Legumex Walker

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# Condensed Interim Consolidated Financial Statements

**June 30, 2012**

**(unaudited)**

# Legumex Walker Inc.
## Condensed Interim Consolidated Statement of Financial Position
*(thousands of Canadian dollars)*

| As at | **June 30, 2012** | December 31, 2011 |
|---|---|---|
| | *(unaudited)* | *(audited)* |
| **Assets** | | |
| **Current** | | |
| Cash | **2,146** | 35,375 |
| Restricted cash (Note 5) | **113** | - |
| Accounts receivable | **47,807** | 36,003 |
| Derivative assets (Note 14) | **-** | 199 |
| Income taxes recoverable | **175** | 165 |
| Inventories (Note 6) | **49,119** | 37,772 |
| Prepaid expenses and other assets | **842** | 4,022 |
| | **100,202** | 113,536 |
| **Non-current** | | |
| Property, plant and equipment (Note 7) | **112,797** | 59,927 |
| Goodwill and intangible assets (Note 8a) | **31,127** | 21,989 |
| Investments in associate and joint venture (Note 9) | **1,773** | 2,556 |
| Other non-current assets (Note 8b) | **4,461** | 4,367 |
| Deferred tax assets | **1,778** | 2,063 |
| **Total assets** | **252,138** | 204,438 |
| **Liabilities** | | |
| **Current** | | |
| Bank indebtedness (Note 10) | **44,659** | 21,662 |
| Accounts payable and accrued liabilities | **33,579** | 25,967 |
| Derivative liabilities (Note 14) | **540** | - |
| Income taxes payable | **-** | 1,361 |
| Current portion of long-term debt (Note 11) | **2,606** | 3,495 |
| Current portion of obligations under finance leases (Note 11) | **435** | - |
| Notes payable to related parties (Note 13) | **3,168** | 7,041 |
| Demand loan (Note 11) | **12,380** | - |
| | **97,367** | 59,526 |
| **Non-current** | | |
| Long-term debt (Note 11) | **17,974** | 15,883 |
| Obligations under finance leases (Note 11) | **1,958** | - |
| Deferred tax liabilities | **10,594** | 10,879 |
| **Total iabilities** | **127,893** | 86,288 |
| **Equity** | | |
| **Equity attributable to shareholders of the Company** | | |
| Share capital (Note 12) | **116,892** | 109,563 |
| Accumulated other comprehensive income | **2,530** | 2,565 |
| Contributed surplus | **1,018** | 711 |
| Deficit | **(3,953)** | (2,521) |
| | **116,487** | 110,318 |
| Non-controlling interests | **7,758** | 7,832 |
| **Total equity** | **124,245** | 118,150 |
| **Total liabilities and equity** | **252,138** | 204,438 |

Approved on behalf of the Board

/s/ Joel Horn      /s/ Chris Schnarr

Director      Director

# Legumex Walker Inc.
## Condensed Interim Consolidated Statement of Comprehensive Income
*(thousands of Canadian dollars, except per share amounts)*
*(unaudited)*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| **Revenues** | **68,501** | - | **134,294** | - |
| **Cost of sales** | **62,186** | - | **122,285** | - |
| **Gross margin** | **6,315** | - | **12,009** | - |
| Selling, general and administrative expenses | **4,493** | - | **8,795** | - |
| **Earnings before other items and income taxes** | **1,822** | - | **3,214** | - |
| **Other expense (income) items** | | | | |
| Depreciation and amortization (Note 7 and Note 8) | **2,445** | - | **4,419** | - |
| Earnings from investments in associate and joint venture (Note 9) | **(22)** | - | **(43)** | - |
| Gain on sale of investment in associate (Note 9) | **(1,043)** | | **(1,043)** | |
| Foreign exchange | **(658)** | - | **(409)** | - |
| Finance costs (Note 14) | **998** | - | **1,688** | - |
| **Total other expense (income) items** | **1,720** | - | **4,612** | - |
| **Earnings (loss) before income taxes** | **102** | - | **(1,398)** | - |
| **Provision for (recovery of) income taxes** | | | | |
| Current | **(458)** | - | **108** | - |
| Deferred | **264** | - | **8** | - |
| | **(194)** | - | **116** | - |
| **Net earnings (loss)** | **296** | - | **(1,514)** | - |
| **Attributable to:** | | | | |
| Non-controlling interests | **(61)** | - | **(82)** | - |
| Shareholders of the Company | **357** | - | **(1,432)** | - |
| **Net earnings (loss)** | **296** | - | **(1,514)** | - |
| **Other comprehensive income (loss)** | | | | |
| Unrealized gain (losses) on translation of financial statements of foreign operations | **425** | - | **(27)** | - |
| **Other comprehensive earnings (loss) for the period, net of tax** | **425** | - | **(27)** | - |
| **Comprehensive earnings (loss) for the period, net of tax** | **721** | - | **(1,541)** | - |
| **Attributable to:** | | | | |
| Non-controlling interests | **97** | - | **(74)** | - |
| Shareholders of the Company | **624** | - | **(1,467)** | - |
| **Comprehensive earnings (loss) for the period, net of tax** | **721** | - | **(1,541)** | - |
| Basic and diluted earnings (loss) per share (Note 16) | **0.03** | - | **(0.11)** | - |

*The accompanying notes are an integral part of these financial statements*

# Legumex Walker Inc.
## Condensed Interim Consolidated Statement of Changes in Equity
*(thousands of Canadian dollars)*
*(unaudited)*

| | Share capital | Accumulated other comprehensive income[1] | Contributed surplus | Deficit | Total shareholders' equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| | (Note 12) | | | | | | |
| As at April 20, 2011 and June 30, 2011 | - | - | - | - | - | - | - |
| As at December 31, 2011 | 109,563 | 2,565 | 711 | (2,521) | 110,318 | 7,832 | 118,150 |
| Net earnings (loss) | | | | (1,432) | (1,432) | (82) | (1,514) |
| Other comprehensive income (loss), net of tax[2] | | (35) | | | (35) | 8 | (27) |
| Comprehensive loss, net of tax | | (35) | | (1,432) | (1,467) | (74) | (1,541) |
| Issuance of shares in connection with business combination, net of costs (Note 4) | 7,329 | | | | 7,329 | | 7,329 |
| Share-based compensation | | | 307 | | 307 | | 307 |
| **As at June 30, 2012** | **116,892** | **2,530** | **1,018** | **(3,953)** | **116,487** | **7,758** | **124,245** |

[1] Accumulated other comprehensive income consists of unrealized gains (losses) on translation of financial statements of foreign operations.

[2] Other comprehensive income (loss) consists of change in unrealized gans (losses) on translation of financial statements of foreign operations.

## Legumex Walker Inc.
### Condensed Interim Consolidated Statement of Cash Flows
*(thousands of Canadian dollars)*
*(unaudited)*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| **Cash provided by (used for) the following activities** | | | | |
| **Operating activities** | | | | |
| Net earnings (loss) | **296** | - | **(1,514)** | - |
| Depreciation and amortization (Note 7 and Note 8) | **2,445** | - | **4,419** | - |
| Non-cash rent expense (Note 8b) | **45** | | **45** | |
| Deferred income taxes | **264** | - | **8** | - |
| Earnings from investments in associate and joint venture | **(22)** | - | **(43)** | - |
| Gain on sale of investment in associate (Note 9) | **(1,043)** | | **(1,043)** | |
| Non-cash loss on derivative financial instruments (Note 14) | **1,136** | - | **739** | - |
| Share-based compensation | **205** | - | **307** | - |
| | **3,326** | - | **2,918** | - |
| Net changes in working capital accounts (Note 19) | **10,473** | - | **(12,891)** | - |
| **Cash flow provided by (used in) operating activities** | **13,799** | - | **(9,973)** | - |
| **Financing activities** | | | | |
| Advances of long-term debt | **104** | - | **32,749** | - |
| Repayments of long-term debt | **(427)** | - | **(22,047)** | - |
| Repayments of note payable (Note 13) | **-** | - | **(3,873)** | - |
| Costs of share issuance | **-** | - | **(29)** | - |
| **Cash flow provided by (used in) financing activities** | **(323)** | - | **6,800** | - |
| **Investing activities** | | | | |
| Business combination (Note 4) | **-** | - | **(9,048)** | - |
| Purchases of property, plant and equipment (Note 7) | **(28,677)** | - | **(44,692)** | - |
| Proceeds of disposal of property, plant and equipment | **41** | | **41** | |
| Purchases of intangible assets (Note 8) | **(268)** | - | **(444)** | - |
| Proceeds from sale of investment in associate (Note 9) | **1,800** | | **1,800** | |
| Increase in restricted cash | **(113)** | | **(113)** | |
| Increase in other non-current assets | **(227)** | | **(227)** | |
| Repayment of advances to associates | **-** | - | **70** | - |
| **Cash flow provided by (used in) investing activities** | **(27,444)** | - | **(52,613)** | - |
| **Increase (decrease) in cash and cash equivalents** | **(13,968)** | - | **(55,786)** | - |
| Cash and cash equivalents, beginning of period | **(28,255)** | - | **13,713** | - |
| Effect of foreign exchange rate changes on cash and cash equivalents | **(290)** | - | **(440)** | - |
| **Cash and cash equivalents, end of period** | **(42,513)** | - | **(42,513)** | - |
| **Cash and cash equivalents consist of:** | | | | |
| Cash | **2,146** | - | **2,146** | - |
| Bank indebtedness | **(44,659)** | - | **(44,659)** | - |
| | **(42,513)** | - | **(42,513)** | - |
| **Supplementary cash flow information** | | | | |
| Interest paid | **784** | - | **1,598** | - |
| Income taxes paid | **799** | - | **1,479** | - |

## 1. Corporate information

Legumex Walker Inc. ("LWI") was incorporated under the laws of Canada on April 20, 2011. LWI's shares became listed on the Toronto Stock Exchange on July 14, 2011. Its registered office is located at 1345 Kenaston Boulevard, Winnipeg, Manitoba, Canada.

## 2. Operations

LWI is a growth-oriented processor and merchandiser of pulses (lentils, peas, beans and chickpeas), other special crops and canola products with processing facilities in the Canadian Prairies, American Midwest, China and a canola oilseed processing facility under construction in the state of Washington in the USA.

Included in these interim consolidated financial statements are the accounts of LWI and all of its incorporated subsidiary companies; together LWI and its subsidiaries are referred to as the "Company".

The Company's earnings follow the seasonal pattern of special crops production in each geographic location. In the United States and Canada, the growing season for major agricultural commodities spans from May to October. Pulses and other special crops are typically seeded in May, harvested in mid- to late-August to early September and marketed throughout the year. The timing and volume of sales and shipments in a given year may be influenced by factors such as global supply and demand conditions, timing of harvest, crop size and quality, expectations of commodity prices in the near- and long-term, foreign exchange rates and the cost and availability of transportation equipment (railcars, trucks and ocean containers) required to get product to market.

## 3. Basis of presentation

### *Statement of compliance*

The interim consolidated financial statements are condensed and have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as disclosed in the Company's consolidated financial statements for the period ended December 31, 2011. The Company's 2011 annual consolidated financial statements include incremental annual IFRS disclosures that may be helpful to readers of the interim results and therefore should be read in conjunction with these interim consolidated financial statements.

As the Company was incorporated on April 20, 2011, these interim consolidated financial statements are presented with prior year comparative amounts for the 72-day period ended June 30, 2011. Because the Company did not conduct any commercial operations and had no employees during the period from its inception on April 20, 2011 to July 13, 2011, these comparative amounts are nil. The interim consolidated financial statements of the Company were recommended for approval on August 10, 2012 by the Audit Committee and were approved and authorized for issue by the Board of Directors on August 13, 2012.

### *Basis of measurement*

These interim consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company LWI. The financial statements are prepared under the historical cost convention with the exception of derivative financial instruments which are recorded at fair value.

### *Principles of consolidation*

On January 2, 2012 the Company completed a divisional amalgamation whereby its subsidiaries Walker Seeds Ltd., Shamrock Seeds (2006) Ltd., RECO Holdings Inc., Roy Legumex Inc., Duncan Seeds Ltd., Sabourin Seed Service Ltd., Regina Seed Processors Ltd., and 5530777 Manitoba Ltd were amalgamated and formed Legumex Walker Canada Inc. ("LWC"). The amalgamation was undertaken to further integrate and streamline operations within the Company.

The interim consolidated financial statements include the accounts of LWI and its subsidiaries, LWC, Legumex Walker China Ltd., Legumex Walker Tianjin Ltd., Legumex Walker Finance Inc., Legumex Walker USA Inc., St. Hilaire Seed Company Inc.("SHS"), Legumex Walker Sunflower Inc., Silverock Holdings Inc., LWI US Inc., LWI Seattle Inc., and Pacific Coast Canola LLC ("PCC").

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as LWI, using consistent accounting policies. All intracompany balances, income and expenses and unrealized gains and losses from intra-company transactions are eliminated in full.

***Derivative financial instruments***

The Company may hold from time to time derivative financial instruments, such as commodity and foreign currency futures contracts, to manage its exposure to fluctuations in commodity prices and foreign currencies. The Company has not accounted for these instruments using hedge accounting. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. The Company has designated its derivatives as financial assets at fair value through profit or loss. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

***Use of estimates and judgments***

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments applied in the preparation of the financial statements are reviewed on an ongoing basis and revised when the underlying assumptions change. The effects of revisions to estimates are recognized in the period in which the estimate is revised and any subsequent period affected. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

The Company makes allowance for doubtful accounts based on an assessment of the recoverability of receivables. Allowances are applied to receivables when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Impairment of non-financial assets is recognized when the carrying value of an asset or cash generating unit exceeds its recoverable amount. The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use based on internal technical evaluation and experience with similar assets.

The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instrument which is estimated based on assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, forfeiture rate and dividend yield of the share option. For acquisition accounting purposes, all identifiable assets, liabilities and contingent liabilities acquired in a business combination are recognized at fair value at the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities as of the date of acquisition. Under IFRS, a one-year window is available subsequent to the acquisition date to finalize the allocation. Any changes to the estimated fair values of assets and liabilities identified or allocated are recognized in the period. Intangible assets acquired through business combinations are amortized using the best estimate of the average expected useful life.

*(thousands of Canadian dollars, except as noted)*

## 4. Business combinations

***St Hilaire Seed Company***

On February 15, 2012, the Company acquired all of the issued and outstanding shares of SHS, a dry bean processor. SHS derives its revenue from sourcing, processing, marketing and distributing special crops.

The acquisition has been accounted for by the acquisition method with the results of SHS's operations included in the Company's net earnings from the date of acquisition. The assets and liabilities of SHS as at the date of acquisition were adjusted in the quarter and have been recorded in the consolidated financial statements at their fair values as follows:

| | |
|---|---|
| Accounts receivable | 6,125 |
| Inventories | 27,303 |
| Prepaid expenses and other asset | 136 |
| Property, plant and equipment | 9,583 |
| Goodwill and intangible assets | 11,023 |
| Bank indebtedness | (4,052) |
| Accounts payable and accrued liabilities | (32,725) |
| Long-term debt | (2,611) |
| Obligations under finance leases | (2,436) |
| Total purchase price | 12,346 |
| Add: Bank indebtedness assumed | 4,052 |
| | 16,398 |
| Less: Common shares | (7,350) |
| Cash used in business combination | 9,048 |

The fair value of the trade receivables amounts to $6,125. The gross amount of trade receivables is $6,649.

The goodwill and intangible assets of $11,023 include brands, rights, software, customer lists, customer relationships and producer relationships as well as the value of expected synergies arising from the acquisition. However, as the transaction was completed on February 15, 2012, the allocation has not been finalized as of the current reporting date. Under IFRS, a one-year window is available subsequent to the acquisition date to finalize the allocation.

Goodwill recognized at the time of the transaction is deductible for tax purposes.

The aggregate purchase price was $12,346 of which $4,996 was paid in cash and $7,350 was settled by the issuance of one million Common Shares of the Company at the trading price on February 15, 2012 of $7.35 per Common Share. The purchase price of SHS is subject to adjustments related to certain working capital and funded debt levels, which, once finalized will be reflected in the total value of the consideration paid and to the fair value of the assets and liabilities assumed upon acquisition. Adjustments were made to working capital balances (decrease in accounts receivable of $139 and inventory of $450 and increase in accounts payable and accrued liabilities of $37 and goodwill of $626) during the quarter (included in table above), but are not final as of June 30, 2012. If final adjustments result in the reduction of the purchase price, the Company will recall and cancel shares originally issued for the purchase. If the purchase price increases, the Company will pay the additional amount in cash.

Revenue and loss before amortization, finance costs, other items and income taxes contributed by SHS since the acquisition were $21,435 and $1,305 respectively. Revenue and net profit since the beginning of the year have not been disclosed as it is impracticable to do so due to the short time period between acquisition date and reporting period and the historical use of U.S. GAAP for SHS.

Transaction costs incurred on the acquisition were $464.

## 5. Restricted cash

Under the terms of the Company's derivative instruments agreement relating to commodity and currency futures contracts, the Company is required to maintain a margin account which acts as collateral to settle any potential liability associated with its futures contracts.

*(thousands of Canadian dollars, except as noted)*

## 6. Inventories

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Raw materials | **39,465** | 29,653 |
| Finished product | **7,702** | 6,761 |
| Supplies and materials | **1,952** | 1,358 |
| | **49,119** | 37,772 |

The cost of inventories recognized as an expense and included in cost of sales for the six months ended June 30, 2012 was $102,698 and for the three months ended June 30, 2012 was $46,814. For the six months ended June 30, 2012, cost of sales are net of reversals of inventory previously written-down totaling $13.

## 7. Property, plant and equipment

| | Land | Buildings and site improvements | Machinery and equipment | Motor vehicles | Office furniture and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at December 31, 2011 | **953** | **14,185** | **26,779** | **806** | **915** | **17,606** | **61,244** |
| Acquired through business combination | **55** | **2,240** | **7,105** | **155** | **14** | **14** | **9,583** |
| Additions | **-** | **1,897** | **4,765** | **2** | **16** | **38,012** | **44,692** |
| Disposals | **-** | **-** | **-** | **(41)** | **-** | **-** | **(41)** |
| Effects of movement in exchange rates | **1** | **77** | **187** | **3** | **2** | **245** | **515** |
| As at June 30, 2012 | **1,009** | **18,399** | **38,836** | **925** | **947** | **55,877** | **115,993** |
| **Accumulated depreciation** | | | | | | | |
| As at December 31, 2011 | **-** | **320** | **891** | **52** | **54** | **-** | **1,317** |
| Depreciation | **-** | **495** | **1,233** | **84** | **76** | **-** | **1,888** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Effects of movement in exchange rates | **-** | **1** | **(10)** | **-** | **-** | **-** | **(9)** |
| As at June 30, 2012 | **-** | **816** | **2,114** | **136** | **130** | **-** | **3,196** |
| **Net carrying amount** | | | | | | | |
| As at June 30, 2012 | **1,009** | **17,583** | **36,722** | **789** | **817** | **55,877** | **112,797** |

| | Land | Buildings and site improvements | Machinery and equipment | Motor vehicles | Office furniture and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at April 20, 2011 | - | - | - | - | - | - | - |
| Acquired through business combination | 953 | 13,970 | 26,180 | 772 | 625 | - | 42,500 |
| Additions | - | 215 | 599 | 50 | 290 | 17,977 | 19,131 |
| Disposals | - | - | - | (16) | - | - | (16) |
| Effects of movement in exchange rates | - | - | - | - | - | (371) | (371) |
| As at December 31, 2011 | 953 | 14,185 | 26,779 | 806 | 915 | 17,606 | 61,244 |
| **Accumulated depreciation** | | | | | | | |
| As at April 20, 2011 | - | - | - | - | - | - | - |
| Depreciation | - | 320 | 891 | 52 | 55 | - | 1,318 |
| Disposals | - | - | - | - | - | - | - |
| Effects of movement in exchange rates | - | - | - | - | (1) | - | (1) |
| As at December 31, 2011 | - | 320 | 891 | 52 | 54 | - | 1,317 |
| **Net carrying amount** | | | | | | | |
| As at December 31, 2011 | 953 | 13,865 | 25,888 | 754 | 861 | 17,606 | 59,927 |

Construction in progress is related to the canola crushing plant under development by PCC, the cost of which has not been depreciated as the assets were not available for use in the reporting period.

*(thousands of Canadian dollars, except as noted)*

## 8. Non-current assets

### *[a] Goodwill and intangible assets*

| | Goodwill and other intangible assets | Software under development | Total |
|---|---|---|---|
| **Cost** | | | |
| As at December 31, 2011 | **23,436** | **142** | **23,578** |
| Acquired through business combination | **11,023** | **-** | **11,023** |
| Additions | **2** | **442** | **444** |
| Effect of changes in exchange rates | **210** | **-** | **210** |
| As at June 30, 2012 | **34,671** | **584** | **35,255** |
| **Accumulated amortization** | | | |
| As at December 31, 2011 | **1,589** | **-** | **1,589** |
| Amortization | **2,530** | **1** | **2,531** |
| Effect of changes in exchange rates | **8** | **-** | **8** |
| As at June 30, 2012 | **4,127** | **1** | **4,128** |
| **Net carrying amount** | | | |
| As at June 30, 2012 | **30,544** | **583** | **31,127** |

| | Goodwill and other intangible assets | Software under development | Total |
|---|---|---|---|
| **Cost** | | | |
| As at April 20, 2011 | - | - | - |
| Acquired through business combination | 23,425 | - | 23,425 |
| Additions | 11 | 142 | 153 |
| As at December 31, 2011 | 23,436 | 142 | 23,578 |
| **Accumulated amortization** | | | |
| As at April 20, 2011 | - | - | - |
| Amortization | 1,589 | - | 1,589 |
| As at December 31, 2011 | 1,589 | - | 1,589 |
| **Net carrying amount** | | | |
| As at December 31, 2011 | 21,847 | 142 | 21,989 |

The goodwill and other intangible assets include brands, rights, software, customer lists, customer relationships and producer relationships as well as the value of expected synergies arising from the acquisitions of RLI and WSL in 2011 and SHS in 2012.

The purchase price allocations related to the acquisitions noted above have not been finalized as of the current reporting date. Under IFRS, a one-year window is available subsequent to the acquisition date to finalize the allocation.

The Company has recorded amortization expense of $2,531 for the six months ended June 30, 2012 and $1,424 for the three months ended June 30, 2012 related to intangible assets acquired through the business combinations for which the purchase price allocation has not been finalized. The amortization charge was determined based on a five year useful life to the preliminary estimated value of definite life intangible assets of $28,000.

Software under development relates to an ongoing information system project which has not been available for use during the reporting period and therefore is not being amortized.

### *[b] Other non-current assets*

Other non-current assets include prepaid financing fees related to the PCC Senior Credit Facility as well as deferred rent related to the land lease on which the PCC plant is being constructed. The deferred rent asset results from land lease payments that decrease over time but must be expensed on a straight-line basis over the term of the lease.

*(thousands of Canadian dollars, except as noted)*

## 9. Investments in associate and joint venture

The summary financial data for the Company's associate and joint venture are as follows:

| As at | **June 30, 2012** | December 31, 2011 |
|---|---|---|
| Current assets | **119** | 2,512 |
| Long-term assets | **8,502** | 13,064 |
| Total assets | **8,621** | 15,576 |
| | | |
| Current liabilities | **169** | 1,619 |
| Long-term liabilities | **7,970** | 8,072 |
| Total liabilities | **8,139** | 9,691 |

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| Revenues | **147** | - | **1,809** | - |
| Expenses | **(102)** | - | **(1,752)** | - |
| Net earnings (loss) | **45** | - | **57** | - |

During the six months ended June 30, 2012, sales and cost of sales included $106 and $108 for sale of inventory and for processing and freight charges respectively to an associate. It was nil for the three months ended June 30, 2012. Transactions are recorded at the exchange amount which is the amount agreed to by the related parties. Associate and joint venture are Canadian resident companies.

On May 1, 2012, the Company sold its investment in Blue Hills Processors (2003) Ltd. ("BHPL") for gross proceeds of $1,800. A gain of $1,043 was recorded in the Statement of Comprehensive Income in Gain on sale of investment in associate and in reportable business segments (Note 17) in Other items.

## 10. Bank indebtedness

During the period LWC extinguished existing operating credit facilities of $46,000. LWC entered into new agreements providing authorized operating lines available to a maximum of $52,000. As of June 30, 2012 $39,256 (December 31, 2011 – $20,083) was drawn against the Company's available debt facilities with the balance outstanding consisting of outstanding cheques and deposits. The lines are secured by a general security agreement subject to a prior charge from the holder of the term debts (Note 11). Under the new facility, interest rates on Canadian dollar advances bear interest at the bank's prime lending rate plus 0.5 percent. US dollar advances bear interest at the bank's US base rate plus 0.5 percent.

The Company is subject to a number of financial and business covenants imposed under the terms of the credit facilities with its financial institutions and other debt holders. As at June 30, 2012 the Company was in compliance with its debt covenants.

*(thousands of Canadian dollars, except as noted)*

## 11. Demand loan, term debt and obligations under finance leases

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| ***Demand loan*** [(a)] | **12,380** | - |
| ***Term debt*** | | |
| Loans payable [(b)] | **20,332** | 201 |
| Notes payable [(c)] | **144** | 7 |
| Senior Credit Facility[(d)] | **104** | - |
| Term loans repaid during the period | **-** | 19,170 |
| | **20,580** | 19,378 |
| ***Obligations under finance leases***[(e)] | **2,393** | - |
| **Total loans and borrowings** | **35,353** | 19,378 |
| ***Less: Current portion*** | | |
| Demand loan | **(12,380)** | - |
| Term debt | **(2,606)** | (3,495) |
| Obligations under finance leases | **(435)** | - |
| | **(15,421)** | (3,495) |
| **Total non-current loans and borrowings** | **19,932** | 15,883 |
| Total non-current loans and borrowings consist of the following: | | |
| Long-term debt | **17,974** | 15,883 |
| Obligations under finance leases | **1,958** | - |
| | **19,932** | 15,883 |

[(a)] Loan payable, bearing interest at the U.S. bank rate, with monthly payments of $95 including interest, beginning September 2012, due August 2027 includes unamortized deferred financing costs.

[(b)] Two $9,864 loans payable bearing interest at the bank's variable mortgage rate, with monthly payments of $101 including interest, beginning May 1, 2012, due April 2017 ; a $445 loan payable bearing interest at the bank's variable mortgage rate plus 0.25 percent, with monthly interest only payments beginning April 1, 2012, due March 2017; a $192 loan payable bearing interest at 3.2 percent with monthly payments of $2, due May 2013 includes unamortized deferred financing costs.

[(c)] Notes payable, bear interest at fixed rate (6 percent) and variable rate (bank's prime lending rate plus 0.5 percent). All notes mature in 2015.

[(a), (b), (c)] The term debt and demand loan are secured by specific buildings, equipment and real property.

[(d)]Senior secured credit facility ("Senior Credit Facility") consisting of a construction loan available in multiple advances over an 18 month period to January 2013 to maximum of USD $59,800. As of June 30, 2012, USD $103 was drawn on facility. Following completion of construction in 2013, it will convert into a term loan (USD $47,800) and a revolving loan (USD $12,000). Quarterly payments begin six months after completion of construction and end in eight years. Term loan bears interest at variable rate of LIBOR (or other base rate) plus 5.5 percent. Construction loan and revolving loan bears interest at a variable rate of LIBOR plus 6 percent.

The Senior Credit Facility is subject to a number of financial and business covenants, including: (i) PCC maintaining minimum working capital requirements and debt-to-equity levels and (ii) PCC complying with fixed-charge coverage ratios and limitations on capital expenditures and the amounts of dividends that can be declared in the first two years of operations. The financial covenants are in effect as long as any balance remains outstanding on the loan and begin on the last day of the first full year following completion of the PCC plant.

The Senior Credit Facility is secured by a first-security interest in the PCC plant and assets, including the equipment and buildings, lease-hold mortgage on the land, all non-seed inventories and receivables, and an assignment of all contracts and permits. PCC is required to fund, no later than three months before commencement of production, a USD $2,000 replenishing debt-service reserve fund to be pledged as security for the Senior Credit Facility. This debt-service reserve fund is only required to be maintained for nine months providing PCC is in compliance with its debt covenants.

As a requirement of the Senior Credit Facility, Industrial Construction Group, Inc. ("ICG") obtained a USD $10,000 payment and performance bond from an approved lender, such facility to be available to be drawn down to fund construction costs, contingencies and certain financial obligations, if necessary.

[(e)] Leases payable bear interest between 2.06 percent to 2.48 percent and are due in 2015 to 2017.

The estimated principal repayments for the demand loan, term debt and obligations under finance lease over the next five years are as follows:

| | |
|---|---|
| 2013 | **3,041** |
| 2014 | **3,290** |
| 2015 | **3,271** |
| 2016 | **3,249** |
| 2017 and thereafter | **22,575** |
| | **35,426** |
| Unamortized financing costs | **(73)** |
| | **35,353** |

## 12. Share capital

**Authorized, issued and outstanding shares:**

| | **June 30, 2012** | December 31, 2011 |
|---|---|---|
| Authorized | | |
| Common shares | | |
| Unlimited Voting shares without par value | | |
| Preferred shares | | |
| Unlimited | | |
| Issued and outstanding | | |
| Common shares | | |
| 13,802,184 Voting shares (2011 – 12,386,822) | **116,892** | 105,825 |
| Reserved for issue | | |
| Common shares | | |
| Nil (2011 - 415,362 Voting shares) | **-** | 3,738 |
| | **116,892** | 109,563 |

**Changes to Common shares during the period:**

| | Number[1] | Amount |
|---|---|---|
| As at April 20,2011 and June 30, 2011 | - | - |
| As at December 31, 2011 | **12,802,184** | **109,563** |
| Issued shares in connection with SHS acquisition, net of costs | **1,000,000** | **7,329** |
| As at June 30, 2012 | **13,802,184** | **116,892** |

[1] Number of shares not shown in thousand

## 13. Related party transactions

*Relationship between parent and subsidiaries*

The main transactions between LWI and its subsidiaries are the provision of cash funding. Further, LWI is providing management services to the subsidiaries. Between the subsidiaries included in the Special Crops segment, there are limited intercompany sales of inventories. Because all subsidiaries in the Special Crops segment are currently 100 percent owned by LWI, these inter-company transactions are 100 percent eliminated on consolidation.

*(thousands of Canadian dollars, except as noted)*

*Other relationships*

During the period, shares previously reserved for issue were issued to Home Grown Oil, LLC a company previously controlled by the CEO of LWI, to settle the remaining consideration payable for specified assets and liabilities acquired during 2011.

*Business combinations*

As part of business combinations undertaken during 2011, certain directors, officers and shareholders of the Company had amounts receivable of $7,041 at the end of 2011. During the six months ended June 30, 2012, total payments of $3,873 were made towards settling this obligation. At the period end, $3,168 is outstanding and classified as a current liability.

## 14. Financial risk management and financial instruments

***Financial risk management***

The Company has the following derivative contracts outstanding at June 30, 2012:

| | | Notional Canadian dollar equivalent | | |
|---|---|---|---|---|
| **Settlement dates** | **Units** | **Contract amount** | **Fair value** | **Unrealized loss** |
| **Foreign currency risk** | | | | |
| July 2012 - April 2013 | USD 62,695 | 63,764 | 63,295 | (469) |
| December 2012 | CAD 1,600 | 1,602 | 1,567 | (35) |
| **Commodity price risk** | | | | |
| November 2012 – January 2013 | 2,700 tonnes | (1,571) | (1,607) | (36) |
| | | | | (540) |

***Foreign currency risk***

The Company enters into foreign exchange forward contracts to manage its foreign exchange risk (see table above).

At June 30, 2012 the Company has U.S. dollar denominated accounts receivable of $44,993 and U.S. dollar denominated accounts payable of $28,414.

***Commodity price risk***

The Company enters into canola futures contracts in order to manage its commodity price risk related to canola seed purchases (see table above).

***Credit risk***

Trade accounts receivable in aggregate collected to the effective date of these financial statements were $20,236 resulting in maximum credit exposure at June 30, 2012 of $27,571. As at June 30, 2012, no one customer represents more than 10 percent of outstanding accounts receivable.

| **Allowance for doubtful accounts** | **June 30, 2012** | December 31, 2011 |
|---|---|---|
| Balance, beginning of period | **922** | - |
| Provision recognized through business combinations | **524** | 905 |
| New provisions recognized during the period | **549** | 518 |
| Amounts written off during the period as uncollectible, net of recoveries | **(1,417)** | (501) |
| Balance, end period | **578** | 922 |

*(thousands of Canadian dollars, except as noted)*

***Liquidity risk***

The table below summarizes the undiscounted contractual payments of the Company's financial liabilities as at June 30, 2012:

| | Total | Within 12 months | 13 to 24 months | 2 to 4 Years | After 4 Years |
|---|---|---|---|---|---|
| Bank indebtedness | 44,659 | 44,659 | - | - | - |
| Accounts payable and accrued liabilities | 33,579 | 33,579 | - | - | - |
| Notes payable to related parties | 3,168 | 3,168 | - | - | - |
| Demand loan, long-term debt and obligations under finance leases | 35,426 | 3,041 | 3,290 | 6,520 | 22,575 |
| Operating leases | 8,536 | 1,277 | 1,501 | 2,574 | 3,184 |
| Total | 125,368 | 85,724 | 4,791 | 9,094 | 25,759 |

***Interest rate risk***

Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Company is exposed to interest rate risk primarily relating to its bank indebtedness and long-term debt that bears interest that fluctuates with the prime rate. A 1 percent change in the prime rate of interest could increase or decrease interest expense by approximately $720 per year.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **Finance costs** | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| Interest on overdrafts and other finance costs | **717** | - | **1,180** | - |
| Interest, including non-cash interest on term debt | **281** | - | **508** | - |
| Total finance costs | **998** | - | **1,688** | - |

## 15. Employee benefits and share-based compensation

Total employee benefit costs for the six months ended June 30, 2012 were $7,724 (2011 – nil) of which share based compensation was $307 (2011-nil) and for the three months ended June 30, 2012 were $4,025 (2011-nil) of which share based compensation was $205 (2011-nil).

*Options under Incentive Plans*

The Company has an incentive stock option plan (the "Incentive Plan") whereby the Company may grant to directors, officers, employees and consultants options to purchase Common Shares of the Company. Subject to applicable regulations and shareholder approval, the Plan provides for the issuance of stock options to acquire up to 10 percent of the Company's issued and outstanding Common Shares, on a rolling basis. Subject to applicable regulations, the terms and conditions, including pricing, term and vesting of each option granted under the Plan are determined by the Board of Directors.

On July 14, 2011, the Company granted options to directors, officers, senior management and key employees of LWI to acquire 280,000 common shares at a price of $9.00 per share under its stock incentive plan. These options vest in equal increments over a three year period, beginning on July 14, 2012 and expire on July 14, 2016 (5 years from the date of grant).

On May 25, 2012, the Company granted options to directors, officers, senior management and key employees of LWI to acquire 852,000 common shares at a price of $6.43 per share under its stock incentive plan. These options vest in equal increments over a three year period, beginning on May 25, 2013 and expire on May 25, 2017 (5 years from the date of grant).

Summary of Options Outstanding Under Incentive Plan

| | **Options Outstanding** | **Weighted Average Grant Date Fair Value** | **Weighted Average Exercise Price** | **Options Exercisable** | **Weighted Average Exercise Price** |
|---|---|---|---|---|---|
| As at April 20,2011 | - | | - | - | |
| Options granted [(a)] | 280,000 | 2.38 | 9.00 | - | |
| As at December 31, 2011 | **280,000** | | **9.00** | **-** | |
| Options granted [(b)] | **852,000** | **2.14** | **6.43** | **-** | |
| Forfeited | **(15,500)** | **2.29** | **8.09** | **-** | |
| As at June 30, 2012 | **1,116,500** | | **7.05** | **-** | |

Not shown in thousands

The fair value of each option granted was estimated using the Black-Scholes option pricing model and the following inputs:

| | **[(b)] 2012 Options** | [(a)] 2011 Options |
|---|---|---|
| Risk-free interest rate | **1.6099%** | 2.1922% |
| Expected life | **5 years** | 5 years |
| Expected volatility in the market price of the shares | **35%** | 25% |
| Expected dividend yield | **0%** | 0% |

*Other Options*

On July 14, 2011, the Company granted options to the syndicate of underwriters equal to 6 percent of the total number of common shares sold under the initial public offering (including any common shares sold upon exercise of the Over-Allotment Options) at a price per common share of $9.00 exercisable for a period of 18 months from the date of closing of the offering.

Summary of Other Options Outstanding

| | **Options Outstanding** | **Weighted Average Grant Date Fair Value** | **Weighted Average Exercise Price** | **Options Exercisable** | **Weighted Average Exercise Price** |
|---|---|---|---|---|---|
| As at April 20,2011 | - | | - | - | - |
| Options granted [(c)] | 443,463 | 1.18 | 9.00 | 443,463 | 1.18 |
| As at December 31, 2011 and June 30, 2012 | **443,463** | | **9.00** | **443,463** | **1.18** |

Not shown in thousands

The fair value of each option granted was estimated using the Black-Scholes option pricing model and the following inputs:

| | [(c)] 2011 Options |
|---|---|
| Risk-free interest rate | 1.32% |
| Expected life | 18 months |
| Expected volatility in the market price of the shares | 25% |
| Expected dividend yield | 0% |

The dividend yield was set to 0 percent for the calculation of the option value as the Company is planning to invest available cash flows in strategic acquisitions and growth capital rather than pay dividends over the expected life of the options. The expected life of the share awards is the period between the reporting date and the vesting date, as the share awards can be exercised by the holders only at the vesting date. The expected volatility reflects the assumption that the Company's share price volatility will be similar to other companies in the same industry with an additional volatility premium given the Company's shares only recently became listed, which may not necessarily be the actual outcome.

*(thousands of Canadian dollars, except as noted)*

## 16. Earnings (loss) per share

Earnings (loss) per share is based on the consolidated loss for the period divided by the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is computed in accordance with the treasury stock method and based on the weighted average number of shares and dilutive share equivalents.

The following reflects the earnings and share data used in the basic and diluted earnings (loss) per share computations:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| Net earnings (loss) attributable to shareholders for basic and diluted earnings per share | **357** | - | **(1,432)** | - |
| Basic weighted average number of shares | **13,802** | - | **13,555** | - |
| Basic and diluted earnings (loss) per share | **0.03** | - | **(0.11)** | - |

The outstanding stock options were excluded from the calculation of the above diluted earnings (loss) per share because their effect is anti-dilutive.

## 17. Reportable business segments

| **Special crops** | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| Revenues | **68,501** | - | **134,294** | - |
| Expenses | | | | |
| Cost of sales | **62,186** | - | **122,285** | - |
| Selling, general and administrative expenses | **2,827** | - | **5,291** | - |
| Depreciation and amortization | **2,435** | - | **4,396** | - |
| Finance costs | **998** | - | **1,715** | - |
| Other items | **(988)** | - | **(1,376)** | - |
| | **67,458** | - | **132,311** | - |
| Net earnings (loss), before tax | **1,043** | - | **1,983** | - |

| **Oilseed processing** | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| Revenues | **-** | - | **-** | - |
| Expenses | | | | |
| Cost of sales | **-** | - | **-** | - |
| Selling, general and administrative expenses | **340** | - | **480** | - |
| Depreciation and amortization | **-** | - | **-** | - |
| Finance costs | **-** | - | **-** | - |
| Other items | **-** | - | **-** | - |
| | **340** | - | **480** | - |
| Net earnings (loss), before tax | **(340)** | - | **(480)** | - |

*(thousands of Canadian dollars, except as noted)*

| **Corporate** | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| Revenues | **-** | - | **-** | - |
| Expenses | | | | |
| Cost of sales | **-** | - | **-** | - |
| Selling, general and administrative expenses | **1,326** | - | **3,024** | - |
| Depreciation and amortization | **10** | - | **23** | - |
| Finance costs | **-** | - | **46** | - |
| Other items | **(735)** | - | **(192)** | - |
| | **601** | - | **2,901** | - |
| Net earnings (loss), before tax | **(601)** | - | **(2,901)** | - |

| **Total** | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| Revenues | **68,501** | - | **134,294** | - |
| Expenses | | | | |
| Cost of sales | **62,186** | - | **122,285** | - |
| Selling, general and administrative expenses | **4,493** | - | **8,795** | - |
| Depreciation and amortization | **2,445** | - | **4,419** | - |
| Finance costs | **998** | - | **1,761** | - |
| Other items | **(1,723)** | - | **(1,568)** | - |
| | **68,399** | - | **135,692** | - |
| Net earnings (loss), before tax | **102** | - | **(1,398)** | - |

There are no intercompany sales between segments.

Sales were derived from customers located in the following geographic areas:

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| North and South America | **41,878** | - | **84,373** | - |
| Middle East | **8,267** | - | **14,035** | - |
| Europe | **10,655** | - | **20,384** | - |
| Asia | **5,891** | - | **12,632** | - |
| Indian subcontinent | **1,296** | - | **1,650** | - |
| Africa | **514** | - | **1,220** | - |
| | **68,501** | - | **134,294** | - |

No revenues from transactions with a single external customer amount to 10 percent or more of the Company's revenues.

*(thousands of Canadian dollars, except as noted)*

Property, plant and equipment and goodwill and intangible assets by geographic area are as follows:

| As at | **June 30, 2012** | December 31, 2011 |
|---|---|---|
| Canada | **63,141** | 64,131 |
| United States | **80,583** | 17,638 |
| China | **200** | 147 |
| | **143,924** | 81,916 |

## 18. Commitments and contingencies

[a] Contractual commitment for the purchase of property, plant and equipment

PCC has contracted ICG to provide both the design and construction of the PCC plant for a guaranteed maximum price of USD $80,875, subject to additions and deductions. The construction contract is unconditionally and irrevocably guaranteed by McKinstry Co. LLC. which is affiliated with ICG. As of June 30, 2012, USD $45,559 was incurred towards fulfillment of the construction contract. The construction contract provides that the PCC plant will be substantially completed by early 2013.

[b] Operating leases

The Company leases land, storage facilities, rail line assets and office equipment with minimum aggregate rent payable in the future as follows:

| | |
|---|---|
| Within one year | **1,277** |
| After one year but not more than five years | **5,209** |
| More than five years | **2,050** |
| | **8,536** |

These leases have a life of between one and 50 years. Renewal options are included in the contracts for certain land leases for up to an additional 30 years.

During the six months ended June 30, 2012 and three months ended June 30, 2012, the Company recognized an expense of $249 and $129 respectively related to operating lease agreements. This amount relates only to minimum lease payments.

[c] Legal actions

The Company is involved in various legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

[d] Security

Throughout the period the Company is required by the Canadian Grain Commission to provide security for the outstanding grower liabilities. This amount is secured by letters of guarantee totalling $11,400. Pricing of the letters of guarantee are at 0.0503 percent.

[e] Guarantee

The Company has provided a guarantee in favour of 0729767 B.C. Ltd. in the amount of $1,000.

*(thousands of Canadian dollars, except as noted)*

## 19. Net changes in working capital accounts

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | (Note 3) | | (Note 3) |
| Accounts receivable | **(955)** | - | **(5,679)** | - |
| Income taxes recoverable | **(175)** | - | **(10)** | - |
| Inventories | **11,927** | - | **15,956** | - |
| Prepaid expenses and other assets | **456** | - | **3,316** | - |
| Accounts payable and accrued liabilities | **302** | - | **(25,113)** | - |
| Income taxes payable | **(1,082)** | - | **(1,361)** | - |
| **Total net changes in working capital** | **10,473** | - | **(12,891)** | - |