	—
Changes in operating assets and liabilities:		
Restricted cash – commodity margin account	(1,352,276)	—
Accounts receivable	2,913,937	(490,165)
Inventory	(3,406,023)	466,738
Prepays and other current assets	284,479	466,135
Commodity derivative instruments	(1,476,926)	118,658
Accounts payable	971,968	(1,896,114)
Accrued expenses	(969,812)	(358,533)
Net cash flows provided by operating activities	25,977,778	21,172,682
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,174,792)	(669,769)
Proceeds from the disposal of property and equipment	—	39,059
Net cash flows used in investing activities	(2,174,792)	(630,710)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on line of credit, net	—	(2,013,204)
Proceeds from debt	—	1,008,290
Payments on long-term debt	(18,620,065)	(10,690,125)
Reacquisition of beneficial conversion feature upon retirement of convertible debt	(4,000,000)	—
Distributions paid	(6,861,149)	—
Net cash flows used in financing activities	(29,481,214)	(11,695,039)
<b>NET INCREASE IN CASH</b>	<b>(5,678,228)</b>	<b>8,846,933</b>
<b>CASH – BEGINNING OF PERIOD</b>	<b>11,028,894</b>	<b>2,181,961</b>
<b>CASH – END OF PERIOD</b>	<b>\$ 5,350,666</b>	<b>\$ 11,028,894</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 6,346,351	\$ 8,152,636
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Property and equipment additions included in accounts payable and accrued expenses	\$ 166,861	\$ —
Notes receivable included in deferred income	\$ —	\$ 8,966,896
Reduction of deferred income for exchange of constructed roadway	\$ 385,815	\$ —
Retainage refund used to reduce property and equipment amounts due contractor	\$ —	\$ 582,110

Notes to the Financial Statements are an integral part of this Statement.

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**1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business** – Patriot Renewable Fuels, L.L.C. (an Illinois Limited Liability Company, the “Company”) is a dry mill, corn-based processing facility that produces fuel-grade ethanol and distillers grains, a co-product 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 gallons 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.

**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 amounts of 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 and inventory purchase commitments, valuation of tax increment financing and subordinated debt, and the assumptions used in the impairment analysis of long-lived assets. Actual results may differ from previously estimated amounts, and such differences, if any, 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, 2010 and 2009, 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 generally recognizes revenue at the time of loading ethanol or distillers grains 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 distilled grain products, commissions due to the marketers are deducted from the gross sales price as earned. These commissions are recorded net of revenues 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, 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 and cash equivalents primarily in accounts with three 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.

# PATRIOT RENEWABLE FUELS, LLC

## Notes to Financial Statements December 31, 2010

**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 such accounts are collectible in all material respects and thus an allowance was not necessary at December 31, 2010 or 2009. 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. As of December 31, 2010 and 2009 the total amount included on the balance sheet for prepaid natural gas was \$222,527 and \$775,094, respectively.

**Property and Equipment** – Property 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	10-20 years
Grain handling equipment	10 years
Railroad and rail equipment	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.

Property and equipment are reviewed for impairment 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

# PATRIOT RENEWABLE FUELS, LLC

## Notes to Financial Statements December 31, 2010

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cash flow models, quoted market values and third-party independent appraisals, as considered necessary. The Company has identified no such impairment losses for the years ended December 31, 2010 or 2009.

**Notes Receivable** – During the year ended December 31, 2009, the Company received a promissory note 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 the acquisition of financing for the ethanol plant discussed in Note 5 were deferred and amortized over the term of the respective financing using the effective interest method. Accumulated amortization was \$486,278 and \$422,058 at December 31, 2010 and 2009, respectively. As discussed in Note 5, the Company’s convertible subordinated debt was retired in 2010, and accordingly, the related deferred financing costs and accumulated amortization were written off.

**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 entered into derivative contracts to fix the interest rate for a portion of its long-term debt. The Company records 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 and equipment. See Note 4 for further discussion.

**Convertible Debt** – The Company issued \$4,000,000 of convertible subordinated notes on November 25, 2008, the proceeds of which are recorded as long term debt, at a discount based on the conversion feature. The notes bear interest at a rate of 16%, compounded quarterly, and are convertible to units each year at the anniversary date as follows: \$1,500 per unit at November 25, 2009, \$1,000 per unit at November 25, 2010, and \$500 per unit at November 25, 2011. The intrinsic value of the beneficial conversion feature at the time of issuance was recorded as a discount on note and a component of members’ equity. The discount is amortized to expense over the three year term of the convertible subordinated debt. Non-cash amortization expense of \$466,865 and \$1,333,333 was recorded for the years ended December 31, 2010 and 2009, respectively. On June 30, 2010, the Company retired this debt and recorded a \$1,929,828 non-cash gain on the early extinguishment of debt. See Note 5 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, 2010 or 2009.

**Fair Value** – On January 1, 2009, the Company adopted guidance for accounting for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. On January 1, 2010, the Company 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.
- 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, 2010 or 2009 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 cash, restricted cash, accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short maturity of these instruments. Fair values of interest rate swap agreements are obtained from the counterparty, who computes the values based on nominal and current interest rates, and have been evaluated for credit swap default risk. 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 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, 2010, the Company believes the carrying amount of the long-term debt approximates the fair value due to the variable market rate charged by the lenders.

**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 are recorded when the Company's liability is probable and the costs can be reasonably estimated. No such liabilities were recorded at December 31, 2010, and 2009 and the Company is not currently a party to any unsettled environmental legal proceedings at December 31, 2010.

**Reclassifications** – Certain reclassifications have been made to the previously issued 2009 balance sheet, statement of operations, and cash flows for comparability purposes. This reclassification had no effect on the reported net income, members' equity, and operating cash flows as previously reported.

**Subsequent Events** – The Company has evaluated subsequent events through March 14, 2011, the date the financial statements were available to be issued.

**PATRIOT RENEWABLE FUELS, LLC**Notes to Financial Statements  
December 31, 2010**2. INVENTORY**

A summary of inventory at December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Raw materials	\$ 3,648,999	\$ 1,914,494
Work in process	1,404,402	1,147,920
Finished goods	2,924,560	1,940,412
Spare parts	1,192,159	761,271
<b>Totals</b>	<b>\$ 9,170,120</b>	<b>\$ 5,764,097</b>

The Company performs a lower of cost or market analysis on inventory 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 not required to record a lower of cost or market charge on certain inventories for the years ended December 31, 2010 or 2009.

**3. PROPERTY AND EQUIPMENT**

A summary of property and equipment at December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Land and land equipment	\$ 18,089,340	\$ 18,047,564
Process and grain handling equipment	110,713,369	110,629,526
Buildings	26,198,663	26,202,724
Furniture, fixtures and computer equipment	1,620,744	856,188
Construction in progress	1,142,800	123,644
	157,764,916	155,859,646
Accumulated depreciation	(20,627,139)	(11,799,466)
<b>Total property and equipment, net</b>	<b>\$ 137,137,777</b>	<b>\$ 144,060,180</b>

**4. TAX INCREMENT FINANCING**

During the years ended December 31, 2009, 2008 and 2007, the Company received amounts from the Village of Annawan, Illinois 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, 2010, the Company had received \$9,000,000 in cash from the Village in addition to a \$32,754,979 note receivable. At December 31, 2010 and 2009, the amount recorded by the Company as deferred income related to the amounts received was \$41,754,979. Included in the statement of operations for the years ended December 31, 2010 and 2009, the Company amortized \$2,000,856 and

**PATRIOT RENEWABLE FUELS, LLC**

Notes to Financial Statements  
December 31, 2010

\$2,013,016 of deferred income, respectively, which was netted against depreciation expense and is included as a component of costs of goods sold.

In 2008, the Company reduced deferred income by \$5,608,792 related to the transfer of property rights for the plant access road from the Company to the Village. In 2010, the Company reduced deferred income by an additional \$385,815 related to the transfer of additional construction costs for the plant access road from the Company to the Village. The fair value of these assets was deemed to approximate the cost basis due to the recent construction of the roadway.

As of December 31, 2010 and 2009, the unamortized deferred income balance was \$31,213,573 and \$33,600,244, respectively. The notes, net of the valuation allowance of \$2,519,196 and 1,374,009, had accrued interest receivable of \$3,445,215 and \$2,580,819 at December 31, 2010 and 2009, respectively, and is recorded separate from the notes received as interest receivable. The Company has recorded a valuation allowance against the interest receivable based on the uncertainty of future cash flows of the Village. Non-cash interest income was accrued on the notes receivable at an interest rate of 6.1% for both the years ended December 31, 2010 and 2009, and was included in the statements of operations as interest income. At December 31, 2010 and 2009, the Company has recorded a valuation allowance of \$2,519,196 and \$1,374,009, respectively, against the interest receivable based on the uncertainty of future cash flows of the Village.

**5. LONG-TERM DEBT and REVOLVING LINE OF CREDIT**

	<u>2010</u>	<u>2009</u>
Secured by substantially all assets:		
Fixed rate loan, variable rate interest of 90 day LIBOR plus 300 basis points, swapped to a fixed rate of 8.655%, due October 2013	\$ 39,528,635	\$ 42,998,088
Variable rate loan, variable interest of 90 day LIBOR plus 450 basis points with a minimum rate of 5.5%, due October 2013	20,661,175	28,811,787
Long-term reducing revolving loan, variable interest of 90 day LIBOR plus 450 basis points with a minimum rate of 5.5%, due October 2013	10,500,000	17,500,000
Unsecured:		
Convertible subordinated debt, fixed interest rate of 16%, convertible to membership units, paid in full during 2010	—	4,000,000
Discount on convertible subordinated debt	—	(2,537,037)
	<u>70,689,810</u>	<u>90,772,838</u>
Less: current maturities	(9,625,439)	(15,484,485)
	<u>\$ 61,064,371</u>	<u>\$ 75,288,353</u>

On November 28, 2006, the Company entered into a definitive loan agreement (the "Agreement") with a financial institution (the "Bank") for a Construction Loan of up to \$93,900,000, a Revolving Line of Credit of \$7,000,000 and Letters of Credit of \$3,000,000 to provide financing for construction and operation of the ethanol plant. In connection with the Agreement, the Company also entered into an interest rate swap (the "Swap") agreement fixing the interest rate on \$46,950,000 of debt at 8.655%.

On September 22, 2008, the Agreement was amended (the "2<sup>nd</sup> Amendment") to increase the amount available under the Construction Loan to \$100,000,000, increase the Revolving Line of Credit to \$12,000,000, and reduce the Letters of Credit to \$972,685. In addition, the 2<sup>nd</sup> Amendment also provided for a \$4,000,000 Bridge Loan to be issued subject to replacement by issuance of convertible subordinated debt ("Subordinated Debt") by the Company.

On October 8, 2008 ("Completion Date") the Construction loan was converted into three term loans. One term loan, the Fixed Rate Note, is for \$46,950,000, and the balance is subject to the interest rate swap agreement (see Note 6). The remaining amounts of the Construction Loan were converted to a Variable Rate Note of \$33,050,000 and a Long-Term Reducing Revolving Loan of \$20,000,000.

The Agreement also provided for a Revolving Loan under which the Company could initially borrow the lesser of (1) a borrowing base calculation defined in the Agreement or (2) \$12,000,000. The Revolving Loan matured on April 30, 2009. On April 30, 2009, and May 31, 2009, respectively, the Revolving Loan was amended to reduce the amount available from \$12,000,000 to \$6,000,000 and to extend the maturity date from April 30, 2009 to August 31, 2009. On August 31, 2009, the Company executed an extension to the Revolving Loan as described in the following paragraph. At December 31, 2010 and at December 31, 2009, the Company did not have any borrowings outstanding under the Revolving Loan. Interest is payable quarterly on outstanding borrowings.

On August 31, 2009, the Company entered into an amended and restated loan agreement (the "Restated Agreement") with the Bank. The Restated Agreement reduced the maximum availability on the Revolving Loan to \$5,000,000 and extended the maturity date to July 31, 2010. The Restated Agreement also revised the fixed charge and net worth covenant requirements; eliminated the working capital covenant; increased the base rate on the various loans, except for the Fixed Rate Loan, from LIBOR plus three hundred basis points, to LIBOR plus four hundred fifty basis points with a minimum interest rate of 5.5%; and established a maximum required debt service reserve of \$5,000,000 to be funded by an annual excess cash flow calculation. As of December 31, 2009, the Company owed the maximum of \$5,000,000 as the result of this calculation and paid that amount on January 22, 2010, which was applied toward the principle outstanding on the Long-term Reducing Revolving Note. This debt service reserve is fully funded and will require no additional contributions for the term of the Restated Agreement. During the year ended December 31, 2010 the \$5,000,000 Revolving Loan agreement was renewed until June 1, 2011.

The Restated Agreement contains various restrictive covenants which, among other matters, require that the Company meet certain financial ratios. The Company is in compliance with the financial covenants of the Restated Agreement as of December 31, 2010 and 2009 and expects to remain in compliance throughout 2011.

The Fixed Rate Note bears interest at a variable rate of 90 day LIBOR plus three hundred basis points. The Variable Rate Note, the Long Term Reducing Revolving Loan, and the Revolving Loan bear interest at a variable rate of 90 day LIBOR plus four hundred fifty basis points, with a minimum rate of 5.5%. The minimum rate of 5.5% was in effect at December 31, 2010 and 2009. The borrowings under the Agreement are collateralized by substantially all of the assets of the Company. The term loans require quarterly interest and principal payments and mature five years after the Completion Date of the Construction loan. In addition, the Company must make additional annual principle payments up to a maximum of \$4,000,000 based on an excess cash flow calculation, as defined in the Restated Agreement. As of December 31, 2010, the Company owed approximately \$2,100,000 as a result of this calculation that is included in the current portion of long-term debt on the balance sheet. As of December 31, 2009, the Company owed an additional \$4,000,000 as a result of this calculation and paid that amount on January 22, 2010.

Annual expected maturities for long-term debt as December 31, 2010 are as follows:

2011	\$ 9,625,439
2012	10,620,599
2013	50,443,772
	<hr/>
Total	\$ 70,689,810
	<hr/>

On November 25, 2008, the Company issued Convertible Subordinated Debt totaling \$4,000,000 to five related parties (see Note 7). The Subordinated Debt bears interest at a rate of 16%, has a term of three years, and is convertible to membership units at each anniversary date at a cost of \$1,500, \$1,000, and \$500 per unit, respectively, on November 25, 2009, 2010, and 2011. Due to the favorable conversion rate of this debt, the Company recognized a beneficial conversion feature of \$4,000,000, resulting in a discount of \$4,000,000 to the convertible subordinated debt. This discount will be recognized as interest expense over the three-year life of the debt. The Company recognized non-cash interest expense related to amortization of this debt discount of \$466,865 and \$1,333,333 during 2010 and 2009, respectively. As of June 30, 2010, the Company had made payments totaling \$4,000,000 to retire this debt and recognized a non-cash gain on the early extinguishment of this debt of \$1,929,828 which represents the total settlement amount paid being less than the current carrying value.

**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, 2010, the Company had an outstanding interest rate swap agreement along with corn derivative instruments. 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.

**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, 2010, the total notional amount of the Company's outstanding corn derivative instruments was approximately 3,560,000 bushels that were entered into to hedge forecasted corn purchases through December 2011. At December 31, 2009, the total notional amount of the Company's

**PATRIOT RENEWABLE FUELS, LLC**

Notes to Financial Statements  
December 31, 2010

outstanding corn derivative instruments was approximately 1,360,000 bushels that were entered into to hedge forecasted corn purchases through July 2010.

**Interest Rate Contact**

In accordance with the Agreement as discussed in Note 5 the Company entered into a forward starting interest rate swap in the notional amount of \$46,950,000 during 2007 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 portion of the Fixed Rate Loan subsequent to the Completion Date at 8.655%. The Swap is effective as of October 8, 2008 and terminates on October 8, 2013.

At December 31, 2010, the Company had approximately \$39.5 million 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, 2010, the fair value of the interest rate swap totaled approximately \$4,200,000 of which approximately \$1,500,000 is classified as a current liability and approximately \$2,700,000 is classified as a long-term liability. At December 31, 2009, the fair value of the interest rate swap totaled approximately \$4,400,000, of which approximately \$1,600,000 is classified as a current liability and approximately \$2,800,000 is classified as a current liability. These agreements are not designated as an effective hedge for accounting purposes and the change in fair market value is recorded as "Interest rate swap gain" in the statement of operations and the associated net settlements are recorded in interest expense in the statement of operations.

The following table provides details regarding the Company's derivative financial instruments at December 31, 2010:

	<b>Balance Sheet Location</b>	<b>Assets</b>	<b>Liabilities</b>
Corn contracts	Commodity derivative instruments	\$ —	\$ 1,980,225
Interest rate swap	Interest rate swap – current	—	1,507,124
Interest rate swap	Interest rate swap – long-term	—	2,685,152
Totals		\$ —	\$ 6,172,501

The following table provides details regarding the Company's derivative financial instruments at December 31, 2009:

	<b>Balance Sheet Location</b>	<b>Assets</b>	<b>Liabilities</b>
Corn contracts	Commodity derivative instruments	\$ —	\$ 90,255
Interest rate swap	Interest rate swap – current	—	1,618,486
Interest rate swap	Interest rate swap – long-term	—	2,747,249
Totals		\$ —	\$ 4,455,990

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:

	<b>Statement of Operations Location</b>	<b>Year ended December 31, 2010</b>	<b>Year ended December 31, 2009</b>
Corn contracts	Cost of goods sold	\$ (3,366,896)	\$ 364,959
Interest rate swap	Interest rate swap gain	98,530	1,796,231
Total gain (loss)		\$ (3,268,366)	\$ 2,161,190

# PATRIOT RENEWABLE FUELS, LLC

Notes to Financial Statements  
December 31, 2010

## 7. RELATED PARTY TRANSACTIONS

The Company has engaged CGB Enterprises Co. ("CGB"), an equity member to source corn for the plant under a long-term agreement on a fee per bushel basis (discussed further in Note 8).

The Company engaged Fagen, Inc. ("Fagen") as the general contractor for the design and construction of the ethanol plant. The sole owner of Fagen is an equity member of the Company.

The Company purchases 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.

Total amounts paid to related parties during the years ended December 31, 2010 and 2009 were as follows:

	<u>Year ended December 31, 2010</u>	<u>Year ended December 31, 2009</u>
CGB	\$ 171,432,515	\$ 145,489,886
Fagen	—	2,025,327
Michlig	895,077	678,152
Totals	<u>\$ 172,327,592</u>	<u>\$ 148,193,365</u>

Total amounts payable to related parties at December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
CGB	\$ 1,437,265	\$ 1,189,843
Michlig	55,459	20,112
Totals	<u>\$ 1,492,724</u>	<u>\$ 1,209,955</u>

The Company has engaged Murex N.A, LTD, ("Murex"), an equity member to market ethanol for the plant under a long term agreement on a percentage of revenue commission basis. Total amounts owed to the Company from Murex, as of December 31, 2010 and 2009 were \$2,261,462 and \$5,997,273, respectively.

As discussed in Note 5, the Company entered into subordinated debt agreements with certain equity members. Those agreements are related party transactions as each party is an equity member.

## 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. 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, 2010, the Company had open forward corn purchase commitments for 14,024,519 bushels at an average price of \$6.28 with CGB. At December 31, 2009, the Company had open forward corn purchase commitments for 2,296,676 bushels at an average price of \$4.23 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 plant'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. The Company had approximately \$219,800,000 million of ethanol sales to Murex during 2010, of which approximately \$2,261,000 is included in accounts receivable at December 31, 2010. During the year ended December 31, 2009, the Company had approximately \$197,500,000 of ethanol sales to Murex, of which approximately \$6,000,000 is included in accounts receivable at December 31, 2009. For the years ended December 31, 2010 and 2009, ethanol sales are recorded net of commissions totaling approximately \$2,050,000 and \$2,140,000, 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, 2010, the Company recorded DDGS sales of approximately \$43,700,000 net of commissions of approximately \$905,000. For the year ended December 31, 2009, the Company recorded DDGS sales of approximately \$36,400,000 net of commissions of approximately \$800,000.

Natural Gas Contracts

At December 31, 2010, the Company had forward contracts to purchase approximately 354,000 British thermal units (MMBTU) of natural gas during the months of January and February 2011 at an average price of approximately \$4.65 per MMBTU.

**9. CONCENTRATIONS**

For the years ended December 31, 2010 and 2009, two customers accounted for all of the Company's revenues and trade accounts receivable. Accounts receivable for the ethanol marketer represented 62% and 88% of total outstanding receivables at December 31, 2010 and 2009, respectively. Accounts receivable for the dry distiller grains marketer represented 30% and 8% of total outstanding receivables at December 31, 2010 and 2009, respectively. Revenues for the ethanol marketer represented 83% of total revenues for the years ended December 31, 2010 and 2009. Revenues for the dry distiller grains marketer represented 17% of total revenues for the years ended December 31, 2010 and 2009.

All of the Company's revenue is generated from the sale of two products, ethanol and distillers grains.

**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, 2010 and 2009 the Company had 45,741 membership units issued and outstanding.

During 2010, the Company paid a cash distribution of \$150.00 per membership unit for a total distribution of \$6,861,149 to its unit holders.



**PATRIOT RENEWABLE FUELS, LLC**

Notes to Financial Statements  
December 31, 2010

**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 and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2010:

	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)
<b>Financial (Liabilities)</b>					
Corn contracts	\$ (1,980,225)	\$ (1,980,225)	\$ (1,980,225)	\$ —	\$ —
Interest rate swap	(4,192,276)	(4,192,276)	—	(4,192,276)	—

The following table sets forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009:

	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)
<b>Financial (Liabilities)</b>					
Corn contracts	\$ (90,255)	\$ (90,255)	\$ (90,255)	\$ —	\$ —
Interest rate swap	(4,365,735)	(4,365,735)	—	(4,365,735)	—

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 October 2013. Rent expense for operating leases was approximately \$142,000 and \$133,000 for the years ended December 31, 2010 and 2009, respectively.

# PATRIOT RENEWABLE FUELS, LLC

## Notes to Financial Statements December 31, 2010

At December 31, 2010, 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,	
2011	\$ 117,398
2012	91,902
	<hr/>
Total minimum lease commitments	\$ 209,300

### 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, 2010 ethanol sales were 83% of total revenues and corn costs were 79% 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 they are not currently aware of any such proceedings being contemplated.

**NUGEN ENERGY, LLC**

**FINANCIAL STATEMENTS**

**Years Ended July 31, 2011 and 2010**

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

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Managers  
NuGen Energy, LLC  
Marion, South Dakota

We have audited the accompanying balance sheets of **NuGen Energy, LLC** (a South Dakota limited liability company) as of July 31, 2011 and 2010 and the related statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. 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 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **NuGen Energy, LLC** as of July 31, 2011 and 2010 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.

CHRISTIANSON & ASSOCIATES, PLLP  
Certified Public Accountants and Consultants

November 14, 2011

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**NUGEN ENERGY, LLC**  
**BALANCE SHEETS**  
**July 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,649,065	\$ 8,146,677
Accounts receivables		
Trade	16,312,996	5,529,020
Related party	3,206	88,296
Inventories	12,810,919	7,019,491
Prepaid expenses	376,066	452,472
Restricted cash	1,311,926	140,668
Margin deposits	143,017	736,663
	<hr/>	<hr/>
<b>TOTAL CURRENT ASSETS</b>	<b>36,607,195</b>	<b>22,113,287</b>
<b>PROPERTY AND EQUIPMENT</b>		
Land and improvements	4,836,023	4,836,023
Building	366,595	366,595
Equipment	85,315,125	85,160,789
Construction in progress	62,395	—
	<hr/>	<hr/>
	90,580,138	90,363,407
Accumulated depreciation	(9,035,178)	(4,500,823)
	<hr/>	<hr/>
	81,544,960	85,862,584
<b>OTHER ASSETS</b>		
Deposits	3,219,131	2,422,763
Investment in cooperative	226,075	—
Restricted cash	—	650,000
Financing costs, net of amortization	483,149	663,502
	<hr/>	<hr/>
	3,928,355	3,736,265
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 122,080,510</b>	<b>\$ 111,712,136</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable		
Trade	\$ 3,575,545	\$ 2,149,396
Related party	465,564	244,862
Accrued liabilities	723,019	816,064
Accrued loss on firm purchase commitments	—	382,269
Current maturities of long-term debt	15,297,488	—
	<hr/>	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>	<b>20,061,616</b>	<b>3,592,591</b>
<b>LONG-TERM DEBT, less current maturities</b>	<b>67,750,000</b>	<b>93,240,753</b>
<b>MEMBERS' EQUITY</b>	<b>34,268,894</b>	<b>14,878,792</b>
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 122,080,510</b>	<b>\$ 111,712,136</b>
	<hr/>	<hr/>

See notes to financial statements.

**NUGEN ENERGY, LLC**  
**STATEMENTS OF OPERATIONS**  
**Years Ended July 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>SALES</b>	\$ 336,594,270	\$ 234,137,190
<b>COST OF GOODS SOLD</b>		
Direct and indirect costs	305,506,026	215,129,020
Loss on firm purchase commitments	—	382,269
	<u>305,506,026</u>	<u>215,511,289</u>
<b>GROSS PROFIT</b>	31,088,244	18,625,901
<b>GENERAL AND ADMINISTRATIVE</b>	4,817,831	5,263,765
	<u>26,270,413</u>	<u>13,362,136</u>
<b>INCOME FROM OPERATIONS</b>	26,270,413	13,362,136
<b>OTHER INCOME (EXPENSE)</b>		
Patronage income	1,037,736	—
Interest and other income	8,954	14,770
Interest expense	(2,982,734)	(3,295,007)
	<u>(1,936,044)</u>	<u>(3,280,237)</u>
<b>NET INCOME</b>	<u>\$ 24,334,369</u>	<u>\$ 10,081,899</u>

See notes to financial statements.

**NUGEN ENERGY, LLC**  
**STATEMENTS OF MEMBERS' EQUITY**  
**Years Ended July 31, 2011 and 2010**

<b>Balance - July 31, 2009</b>	\$ 675,508
Distributions	(5,140,644)
Class B units issued under intrastate offering	2,262,029
Capital contributions	7,000,000
Net income	<u>10,081,899</u>
<b>Balance - July 31, 2010</b>	14,878,792
Distributions	(5,340,607)
Class B units issued under intrastate offering	396,340
Net income	<u>24,334,369</u>
<b>Balance - July 31, 2011</b>	<u>\$ 34,268,894</u>

See notes to financial statements.



**NUGEN ENERGY, LLC**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended July 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 24,334,369	\$ 10,081,899
Charges to net income not affecting cash		
Depreciation	4,534,355	4,500,823
Amortization	180,353	145,561
Loss on derivatives	2,507,646	71,337
Units issued in exchange for inventory	396,340	2,262,029
Adjustments for firm purchase commitments	(382,269)	382,269
Investment earnings	(226,075)	—
(Increase) decrease in:		
Accounts receivable	(10,698,886)	(1,368,028)
Inventories	(5,791,428)	(1,205,386)
Prepaid expenses	76,406	402,620
Margin deposits	(1,914,000)	(808,000)
Increase in:		
Accounts payable	1,644,409	20,567
Accrued liabilities	30,558	1,333,140
	<u>14,691,778</u>	<u>15,818,831</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(214,289)	(582,297)
Payments for deposits	(796,368)	(1,230,263)
Increase in restricted cash	(521,258)	(790,668)
	<u>(1,531,915)</u>	<u>(2,603,228)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>FINANCING ACTIVITIES</b>		
Distributions	(5,340,607)	(5,140,644)
Contributed capital	—	7,000,000
Principal payments on term loan	(7,389,807)	(5,937,252)
Net principal payments on revolving line of credit	(2,803,458)	(2,696,542)
Payments for financing costs	(123,603)	(123,603)
	<u>(15,657,475)</u>	<u>(6,898,041)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	(2,497,612)	6,317,562
<b>CASH AND CASH EQUIVALENTS - beginning of the year</b>		
	<u>8,146,677</u>	<u>1,829,115</u>
<b>CASH AND CASH EQUIVALENTS - end of the year</b>		
	<u>\$ 5,649,065</u>	<u>\$ 8,146,677</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 2,982,734</u>	<u>\$ 3,295,007</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Additional liability assumed from asset acquisition	<u>\$ —</u>	<u>\$ 181,270</u>
Construction in progress in accounts payable	<u>\$ 2,442</u>	<u>\$ —</u>

See notes to financial statements.

**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF BUSINESS** – NuGen Energy, LLC (the company), a South Dakota limited liability company, was formed on February 13, 2009 to acquire and operate an ethanol plant located in Marion, South Dakota with a current certified annual production nameplate capacity of 122 million gallons of undenatured ethanol. The company produces ethanol and distillers grains for commercial sales throughout the United States.

**FISCAL REPORTING PERIOD** - The company has adopted a fiscal year ending of July 31 for financial reporting.

**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** - The company generally sells ethanol and related products pursuant to marketing agreements. Revenues are recognized when the customer has taken title and has assumed the risks of ownership, prices are fixed or determinable and collection is reasonably assured. The company's products are generally shipped FOB shipping point.

In accordance with the company's ethanol marketing agreement, a price per gallon is deducted for marketing, storage and transportation costs and is recorded in cost of goods sold.

**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. Substantially all sales of the company are to one customer. The company's operations may vary with the volatility of the commodity and ethanol markets.

**CASH AND CASH EQUIVALENTS** - The company considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The company's cash balances are maintained in bank depositories and periodically exceed federally insured limits.

**TRADE RECEIVABLES** - The company has engaged the services of national marketers to sell substantially all of its ethanol and distillers grain 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.

**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**TRADE RECEIVABLES (continued)** - Trade receivables are recorded at their estimated net realizable value. 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 in the period they are determined to be uncollectible. As of July 31, 2011 and 2010, the company believes that all amounts are collectible and an allowance for bad debts was not considered necessary.

**INVENTORIES** - Inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method. Inventories consist of raw materials, work in process, finished goods and spare parts.

**RESTRICTED CASH** - The company is required by its lending institution to deposit funds in an escrow account with the proceeds to be used for the replacement of machinery and equipment and for the payment of real estate taxes.

**DEPOSITS** - The company is required to deposit funds with its various vendors and suppliers including the company's corn procurement agent, a related party through common ownership, for grain purchased on the company's behalf, the company's natural gas provider based on expected usage, the company's electricity provider and an equipment supply company who provides lab equipment. The company also has bonds required by various bureaus for the production of ethanol that are classified as deposits. Deposits have no set recovery date and are recorded at the scheduled recoverable value.

**INVESTMENT IN COOPERATIVE** - The company's investment in its national ethanol marketing cooperative is recorded at fair value.

**DERIVATIVE INSTRUMENTS** - The company enters into futures contracts to reduce the risk caused by market fluctuations of corn prices. The fair value of these contracts is based on quoted prices in active exchange-traded markets. The fair value of the derivatives is subject to change due to the changing market conditions. Although the company believes its derivative positions are economic hedges, none have been designated as a hedge for accounting purposes and derivative positions are recorded on the balance sheet at their fair market value, with changes in fair value recognized in current period earnings. The company has categorized the cash flows related to the hedging activities in the same category as the item being hedged.

The company's forward contracts are deemed "normal purchases and normal sales" under Accounting Standards Codification 815 – Derivatives and Hedging, and therefore, are not marked to market in the company's financial statements.

**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**DERIVATIVE INSTRUMENTS (continued)** - At July 31, 2011, the company had commitments to purchase a total of 4,903,121 bushels of corn under fixed and variable priced forward contracts. The company also had commitments to sell a total of 2,745,600 gallons of ethanol and a total of 1,938 tons of distillers grains under fixed and variable priced forward contracts.

The following tables provide details regarding the company's derivative financial instruments at July 31, 2011 and 2010, respectively, none of which are designated as hedging instruments:

	<b>Statement of Operations location</b>	<b>Loss recognized for the year ended July 31, 2011</b>
Commodity contracts	Cost of goods sold	\$ 2,507,646
	<b>Statement of Operations location</b>	<b>Loss recognized for the year ended July 31, 2010</b>
Commodity contracts	Cost of goods sold	\$ 71,337

At July 31, 2011, the company had no open positions as derivative financial instruments but retained funds with the broker which are included in current assets on the balance sheet identified as margin deposits.

**PROPERTY AND EQUIPMENT** - Property and equipment are stated at the lower of cost or fair value. Significant additions and betterments are capitalized and depreciated over their useful lives with expenditures for maintenance and repairs being charged to operations as incurred.

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

Land improvements	20-40 years
Building structure	20-40 years
Grain equipment	5-20 years
Process equipment	5-20 years
Other equipment	5-15 years

Construction in progress includes expenditures directly related to a conveyor project. These expenditures will be depreciated using the straight-line method over the estimated useful life once the asset is placed into service.

Depreciation expense for the years ended July 31, 2011 and 2010 is \$4,534,355 and \$4,500,823, respectively.

**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**PROPERTY AND EQUIPMENT (continued)** - The company reviews its property and equipment for impairment whenever events indicate that the carrying amount of the asset may not be recoverable within the ordinary course of business. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. No loss has been recorded during the years ended July 31, 2011 and 2010.

**FINANCING COSTS** - Financing costs include expenditures directly related to securing debt financing. These costs are amortized over the 7 year life of the related loans using the effective-interest method. Amortization related to financing costs is \$180,353 and \$145,561 for the years ended July 31, 2011 and 2010, respectively.

**FAIR VALUE OF FINANCIAL INSTRUMENTS** - The company follows guidance for accounting for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring and non-recurring basis. 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 hierarchy prescribed by this guidance contains three levels of inputs, both observable and unobservable, and requires the utilization of the lowest possible level of input to determine fair value. 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.

Along with those assets and liabilities which are required by authoritative accounting guidance to be recorded at fair value in its balance sheet, the company has elected to record its patronage investment in a cooperative at fair value. The carrying amount of cash and cash equivalents, margin deposits, trade receivables, accounts payable and accrued expenses approximates fair value because of the short maturity of these financial instruments. Management believes the fair value of its long-term debt would be difficult to estimate due to the nature of the obligations and the inability to access a similar obligation to base an estimate of fair value. The estimated fair value amounts have been determined by the company using appropriate valuation methodologies.

**INCOME TAXES** - The company is treated as a partnership for federal and state income tax purposes and generally does not incur income taxes. Instead, it's income or losses are included in the income tax returns of the members and partners. Accordingly, no provision or liability for federal or state income taxes has been included in these financial statements.

**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**INCOME TAXES (continued)** - The company has adopted guidance relating to the recognition of income tax benefits. Primarily due to the company's tax status as a partnership, the adoption of this guidance had no material impact on the company's financial condition or results of operations. As of July 31, 2011, the company tax years of 2009 and 2010 are subject to examination by major tax jurisdictions.

**RECLASSIFICATIONS** - Certain reclassifications have been made to the prior year financial statement presentation to conform to the current year's format. These reclassifications had no effect on the total assets or net income as previously reported.

**NOTE B: FAIR VALUE MEASUREMENTS**

The following table provides information on those assets measured at fair value on a recurring basis:

	<u>Fair Value at July 31, 2011</u>	<u>Quoted prices in active markets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
<b>Assets</b>				
Investment in cooperative	\$ 226,075	\$ —	\$ —	\$ 226,075

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

	<u>Investment in cooperative</u>
Beginning balance	\$ —
Total gains and losses	
Included in earnings	—
Included in other comprehensive income	—
Issuances of allocated equity	226,075
Transfers in and/or out of Level 3	—
Ending balance	<u>\$ 226,075</u>
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	<u>\$ —</u>

**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE B: FAIR VALUE MEASUREMENTS (continued)**

The company determined the fair value of the investment 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 of \$1,396,834, a 20-year term for repayment based upon a historical trend, and a risk adjusted discount rate of 15% 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.

The company did not have any assets or liabilities measured at fair value on a recurring basis as of July 31, 2010.

**NOTE C: MEMBERS' EQUITY**

The company was formed on February 13, 2009 to have a perpetual life. The company's ownership is divided into three or more classes, with the initial unit classes being Class A, Class B and Class C. The profits, losses and distributions of the company will be allocated to each class of units based on class percentage ownership, then among the unit holders of a class in proportion to the total units held. 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. Members holding Class A units are entitled to one vote for each unit held on matters requiring a membership vote including election of the managers to the board of managers. Class B and C units have no voting rights. The rights and privileges associated with the Class C units cannot be amended without the consent of the holders of a majority of the Class C units and/or warrants to acquire a majority of the Class C units.

The company was initially capitalized by a member who received 100,000 Class A units upon formation of the company. Subsequently, the company's member contributed a total of \$2,194,945 as capital contributions.

The company also prepared a prospectus for an intrastate offering. The offering was for an aggregate maximum of 4,344,274 Class B Units. The units were only offered and sold to residents of the State of South Dakota who were corn producers that had corn delivery contracts with the previous owner of the plant. The value of the units are equal to a portion of the difference between the price of corn under corn delivery contracts that were cancelled in connection with the bankruptcy proceedings of a previous owner and the futures price of corn for the related delivery month. Corn producers with cancelled contracts, related to the bankruptcy proceedings of a previous owner had the opportunity to receive 50 percent of the price differential in the form of non-voting Class B Units and 50 percent of the price differential in quarterly cash payments based on an excess cash flow formula set forth in the company's loan agreements in exchange for executing a master corn delivery and subscription agreement with the company in which the producer agreed to deliver the same number of bushels of corn as the cancelled contracts.

**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE C: MEMBER'S EQUITY (continued)**

The total price differential for all cancelled contracts was \$8,688,548, of which up to \$4,344,274 paid out of excess cash flow and up to \$4,344,274 paid in Class B Units (4,344,274 Class B Units, valued at \$1 per unit). Each Class B Unit represents the right to receive 0.00000092 percent of the company's assets, profits, losses and distributions. The company's managers, officers, affiliates and future business partners that had corn contracts were able to purchase Class B Units in this offering. No cash proceeds were received from the sale of Class B Units in this offering. The company terminated this offering on November 17, 2009.

In total, 175 of the 214 producers who had cancelled contracts accepted all or partial terms of the prospectus and executed new corn delivery contracts, which provided for total cash payments in the amount of \$2,810,401 and Class B Units in the amount of \$2,727,604. During the years ended July 31, 2011 and 2010, a total of \$1,010,217 and \$1,730,948 of excess cash flows was paid and Class B Units valued at \$396,340 and \$2,262,029 have been issued in connection with these corn contracts, respectively.

On June 30, 2010, the company issued 100 Class A Units in exchange for \$6,805,055. The units are to be held by the subscriber for its own interests and not for sale or freely transferable in connection with any distribution of such interest.

Also on June 30, 2010, the majority owner of the company entered into an agreement to sell 48,949 Class A Units to another party. The agreement included an initial transfer constituting 48.9% of the outstanding Class A units, and an option to purchase additional Class A units from the majority owner up to an amount which would give the member a total of 51% of the total outstanding voting and economic interests of the company. As of July 31, 2011, this option has not been exercised.

As of July 31, 2011, the company had outstanding 100,100 Class A units, 2,658,369 Class B units and no Class C units.

**NOTE D: INVENTORIES**

Inventories consist of the following as of July 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Ethanol	\$ 2,525,958	\$ 1,397,941
Distiller grains	1,354,172	584,517
Corn	5,394,876	2,392,601
Chemicals	463,932	552,670
Spare parts	927,957	998,164
Work in process	2,144,024	1,093,598
	<u>\$ 12,810,919</u>	<u>\$ 7,019,491</u>



**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE E: LONG-TERM DEBT**

Long-term debt consists of the following as of July 31, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Term loan	\$ 74,547,488	\$ 81,937,295
Revolving line of credit	8,500,000	11,303,458
	83,047,488	93,240,753
Current maturities	(15,297,488)	—
	\$ 67,750,000	\$ 93,240,753

On July 23, 2009, the company entered into loan agreements with Dougherty Funding LLC that became effective on July 30, 2009, which include a term loan of \$87,874,547 and a \$20,000,000 revolving line of credit. These loans are secured by substantially all assets of the company. They contain restrictive covenants and require principal prepayments based on excess cash flows.

The term loan agreement requires monthly payments be made into reserve accounts with the proceeds to be used for replacement of machinery and equipment and payment of real estate taxes. The company paid loan fees of \$539,375 at closing and an additional \$269,658 over a twenty-four month period.

The term loan contains a variable interest rate at LIBOR plus 3% (3.2458% at July 31, 2011) and requires interest-only monthly payments for twenty-four months. Thereafter, payments will be based on monthly amortized payments of principal and interest sufficient to amortize the remaining unpaid principal balance over a period of fifteen years with the entire unpaid principal and interest due on August 1, 2015.

The maximum funding available under the revolving line of credit was permanently reduced to \$16,000,000 in June 2010 upon the receipt of additional member contributions, per the lending agreement. Availability on the revolving line of credit is also limited to the amount calculated in the borrowing base report and expires August 1, 2015. The loan agreement provides a variable interest rate at LIBOR plus 3% (3.2458% at July 31, 2011). There is an unused line fee on the daily unused portion of the commitment at a rate of 0.25% per quarter.

Subsequent to year-end, the company refinanced the term loan and revolving line of credit. Included in current maturities are principal payments of \$2,750,000 due within twelve months of the reporting period as determined by the new debt terms. Also included in current maturities is \$4,631,961 which represents payments made against the existing debt subsequent to year-end but before the refinancing date, and \$7,915,527 that the company was required to pay on the existing debt as part of the refinancing agreement. See Note I for further details.

**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE E: LONG-TERM DEBT (continued)**

Long-term debt maturities are as follows:

Years ending July 31,	
2012	\$ 15,297,488
2013	14,000,000
2014	5,500,000
2015	5,500,000
2016	5,500,000
Thereafter	37,250,000
	<u>\$ 83,047,488</u>

**NOTE F: RELATED PARTY TRANSACTIONS**

Grain agency agreement

In June 2009, the company entered into a grain agency agreement with FREMAR, LLC, a party related through common ownership, to act as the company's agent to procure all corn required for ethanol production through the agency agreement. All purchases must be approved by the company prior to a contract being entered into. The agreement's initial term is for four years and will be automatically renewed for two successive four-year terms unless either party gives written notice within six months of the current term expiration to the other party of its election not to renew. The agreement may also be terminated by either party upon sixty days' written notice.

The agreement requires the company to pay FREMAR, LLC a fee per bushel of corn purchases for the initial four year term. The fee may be adjusted at the renewal of the agreement. The company is also required to maintain a security deposit of \$500,000 with FREMAR, LLC for corn purchases, which is included in deposits on the accompanying balance sheet. The company has purchased \$19,295,435 and \$34,606,206 of corn, which \$316,857 and \$224,401 are included in related party payables, and incurred \$622,182 and \$673,392 in marketing fees related to this agreement, for the years ended July 31, 2011 and 2010, respectively.

Management agreement

In June 2009, the company entered into a management agreement with Central Farmers Cooperative, a member of the company, to receive consulting and management services with respect to the operation of the ethanol production facility. The company pays monthly installments for the services provided for the full term of the agreement. The company is required to reimburse Central Farmers Cooperative for reasonable expenses incurred with prior written notification required for expenditures amounting to more than \$10,000.

**NOTE F: RELATED PARTY TRANSACTIONS (continued)**

The term of the agreement is for five years. The company may extend the agreement for additional periods of five years each. Any party may terminate the agreement for any reason by giving the other party at least ninety days' prior written notice prior to the expiration of the then current term. The company has incurred \$1,248,000 and \$1,248,000 in management fees for the years ended July 31, 2011 and 2010, respectively with \$104,000 included in related party payables as of July 31, 2011.

Utility Management Agreement

The company assumed a utility management agreement with an entity owned by a member of the company's board of managers which was initially entered into in October 2006. In August 2009, the company extended this agreement for an additional 42 month term commencing in March 2011. The agreement can be terminated by either party upon 60 days written notice prior to the contract end date and requires the company to pay the greater of a per month fee or a per MMBtu fee of actual usage with a percentage increase in the base fee on an annual basis. The company has incurred \$193,290 and \$250,632 in utility management fees for the years ended July 31, 2011 and 2010, respectively.

Advisory Service Agreement

The company entered into agreements with an entity owned by a member of the company's board of managers to advise the company on management and operations. The agreement is on a month-to-month term and the company may terminate at its sole discretion. The company has incurred \$197,404 and \$310,028 in advisory services for the years ended July 31, 2011 and 2010, respectively.

Other transactions

The company frequently purchases corn from members of its board of managers. The purchases are at market-driven prices and settled at the manager's discretion. For the years ended July 31, 2011 and 2010, the company has purchased approximately \$248,051 and \$664,000 from its managers, respectively. The company could purchase corn from other suppliers without any significant effects on operations.

During the year ended July 31, 2010, the company incurred costs related to an equity contribution agreement, which required reimbursement to the company from the related parties involved in the agreement. These costs of \$88,296 were recorded as the related party accounts receivable on the accompanying balance sheet. The amount in related party accounts receivable as of July 31, 2011 of \$3,206 represents sales of distillers grains to a member of the company.

**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE G: LEASES**

The company leases rail cars under long-term operating lease agreements expiring at various dates through September 2012. The company also leases rail cars on month to month terms. The company is required to pay executory costs such as maintenance and insurance.

Minimum lease payments in future years are as follows:

Years ending July 31,		
2012	\$	955,440
2013		159,940
Total minimum future lease payments	\$	1,115,380

Total lease expense, including maintenance and insurance costs of \$2,154,373 and \$1,877,166 was incurred during the years ended July 31, 2011 and 2010, respectively.

**NOTE H: COMMITMENTS AND CONTINGENCIES**

Substantially all of the company's 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 other than the items noted below. 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.

Marketing agreements

The company had an ethanol sales and marketing agreement with an unrelated party which provided for the entire output of ethanol for the facility. The initial term of the agreement expired in July 2011. The agreement required the company to pay the marketer an agreed upon percentage of the net sales price as defined in the agreements with a minimum cost per gallon. The ethanol could have been marketed by other marketers without any significant effect on operations. The company did not extend this agreement upon its expiration in July 2011.

The company also has a distillers grain sales and marketing agreement with this same marketer which provides for the entire distillers grains marketing for the facility. The initial term of the agreement expires in July 2012 and shall be automatically extended for additional one-year terms thereafter, unless either party provides notice of non-renewal 120 days prior to the end of the then-current term. The agreement requires the company to pay the marketer an agreed upon percentage of the net sales price as defined in the agreement with a minimum cost per ton. The distillers grains can be sold through other marketers without any significant effects on operations.

**NOTE H: COMMITMENTS AND CONTINGENCIES (continued)**

In April 2010, the company entered into a license agreement for the use of a process fouling control and bio-refining improvements invention system. The agreement also included the costs of chemicals and services necessary to control the process. The initial term of the agreement expires in March 2013 unless the licensor provides a 90-day advance written cancellation, or the company provides a 12 month advance written notice of cancellation. The agreement requires the company to pay the license for estimated chemical usage in monthly installments of \$29,269. These installments will be reviewed on 6 month intervals beginning in year two of the agreement.

Letter of Credit

An unsecured letter of credit in the amount of \$1,086,987 has been issued on the company's behalf as security for obligations to a vendor. The letter of credit will be available for approximately six years from the reporting date. As of July 31, 2011, there have been no amounts drawn against the letter of credit.

**NOTE I: SUBSEQUENT EVENTS**

In August 2011, the company executed an ethanol sales and marketing agreement with an unrelated party which provides for approximately fifty percent of the ethanol marketing for the facility. The initial term of the agreement expires in January 2012 and shall be automatically extended for additional three-month terms thereafter, unless either party provides notice of non-renewal 90 days prior to the end of the then-current term. The agreement requires the company to meet volume requirements on a monthly basis. The company will receive a price per gallon of ethanol sold based upon the Chicago OPIS values less a fixed index.

In November 2011, the majority Class A member executed an agreement to sell 100% of its units to an existing Class A member, giving said member 100% of the Class A units and voting rights. The purchasing member also contributed \$7,000,000 to the company to reduce long-term debt. Concurrently, the company refinanced their term loan and revolving line of credit. The new loan agreement provides for a term loan of \$55,000,000 for the purpose of refinancing the company's existing indebtedness and a \$10,000,000 revolving line of credit. The term loan bears interest of LIBOR plus 3.25%, subject to a 4% floor. Principal and interest payments are due quarterly based on a ten year amortization schedule and the remaining unpaid principal and interest is due on October 31, 2016. The revolving line of credit bears interest of LIBOR plus 3% subject to a 3.75% floor. All amounts owing on the line of credit will be due in full on November 1, 2012. The company has included as current maturities all payments that are due within 12 months of the reporting period as required under the new terms, payments that were made subsequent to year-end but before the refinancing date, and payments made against the existing debt as required by the refinancing agreement.

**NUGEN ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE I: SUBSEQUENT EVENTS (continued)**

A reconciliation of the existing long-term debt to the subsequent refinanced long-term debt is as follows:

Term loan as of July 31, 2011	\$ 74,547,488
Payments made subsequent to year-end, as required by existing terms, prior to refinancing	(4,631,961)
Payments made as required by refinancing agreement	(7,915,527)
Payments made as required by refinancing agreement, funds provided by capital contribution from member	(7,000,000)
	<hr/>
Refinanced term loan as of November 1, 2011	\$ 55,000,000
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The amount of \$8,500,000 owed under the line of credit as of July 31, 2011 was fully refinanced under the new line of credit.

In addition, the company amended the terms of the existing agency agreement for corn procurement which eliminated the requirement to maintain a deposit of \$500,000 with the agent. The company subsequently received a refund of this deposit. The company will also have the ability to purchase corn from other suppliers if offered at a lesser price.

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through November 14, 2011, the date the financial statements were available to be issued.