NORTON ROSE

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On January 1, 2012, Macleod Dixon joined
Norton Rose OR to create Norton Rose Canada.

August 23, 2012

Filed on RESS
Sent By Courier

Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700
2300 Yonge Street
Toronto, ON M4P 1E4

Your reference EB-2012-0072	Direct line +1 416.216.1921
Our reference 01012724-0013	Email christine.kilby@nortonrose.com

Dear Ms. Walli:

Natural Resource Gas Limited ("NRG")
Aylmer Franchise EB-2012-0072
Proposed Issues List

We are counsel to NRG. Enclosed please find NRG's responses to Information Requests from Board Staff, the Integrated Grain Processors Cooperative and the Town of Aylmer. An electronic copy has been filed with the Board via the RESS system.

Yours very truly,

Original signed by,

Christine Kilby

CK/mnm

Enclosure

Copies to: B. Cowan and L. O'Meara (NRG)
R. King (Norton Rose)
J. Reynaert (Town Administrator)
P. Tunley (Counsel to Town)
All Intervenors

DOCSTOR: 2501066\1

NATURAL RESOURCE GAS LIMITED

RESPONSES TO INTERROGATORIES FROM BOARD STAFF

INTERROGATORY #1

1. Is there any reason, based on the following factors, that the standard terms and conditions in the Model Franchise Agreement should not be used in this case?

   a) regulatory compliance by Natural Resources Gas Limited (NRG); and

   b) NRG's security deposit policy

1. Regarding regulatory compliance by NRG with the Board's codes please discuss the NRG's current exemptions to the Gas Distribution Access Rule and explain the rationale for the exemptions?

2. Regarding Board's Reporting and Record Keeping Requirements (RRR) reporting requirements, please indicate which filings apply to NRG and discuss the exemptions?

3. Regulatory Policy and Compliance Staff Report, dated November 11, 2009 entitled "Review of Reporting and Record Keeping Information filed by Natural Gas Distributors and Marketers" states the following:

> **"NRG has not filed any information on its service quality performance. In the future, NRG has reported it will work cooperatively with OEB staff to ensure compliance with those requirements."**

Please discuss the status of NRG's actions to implement its commitment to work with Board staff to ensure compliance with service quality performance reporting?

RESPONSES

1. NRG applied to the Board for exemption from the Gas Distribution Access Rule (**GDAR**) in EB-2010-0024. As outlined in the Board's Decision and Order in that application, NRG is exempt from the obligation to file Service Quality Requirement data for the year 2009, except for that data required under Section 7.3.6.1 of the GDAR, due to system limitations in respect of data collection for that year. See the May 18, 2010 decision of the Board in this regard, attached hereto. Otherwise, NRG is in compliance with GDAR, including the recent amendments to that code, and the Board has recently affirmed that there are no issues relating to NRG's conformity with GDAR (see March 29, 2011 audit report filed at Exhibit A, Tab 4 in NRG's pre-filed evidence in this proceeding.)

2. NRG currently makes filings under the following RRR sections: 2.1.2, 2.1.3, 2.1.6, 2.1.7, 2.1.8, 2.1.9, 2.1.10, 2.1.14, 2.1.15, and 2.2.1-2.2.5. As of August 22, 2012, NRG understands that all of its RRR filings are up to date.

   The following RRR filings are not applicable to NRG:

   2.1.5 - There is no Board order in effect specifying such mechanism, as outlined in 2.1.5.

   2.1.12 – NRG does not prepare demand side management plans.

   2.1.16 – NRG does not have any affiliates.

   2.1.17 – NRG does not store gas.

   NRG does not make the following filings, for the reasons given:

   2.1.1 and 2.1.11 – These two sections relate to economic evaluation and customer additions for projects in the rolling distribution system expansion project portfolio referenced in EBO 188. As the Board is aware, EBO 188 applies to Union Gas and Enbridge (and not to NRG, although NRG uses an EBO 188-compliant method of economic evaluation). Given this, and NRG's size relative to Union Gas and Enbridge, the Board in the past has not required NRG to file in respect of these two sections.

   2.1.13 – The Board has never required NRG to file environmental monitoring reports for facilities not subject to the leave to construct provisions of the *Ontario Energy Board Act, 1998* (as amended).

3. NRG invested significant time and effort in complying with service quality requirements (**SQR**) following a Regulatory Audit and Accounting of the Board in 2010 (**Regulatory Audit**). On March 29, 2011, the Regulatory Audit noted in its follow-up review (attached at Exhibit A, Tab 4 of NRG's pre-filed evidence) that there were no issues related to the implementation of the necessary action plans in order to bring NRG into conformity with its SQR obligations. In its review, the Regulatory Audit acknowledges "the effort and time invested from NRG staff with regard to SQRs, including data collection, validation process, calculation and measurement, and regulatory reporting to the Board." (p. 2). Details of the actions taken by NRG in order to comply with its SQR obligations are set out in greater detail in the review letter.

Ontario Energy Board

Commission de l'Énergie de l'Ontario

Ontario

EB-2010-0024

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Sched. B);

AND IN THE MATTER OF an Application by Natural Resource Gas Limited for an order or orders exempting Natural Resource Gas Limited from certain sections of the Gas Distribution Access Rule.

BEFORE: Ken Quesnelle
Presiding Member

Cathy Spoel
Member

DECISION AND ORDER

Background

Natural Resource Gas Limited ("NRG") filed an application on January 28, 2010 with the Ontario Energy Board (the "Board") for an order or orders exempting NRG from Section 7.3.1, including subsections 7.3.1.1 and 7.3.1.2, of the Gas Distribution Access Rule ("GDAR") and exempting NRG from the obligation to file Service Quality Requirement data for the year 2009 as required by the GDAR (the "Application").

The Board issued a Notice of Application dated February 10, 2010. The Board received requests for intervenor status from the Town of Aylmer and the Integrated Grain Processors Co-operative Inc. ("IGPC"). The Board granted intervenor status to both of these parties. The Town of Aylmer also requested eligibility to claim an award of costs, which the Board granted.

The Board received submissions from the Town of Aylmer, IGPC, and a reply submission from NRG.

Telephone Answering Performance

NRG requested an exemption from Section 7.3.1, including subsections 7.3.1.1 and 7.3.1.2, of the GDAR. Section 7.3.1 of the GDAR states the following:

7.3.1 Telephone Answering Performance

Telephone Answering Performance is a service quality indicator that is based on a centralized facility established or outsourced to handle calls and other inquiries from customers. The measurement of this requirement will include the following categories of calls: billing; collections; emergencies; and meter appointments.

Data for the call answer performance measures shall be obtained by monitoring calls on the distributors' telephone systems including the Interactive Voice Response (IVR) system.

7.3.1.1 Call Answering Service Level

The percentage of all calls to the general inquiry phone number, including IVR calls, that are answered within 30 seconds. This measure will track the percentage of attempted calls that are satisfied within the IVR or successfully reach a live operator within 30 seconds of reaching the distributor's general inquiry number. The operator must be ready to accept calls and to provide information. This measurement will be calculated as follows:

$$\frac{\text{Number of calls reaching a distributor's general inquiry number answered within 30 seconds}}{\text{Number of calls received by a distributor's general inquiry number}}$$

The yearly performance standard for the Call Answering Service Level shall be 75% with a minimum monthly standard of 40%.

7.3.1.2 Abandon Rate

The abandon rate means the percentage of callers who hang up while waiting for a live operator. This measure will track the percentage of callers that hang up before they reach a live operator. This measurement will be calculated as follows:

$$\frac{\text{Number of calls abandoned while waiting for a live agent}}{\text{Total number of calls requesting to speak to a live agent}}$$

The performance for this standard shall not exceed 10% on a yearly basis.

NRG stated that Section 7.3.1 of the GDAR is based on the utility telephone service being an automated answering system. NRG noted that it is a small utility that does not have an automated answering system as all calls are currently answered by two live operators. NRG stated that the technology and system implementation costs associated with automating the answering system would exceed the benefits for NRG. NRG noted that it will monitor its customer service level in this area.

The IGPC submitted that NRG has not provided any evidence regarding the cost of complying with Section 7.3.1 of the GDAR and noted that NRG simply made a statement that meeting this requirement is cost prohibitive. IGPC requested that NRG provide additional information in its submissions that clearly demonstrates to the Board that compliance with Section 7.3.1 of the GDAR is not cost effective for NRG.

NRG replied that it is not necessary for it to file additional information regarding the cost of implementing a telephone answering system that would provide the data necessary for NRG to be in compliance with Section 7.3.1 of the GDAR. NRG takes the position that spending any money on a telephone answering system is not practical for a utility of its size. NRG notes that it only receives about 100 calls each day (only a portion of which are from customers or potential customers) and a live operator answers these calls. NRG believes that the information provided by an automated telephone answering system would provide no value to NRG, its customers or the Board.

IGPC also submitted that NRG should provide further information regarding its plan to monitor its telephone answering service performance and that the Board should require NRG to provide information demonstrating that it has in fact been monitoring its service performance in this area.

Finally, IGPC submitted that NRG’s exemption from Section 7.3.1 of the GDAR be limited to a period of 2 years.

NRG replied that it is seeking a permanent exemption from Section 7.3.1 of the GDAR as there will not likely be a situation in the future where complying with this section of the GDAR will be practical for NRG.

Board Findings

The Board does not accept NRG's view that Section 7.3.1 is based on the utility telephone service being an automated answering system. The Board is of the view that it may be possible to implement a system to record the information relevant to the requirements of subsection 7.3.1.1 of the GDAR without an automated answering system, such as that described by NRG, being deployed. The measure is intended to track the percentage of attempted calls that are satisfied within the IVR **or** successfully reach a live operator within 30 seconds of reaching the distributor's general inquiry number. A system that tracks the number of incoming calls and the time in which they are answered would satisfy the tracking requirements of this measure.

With respect to subsection 7.3.1.2 of the GDAR, the Board is of the view that a system that tracks the number of incoming calls and the time in which they are answered could also have the capability to record the number of calls abandoned prior to being answered. The measure is intended to track the percentage of callers that hang up before they reach a live operator. It is important to the Board that this be measured irrespective of whether or not the customer has been channeled through an automated answering machine.

NRG has not filed any costing information for a system capable of recording the relevant information. NRG makes the argument that implementing a system that is capable of recording the information necessary to be in compliance with Section 7.3.1 of the GDAR is not cost effective for NRG due the size of the utility and the small number of calls received each day. The Board accepts that NRG's arguments in this regard may have been predicated on its belief that an automated answering service such as it described was required. The Board is not convinced that that is the case. Therefore, the Board will not grant NRG an exemption from Section 7.3.1 of the GDAR at this time.

2009 GDAR Exemptions

NRG requested an exemption from the obligation to file Service Quality Requirement data for the year 2009, as required under the GDAR, with the exception of that data required under Section 7.3.6.1. NRG stated that in order for it to perform the necessary data collection required for compliance with the GDAR, it was necessary to make a number of modifications to its system. NRG noted that it has made extensive efforts to implement the required changes for compliance with the GDAR; however, some of these changes were only implemented in late 2009. As a result, NRG has been unable to collect Service Quality Requirement data for 2009[1]. NRG noted that it will collect the relevant information for compliance with the GDAR for the year 2010.

The Town of Aylmer and the IGPC did not take a position on this issue.

Board Findings

The Board accepts that due to system limitations in 2009, NRG is unable to file the Service Quality data for that year as required under the GDAR. The Board understands that NRG has been working diligently to upgrade its system in order to comply with the requirements of the GDAR in 2010. Therefore, the Board will grant NRG an exemption from filings its Service Quality data for the year 2009 with the exception of that data required under Section 7.3.6.1 of the GDAR.

The Board expects that NRG will report all the Service Quality data as required under the GDAR beginning with its filing pertaining to 2010.

Cost Awards

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's Practice Direction on Cost Awards. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

Cost claims, and any objections to the cost claims, for the proceeding shall be made in the timeframe set out below.

THEREFORE THE BOARD ORDERS THAT:

1. NRG is granted an exemption from filings its Service Quality data, as required under the GDAR, for the year 2009 with the exception of that data required under Section 7.3.6.1 of the GDAR.

[1] With the exception of that data required under Section 7.3.6.1 of the GDAR.

2. The Town of Aylmer shall file with the Board and forward its respective cost claims for the proceeding by June 1, 2010.

3. NRG shall file with the Board and forward to the applicable intervenor any objections to the claimed costs by June 11, 2010.

4. The applicable intervenor shall file with the Board and forward to NRG any responses to any objections for cost claims by June 18, 2010.

All filings to the Board must quote the file number, EB-2010-0024, be made through the Board's web portal at www.errr.oeb.gov.on.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and email address. Please use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.gov.on.ca. If the web portal is not available you may email your document to the address below. Those who do not have internet access are required to submit all filings on a CD or diskette in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies. All communications should be directed to the attention of the Board Secretary office at BoardSec@oeb.gov.on.ca, and be received no later than 4:45 p.m. on the required date.

DATED at Toronto, May 18, 2010

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

NATURAL RESOURCE GAS LIMITED

RESPONSES TO INTERROGATORIES FROM INTEGRATED GRAIN PROCESSORS CO-OPERATIVE INC.

INTERROGATORY #1

1. Is there any reason, based on the following factors, that the standard terms and conditions in the Model Franchise Agreement should not be used in this case?

a) regulatory compliance by Natural Resources Gas Limited (NRG); and

b) NRG's security deposit policy

Ref:

- Application, October 17, 2011 Letter.
- Application, Model Franchise Agreement, section 2.1
- EB-2008-0413, Decision and Order, page 13.
- EB-2006-00243, EB-2010-0048

(a) Has NRG complied with and is it in compliance with the requirements of:

i. Ontario Energy Board Act, 1998?

ii. the Gas Distribution Access Rule?

iii. Orders or directions or filing requirements of the Board?

If not, please identify with specific details where it has failed to comply?

(b) Would NRG be willing to provide an annual certification as to its compliance with its regulatory obligations, similar to that used in the electricity industry?

(c) Has NRG refused to provide or been unable to provide gas distribution service to customers or potential customers within the Town of Aylmer during the past 2 years?

(d) Does NRG provide natural gas usage information to direct purchase customers, or their representatives, on a daily basis? weekly basis?

(e) Does NRG provide balancing reports to direct purchase customers as provided for in the Bundle T Service Receipt Agreement? In the Bundled T Service Agreement with IGPC this is section 6.03.

<u>RESPONSES</u>

(a) NRG believes it is currently in material compliance with all applicable regulatory requirements.

(b) No. NRG believes that the current requirements are adequate and sees no reason why it should be subject to regulatory requirements over and above those existing requirements applicable to other natural gas utilities.

(c) No, unless service could not be provided because of safety or regulatory issues, unless there is a situation that IGPC is aware of that we are not.

(d) NRG has very few direct purchaser customers, and provides natural gas usage and balancing reports as required in accordance with each customers specific needs or requests.

(e) See response to 1(d) above.

INTERROGATORY #2

2. What conditions of approval, if any, are to be attached to Board's order, if the Board approves the application?

Ref:

- EB-2010-0018, Exhibit A1, Tab 3, Schedule 1 (Organizational Chart)

(a) Please provide a copy of the Trust document?

(b) Can the beneficiaries collapse the Trust?

(c) How does NRG ensure the continued separation of NRG from the related entities, such as NRG Corp., from whom it purchases natural gas?

(d) Would NRG object to a condition that obligated it to inform the Board and the Town in the event there is a change in the Trustees? If so, why?

(e) Would NRG object to a condition of approval requiring NRG to provide annual statements or certification to the municipality regarding its compliance with the regulatory requirements during the prior year?

<u>RESPONSES</u>

(a) Not relevant to this proceeding.

(b) Not relevant to this proceeding.

(c) NRG has no affiliated companies. The NRG Corp. pricing issue is managed in NRG's rate applications (as currently demonstrated by Phase 2 of NRG's rate application).

(d) Yes. In any case, NRG does not see how a change in Trustees would create any risk for NRG's ratepayers.

(e) Yes.

INTERROGATORY #3

3. If the Board approves the application, what is the appropriate term for the Board's order?

Ref:

- EB-2010-0018, Exhibit A1, Tab 3, Schedule 1 (Organizational Chart)
- EB-2010-0018, Phase II supply to NRG's franchised territories.
- E.B.A. 362, section 11 of the franchise agreement provided a 30 year term.

(a) Is there any obligation for the Trust to be wound up during the requested term of the franchise agreement?

(b) Is there a succession plan for the trustees that administer the Trust? If so, please provide the plan or specific details of such plan. If there is no succession plan please provide reason for not developing such a plan.

(c) Is NRG involved in any significant lawsuits, claims, actions or applications or similar proceedings? Please provide copies of statement of claims, applications or similar document and status of such action, proceeding.

(d) Are all other franchise agreements to which NRG is a party in effect and in good standing?

(e) Please provide list of the expiring franchise agreements and the date of expiration?

(f) Excluding general industry reliability issues, are there any circumstances (financial or otherwise) which pose a risk to the reliability of gas service within the franchise area within the proposed franchise renewal term? If so, what are the risks and what is being done to mitigate such risks?

RESPONSE

(a) No.

(b) No, not necessary.

(c) The only significant litigation in which NRG is currently involved is its claim against IGPC alleging malicious falsehoods and unlawful interference with economic relations for the issuance of false and misleading statements that were intended to, and did, have the effect of causing NRG to suffer losses.

(d) Yes.

(e) NRG is only seeking to renew its franchise agreement with the Town of Aylmer in this application. The other franchise arrangements are not up for renewal and are not before the Board.

(f) NRG does not believe there are circumstances which might affect the reliability of its gas service. NRG believes that it faces a material financial risk with regards to the viability of IGPC. Refer to the attached May 9, 2012 letter to Aird & Berlis LLP which discusses NRG's concerns.

In order for NRG to manage its present risk, other items required would be as follows:

- Business interruption insurance;
- A security deposit from IGPC that more appropriately reflects the risk (the current deposit is far from adequate); and
- Arrangement for decommissioning costs.

INTERROGATORY #4

4. If the Board does not approve the application, what are the implications?

Ref:

- Model Franchise Agreement, section4.3 and 4.4.
- Submissions of NRG to the Issues list.

(a) Does NRG agree the Board has the jurisdiction to not renew the franchise? If not, why not?

(b) If the Board does not approve the application, does the Board have the jurisdiction to make orders to require NRG to continue to provide service until an alternate service provider is put in place?

(c) Can the NRG distribution system within the Town of Aylmer be separated from NRG distribution system within neighbouring franchises?

(d) If the application is denied, what period of time would NRG require to transition out of supplying distribution services in the Town of Aylmer? What assumptions is this premised upon?

(e) What activities would need to be undertaken by NRG in such a situation?

(f) Has NRG generated any reports or contingency plans regarding such an event? If so, please provide.

RESPONSE

(a)-(b) These questions are not appropriate interrogatories. In its Procedural Order No. 4 dated July 26, 2012, the Board stated that this issue is “not a matter for evidence, but is rather a matter for argument, and the Board will hear submission on this issue when it hears submissions on the application as a whole.”

(c)-(f) We do not contemplate not serving the Town and have not examined that scenario.

INTERROGATORY #5

5. Who should bear the costs of this proceeding?

Ref:

- Exhibit A, Tab 3
- EB-2010-0018 (for example Exhibit B5, Tab 3, Schedule 4) for Franchises and Consents

(a) What are the current costs of this proceeding for which NRG may seek reimbursement?

(b) What are the estimated costs for the remainder of this proceeding for which NRG may seek reimbursement?

(c) Please confirm whether such costs in (a) or (b) include the costs regarding negotiations with the Town of Aylmer.

(d) Would the some or all costs of the hearing be included in rates to be charged by NRG? If NRG was ordered to pay the costs of other parties would such costs also be included in rates?

RESPONSE

(a) The costs for which NRG may seek reimbursement are not determinable at this time.

(b) It is not possible to estimate the total cost to NRG of conducting this proceeding in light of the unpredictable nature of intervenor participation and the extent to which NRG may be forced to respond to interrogatories, motions and arguments initiated by intervenors. Because of a protracted renewal process and the conduct of the intervenors in these proceedings to date, NRG expects that the costs will be significant.

(c) Yes, it includes NRG's costs associated with the franchise renewal negotiations.

(d) NRG proposes it will allocate a reasonable amount of franchise renewal costs in its rates. NRG will be seeking costs from the Town in this proceeding.

LENCZNER SLAGHT BARRISTERS

Direct Line: (416) 865–3097
Email: lthacker@litigate.com

May 9, 2012

VIA EMAIL

Scott Stoll
Aird & Berlis LLP
BCE Place, 181 Bay Street
Suite 1800, Box 754
Toronto, ON M5J 2T9

Dear Mr. Stoll:

Re: Natural Resource Gas Limited

Natural Resource Gas Limited ("NRG") has now had an opportunity to review and consider your letter of April 23, 2012 to Richard King of Norton Rose Canada LLP. This letter is in response to that letter.

IGPC's request to reduce the Delivery Letter of Credit was made in a letter dated March 14, 2012 from Doug Blair. The statements in your letter describing repeated requests are inaccurate. On March 23, 2012, NRG advised IGPC that its request was under consideration. The statement that NRG stonewalled is inaccurate and misleading. NRG merely requested support for the number used and at no time were they asked to confirm this number. This number is the amount of the net book value of the pipeline as at September 30, 2012. In considering IGPC's request, NRG reviewed IGPC's financial position to determine if the reduced Delivery Letter of Credit would provide NRG with appropriate security. This involved an assessment of IGPC's financial circumstances and ongoing viability.

NRG has reviewed IGPC's financial statements for the fiscal year ended September 30, 2011 (copy attached), and without an in-depth review it clearly indicates that, but for an operating grant in the amount of approximately $28.7 million last year (which expires in 2016 and with current government funding cutbacks it could be earlier), IGPC could be rendered unable to meet their future financial commitments. IGPC's net income for its most recent financial fiscal year was $11.7m. The operating grant was $28.7m. Accordingly, without the operating grant, IGPC would have incurred a net loss of $17m. IGPC appears to be operating at a significant rate of loss. If the operating grant is terminated or reduced, IGPC could be insolvent. Accordingly, NRG is at significant risk that IGPC will not have the financial capability to pay NRG for the undepreciated capital costs of the pipeline.

Given the current financial circumstances of IGPC, NRG is considering whether to bring a motion for an order requiring IGPC to provide NRG with adequate security. As you will recall, Union Gas brought a similar motion against NRG in Fall 2008. At that time, IGPC intervened in Union Gas' motion, and took a very active role in supporting Union Gas' request for additional security. The same principles apply in this circumstance – concerns about the financial viability of a gas utility's large customer. It is clear that IGPC's financial viability is seriously in doubt.

I will be in touch shortly to discuss mutually convenient dates for NRG's motion to require IGPC to provide NRG with additional security.

Yours truly,

Lawrence E. Thacker

LET/rk

cc R. King
J. Grey, IGPC
J. Howley, NRG
K. Walli, OEB
M. Millar, OEB

Integrated Grain Processors Co-operative Inc.

Consolidated Financial Statements
September 30, 2011

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
465 Richmond Street, Suite 300
London, Ontario
Canada N6A 5P4
Telephone +1 519 640 8000
Facsimile +1 519 640 8015

December 13, 2011

Independent Auditor's Report

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

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

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Integrated Grain Processors Co-operative Inc.

Consolidated Balance Sheet

As at September 30, 2011

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

Commitments (note 14)

Contingencies (note 21)

Approved by the Board of Directors

_______________ Director _______________ Director

Integrated Grain Processors Co-operative Inc.

Consolidated Statement of Operations and Retained Earnings

For the year ended September 30, 2011

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

Integrated Grain Processors Co-operative Inc.

Consolidated Statement of Cash Flows

For the year ended September 30, 2011

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

1 Nature of operations

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

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

2 Summary of significant accounting policies

Principles of consolidation

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

Use of estimates

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

Revenue recognition

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

Government assistance

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

Inventories

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

Property, plant and equipment

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

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

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

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

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

Intangible asset

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

Financial instruments

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

- Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the year.

- Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet.

- Loans and receivables are measured at cost or amortized cost using the effective interest rate method.

- Other financial liabilities are measured at cost or amortized cost using the effective interest rate method.

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

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

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

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

Deferred financing costs

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

Interest rate swap contracts

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

Stock options

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

Income taxes

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

Future accounting changes

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

3 Restricted cash

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

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

4 Accounts receivable

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

5 Inventory

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

6 Property, plant and equipment

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

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

7 Term debt

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

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

a) A seven year non-revolving term loan facility for $63,700,000 to be used for construction of the plant with principal payments of $3,822,000 commencing in 2009, due June 27, 2014.

b) Certain non-revolving bridge facilities for construction costs prior to receipt of government funding in the amount of $14,000,000.

c) A seven year revolving term facility for working capital purposes not to exceed lesser of $7,000,000 or the borrowing base. Borrowing base uses as collateral 85% of eligible receivables and inventory. During the year, the amount was reduced to $6,000,000.

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

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

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

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

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

	$
2012	3,822,000
2013	11,581,818
2014	6,096,182
	21,500,000

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

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

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

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

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

8 Capital lease obligation

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

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

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

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

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

9 Subordinated debentures and notes

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

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

10 Capital stock

Authorized

Prior to June 8, 2010:

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

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

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

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

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

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

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

With effect from June 8, 2010:

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

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

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

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

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

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

11 Capital disclosures

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

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

12 Financial instruments

Fair value

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

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

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

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

Credit risk

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

Interest rate risk

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

13 Commodity derivative contracts

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

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

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

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

14 Commitments

Corn supply agreement

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

Risk management agreement

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

Ethanol marketing agreement

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

Distillers grain purchaser agreement

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

15 Government grants

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

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

a) In March 2009, the Co-operative received a capital grant of $14,000,000 after completion of the project and achieving nameplate capacity by establishing the capability of producing 145,000,000 litres of ethanol in a calendar year. As a condition precedent to receiving the grant, the Co-operative is committed to contribute $2,800,000 over ten years to a future industry related Research and Development Fund, as administered by the Agricultural Research Institute of Ontario. The first payment is to be made on April 1, 2012, three years after the full grant was received. An amount of $1,653,921, representing the present value of these payments discounted at 6.60%, was recorded as a research and development fund liability, thus reducing the amount of capital grant recognized for the purpose of recording the net cost of capital assets. At year end, the balance of this obligation was $1,941,464 (2010 - $1,821,261).

b) An operating grant was activated when the plant began operation in October 2008. Funding is based on the actual volume of denatured ethanol produced in a month times the rate of payment for that month (not to exceed $0.11 per litre) subject to an annual maximum of 145,000,000 litres. During the current and prior year, the Co-operative reached this maximum and earned $14,918,113 (2010 - $10,822,542) in operating grants (2011 - $0.1028 per litre, 2010 - $0.0746 per litre), of which $1,818,598 (2010 - $1,868,872) has been accrued as an amount receivable. The agreement is set to expire December 31, 2016.

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

Ethanol Expansion Program contribution

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

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

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

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

ecoEnergy for Biofuels

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

EcoAgriculture Biofuels Capital Program contribution

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

16 Interest

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

17 Income taxes

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

18 Interest rate swap contracts

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

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

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

19 Net change in non-cash working capital balances

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

20 Stock options

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

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

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

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

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

21 Contingencies

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

22 Statutory information

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

23 Comparative financial information

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

NATURAL RESOURCE GAS LIMITED

RESPONSES TO INTERROGATORIES FROM THE CORPORATION OF THE TOWN OF AYLMER

Interrogatory #1 – Security Deposit Policy

Preamble:

NRG has to date refused to remove the "retractable" feature of NRG's common shares, or alternatively to provide to the gas customers from which it holds security deposits a postponement in form and substance similar to the postponements given by NRG voluntarily to its bank, and ordered by the Board to be given to Union Gas in EB-2008-0273.

Ref:

- Letter dated October 17, 2011, NRG Application para. 3 and attachment 2, at p. 2

(a) Who made the decision to refuse this request, and specifically was it NRG, Mr. Graat, all of the common shareholders, or someone else?

(b) Is there any resolution or other document recording the decision?

(c) What is the rationale for treating NRG's security deposit-holders differently, and less favourably, than NRG's bank and Union Gas in respect of their interests as creditors of NRG?

RESPONSE

1. (a) – (c)

Contrary to the preamble to this Interrogatory, NRG has not refused to remove the retractable feature of its shares; rather, it has no authority to make such a decision. In addition, the total amount of money held as security deposits from residents of the Town of Aylmer (**Town**) is not comparable to NRG's indebtedness to Union Gas and NRG's bank, in whose favour postponements have been given.

NRG has responded to this issue in detail in its October 17, 2011 letter from counsel (**October 17 Letter**), filed in NRG's Application, as well as in the June 27, 2012 letter regarding the Town's proposed issues list for this proceeding (**Issues List Letter**). As indicated in the October 17 Letter, "[t]he retractable share issue has been dealt with by the Board in previous Board decisions which have ultimately ruled that any financial risk posed by the retractable nature of the shares is appropriately mitigated by virtue of the shares having been postponed to not only NRG's lenders but also Union Gas Limited" (October 17 Letter, p. 2). In the Issues List Letter, NRG explained again why "the issue of the retractable nature of NRG's Class C shares is [a] non-issue" (Issues List Letter, p. 4).

In any event, in its Decision on Issues List and Procedural Order No. 4 dated July 26, 2012 (**Issues List Decision**), the Board found this issue to be beyond the scope of this proceeding (see page 3)[1]. Accordingly, this line of interrogatory is not relevant to this proceeding.

NRG sees no risk of customers losing their security deposits. In any case, security deposits are subject to an automatic set-off against monies owed to NRG by its customers.

[1] "In the Board's view, the following proposed issues are beyond the scope of a franchise agreement proceeding: limiting the geographic territory of the franchise within the municipality (IGPC proposed issue 6); issues related to the development of a new cost-allocation study, issues related to the 'retractable' feature of NRG's Class 'C' shares' and complete separation of NRG's utility gas distribution business from its non-utility ancillary businesses as proposed by the (Town proposed issue 5). These issues have either been reviewed and decided by the Board in recent proceedings or are more appropriately addressed in other proceedings such as NRG rate proceedings." (Issues List Decision, page 3).

Interrogatory #2 – Conditions of Renewal

Preamble:

NRG has to date refused to remove the "retractable" feature of NRG's common shares, or alternatively to provide to the gas customers from which it holds security deposits a postponement in form and substance similar to the postponements given by NRG voluntarily to its bank, and ordered by the Board to be given to Union Gas in EB-2008-0273.

Ref:

- Letter dated October 17, 2011
- NRG Application para. 3 and attachment 2, at p. 2

(a) Does the request by the Town that this be made a condition of any renewal of its Franchise Agreement with NRG pose any operational difficulties for NRG in respect of its gas distribution undertaking?

(b) If so, what are those difficulties, and are they any different than the operational difficulties caused by the provision of similar postponements to NRG's bank or to Union Gas?

(c) If so, please explain the differences between the difficulties posed, in each case.

RESPONSE

2. (a)-(c) See response to Interrogatory 1(a)-(c).

Interrogatory #3

Preamble:

NRG has to date refused to commit to conduct and adopt a new cost allocation study, to ensure that all costs and revenues are properly allocated between rate classes, prior to its next rate hearing.

Ref:

- Letter dated August 18, 2011
- NRG Application para. 2 and attachment 1, at p. 2
- Letter dated October 17, 2011
- NRG Application para. 3 and attachment 2, at p. 2-3

(a) Is NRG's refusal related only to the timing of the Town's request, or does NRG wish to avoid conducting such a study at any time?

(b) What is NRG's best current estimate of the cost of conducting such a study? Please produce any documents in NRG's possession that relate to the estimation of those costs.

(c) Does the request by the Town that this be made a condition of any renewal of its Franchise Agreement with NRG pose any operational difficulties for NRG in respect of its gas distribution undertaking, other than in relation to the costs of the study and the timing of incurring that cost?

(d) If so, what are those difficulties, and are they any different than the operational difficulties caused by the consult of such studies by other gas distribution undertakings in Ontario?

RESPONSE

3. (a) – (d)

This issue has been addressed in detail in NRG's October 17 Letter, in a January 5, 2012 letter to the Town Administrator, and in the Issues List Letter. Ultimately, this issue is a rate issue. As stated in the Issues List Letter, "NRG recently completed a lengthy cost-of-service proceeding at which cost allocation issues were considered and dealt with by the Board. If this issue were important to the Town, it had ample opportunity to raise this issue over the past two years. Rate considerations are irrelevant in a franchise proceeding" (Issues List Letter, p. 4).

Similarly, the Board found this issue to be beyond the scope of this proceeding (see page 3 of the Issues List Decision and footnote one to the response to Interrogatory 1 (a)-(c)). Accordingly, this line of interrogatory is not relevant to this proceeding.

Interrogatory #4

<u>Preamble</u>:

NRG has to date refused to commit to separating its non-utility businesses.

Ref:

- Letter dated August 18, 2011, NRG Application para. 2 and attachment 1, at p. 2
- Letter dated October 17, 2011, NRG Application para. 3 and attachment 2, at p. 3-4

(a) What is NRG's rationale for not separating these business, and specifically why is it that NRG claims that the Board's various rationales for requiring this separation in other Ontario gas distribution undertakings in Ontario do not apply to NRG, whether in whole or in part?

(b) Would the separation of these businesses for accounting and regulatory purposes involve a cost or costs to NRG,?

(c) If so what are those costs, and what are NRG's best current estimates of the amounts to be incurred in each case?

(d) Would the separation of these businesses for accounting and regulatory purposes pose any operational difficulties for NRG in respect of its gas distribution undertaking?

(e) If so, are those difficulties any different than the operational difficulties caused to other gas distribution undertakings who have been required to make this separation, or any of them?

(f) If so, please explain the differences between the difficulties posed, in each case.

<u>RESPONSE</u>

4. (a) – (f)

NRG has not been required to unbundle its businesses. This issue has been addressed in detail in NRG's October 17 Letter, in a January 5, 2012 letter to the Town Administrator, and in the Issues List Letter. Ultimately, this issue is a rate issue and one which has been carefully monitored by the Board in past rate applications. As most recently stated in the Issues List Letter, "[t]he Board remains content with the present arrangement" (Issues List Letter, p. 4).

In any case, the Board found this issue to be beyond the scope of this proceeding (see page 3 of the Issues List Decision and footnote one to the response to Interrogatory 1 (a)-(c)). Accordingly, this line of interrogatory is not relevant to this proceeding.

Issue 3 – Renewal Term

Interrogatory #5

Preamble:

Despite the Board's Decision and Order in the last franchise renewal proceeding EB-2008-0413, NRG has maintained its refusal of the Town's request to allow provision for the alignment of the renewal dates on the Town's Franchise Agreement with those of other municipalities in the NRG gas distribution service area.

Ref:

- Letter dated August 18, 2011, NRG Application para. 2 and attachment 1, at p. 1
- Letter dated October 17, 2011, NRG Application para. 3 and attachment 2, at p. 1
- Letter dated January 5, 2012, NRG Application para. 6 and attachment 4

(a) What is NRG's rationale for resisting the alignment of the renewal dates of these Franchise Agreement as a condition of renewal of NRG's Franchise Agreement with the Town?

(b) Are there any costs associated with effecting such alignment, other than the costs of this proceeding?

(c) If so, what are those costs and what are NRG's best current estimates of the amounts involved in each case?

(d) Would any efficiencies in administration or regulatory oversight be achieved by such alignment.

(e) If so what are those efficiencies, and what is NRG's best current estimate of the amounts involved for any given renewal term or round of unaligned renewals?

(f) Please provide a complete list of the municipal parties (past and present) and the renewal dates of each Franchise Agreement that NRG has with each of the municipalities in its gas distribution service area.

(g) Please produce copies of each such Franchise Agreement.

(h) What is the current status of each such Franchise Agreement, and specifically have any expired prior to or while this Application has been outstanding?

(i) Apart from any discussions conducted without prejudice through Stockwoods LLP, prior to this application and while it has been outstanding, has NRG had any direct discussions with any of the municipal parties to these Franchise Agreements regarding their renewal, including the alignment of their renewal dates?

(j) If so, please produce all documents relating to such discussions, or identify any documents for which any privilege is claimed, and provide a summary of any such discussions that are not documented.

(k) Does the alignment or non-alignment of the renewal terms of these Franchise Agreements pose any operational difficulties for NRG in respect of its gas distribution undertaking?

(l) If so, what are those operational difficulties in either case?

<u>RESPONSE</u>

5. (a) – (e)

NRG is not going to pursue the task of aligning the expiry dates of its franchise agreements—it would cost time and money, and would result in no benefits for NRG or its ratepayers. To NRG's knowledge, this is not something other gas utilities have voluntarily done nor been ordered to do. This is something the Town is seeking to do. The Town has had three years (since the last franchise renewal application) to take whatever steps it deemed appropriate to implement a broad alignment of franchise agreement expiration dates. Despite the Town believing that it received approval from the Board for such a course of action, the Town failed to take any steps in this direction until after the expiry of the current franchise agreement with NRG. In the circumstances, NRG cannot be expected to wait for the Town and its surrounding municipal neighbours to organize this matter, and in any case, each municipality may have different issues. Accordingly, NRG is not in a position at this time to entertain this proposal.

In any event, and as is set out in the Issues List Decision, this matter is captured by approved Issue #4, which the Board has indicated "is not a matter for evidence, but is rather a matter for argument, and the Board will hear submissions on this issue when it hears submissions on the application as a whole" (Issues List Decision, p. 3). Accordingly, this line of interrogatory is not relevant to this proceeding.

5. (f) – (l)

See response to IGPC Interrogatory 3 (d) and (e). In this proceeding before the Board, NRG is seeking to renew its franchise agreement with the Town of Aylmer. NRG does not believe its other franchise arrangements are relevant to the Board's determination of this issue, and relies on the Board's determination on this point in Procedural order No. 4 (see page 4).

Interrogatory #5

Preamble:

The Board's Decision and Order in the last franchise renewal proceeding EB-2008-0413 renewed NRG's Franchise Agreement with the Town for a term of three years.

Ref:

- Board's Decision and Order in EB-2008-0413, May 5, 2009

(a) Has NRG experienced any operational difficulties arising out of the Board's decision in EB-2008-0413 to renew NRG's Franchise Agreement with the Town for three years rather than a longer term?

(b) If so, what are those difficulties?

(c) Are those difficulties any different than any operational difficulties caused by the fact that all other Franchise Agreements that NRG has in its service area will also expire within a short period of years?

(d) Has NRG incurred any costs (other than the costs of regulatory proceedings) arising out of the Board's decision in EB-2008-0413 to renew NRG's Franchise Agreement with the Town for three years rather than a longer term?

(e) If so, what are those costs and what are NRG's best current estimates of the amounts involved in each case?

RESPONSE

5. (a) – (e)

This has been addressed numerous times by NRG; most recently in the October 17 Letter: "A further short-term franchise renewal period negatively impacts any NRG capital expenditure decision in that any future capital expenditure would have to be reviewed on the basis of a payback period commensurate with the term of the franchise renewal, which results in certain capital expenditures not considered economic." (October 17 Letter, p. 5). NRG would not make capital investments in relation to the Town if there is reason to believe that such expenditures would not be recoverable under the Board's capital expenditure guidelines due to the short franchise renewal period.

A short renewal period may impact on NRG's relationship with its Lending Institution and other creditors. There is a "perceived" risk with a shorter renewal period and it may have a negative impact on interest rates.