

# **BEAUMONT SELECT CORPORATIONS INC.**

## **Notice to Reader**

September 30, 2012

(Unaudited)

### **Notice to reader pursuant to National Instrument 51-102**

#### **Responsibility for Consolidated Financial Statements:**

The unaudited interim consolidated financial statements of Beaumont Select Corporations Inc. ("Beaumont" or "the Corporation") as at and for the three months ended September 30, 2012 and 2011 have been prepared by management in accordance with International Financial Reporting Standards (IFRS) applicable to interim financial statements. Recognizing that the Company is responsible for both the integrity and objectivity of the interim consolidated financial statements, management is satisfied that these interim consolidated financial statements have been fairly presented.

#### **Auditors' involvement:**

MNP LLP, Chartered Accountants, the independent external auditors of the Corporation, have not audited or performed review procedures applicable to auditor review of interim financial statements as at and for the three months ended September 30, 2012 and 2011 nor have they conducted any procedures with respect to the notes herein. As a result, the auditors express no opinion on the Corporation's interim statements.

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**BEAUMONT SELECT CORPORATIONS INC.****Consolidated Statements of Financial Position**

For the three months ended September 30, 2012 and 2011

As At	Sept 30, 2012	June 30, 2012
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	<b>\$1,741,728</b>	\$1,848,086
Portfolio of equity securities (note 5)	<b>22,077,283</b>	17,310,374
Accounts receivable	<b>2,634,819</b>	1,916,089
Inventory (note 4)	<b>1,263,110</b>	1,416,442
Note receivable (note 6)	<b>300,000</b>	300,000
Prepaid expenses	<b>95,951</b>	109,476
<b>Total Current Assets</b>	<b>28,112,891</b>	22,900,467
Non-Current Assets:		
Investment in and due from affiliated company (note 7a)	<b>3,274,157</b>	3,274,157
Property and equipment (note 8)	<b>4,557,660</b>	4,720,199
Intangible assets	<b>39,561</b>	41,234
Goodwill	<b>867,524</b>	867,524
Deferred tax assets	<b>3,094,858</b>	3,094,858
<b>Total Assets</b>	<b>\$39,946,651</b>	\$34,898,439
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Bank and term loans	<b>\$4,130,347</b>	\$3,844,805
Accounts payable and accrued liabilities	<b>1,789,106</b>	1,350,156
Margin loans on equity securities	<b>9,129,632</b>	6,034,951
Legal liability	<b>206,847</b>	206,847
<b>Total Current Liabilities</b>	<b>15,255,932</b>	11,436,759
Non-Current Liabilities:		
Deferred tax liabilities	<b>2,080,109</b>	1,981,127
Long-term debt	<b>4,335</b>	6,551
<b>Total Liabilities</b>	<b>17,340,376</b>	13,424,437
Contingencies (note 13) Commitment		
Shareholders' Equity:		
Share capital (note 10)	<b>7,649,454</b>	7,649,454
Non-controlling interest (note 11)	<b>484,484</b>	472,720
Contributed surplus	<b>88,039</b>	88,039
Retained earnings	<b>14,384,298</b>	13,263,789
<b>Total Equity</b>	<b>\$22,606,275</b>	\$21,474,002
<b>Total Liabilities and Equity</b>	<b>\$39,946,651</b>	\$34,898,439

Approved on behalf of the Board

Signed "Winston Ho Fatt" \_\_\_\_\_

Director

Signed "Terry Kent" \_\_\_\_\_

Director

The accompanying notes are an integral part of these interim condensed consolidated financial statements

**BEAUMONT SELECT CORPORATIONS INC.**  
**Consolidated Statements of Comprehensive Income and Loss**

For the three months ended September 30, 2012 and 2011

For the three months ending September 30	2012	2011
Revenues	\$ 2,571,728	4,341,319
Cost of sales:		
Direct expenses	3,212,804	4,205,324
Depreciation and amortization	183,476	181,597
	<b>3,396,280</b>	<b>4,386,921</b>
Operating margin	<b>(824,552)</b>	(45,602)
Corporate and administrative (note 14)	377,908	292,758
Investment income (note 16)	(716,744)	(230,718)
Loss/(gain) on sale of equity securities	(174,762)	442,429
Unrealized loss (gain) on securities held for trading	(1,381,699)	2,501,788
Loss on sale of equipment	-	-
Share-based compensation	-	-
Foreign exchange (gain)/loss	40,967	(66,457)
Insurance Income (note 9)	(329,132)	-
Rental income	(7,350)	-
Interest and bank charges (note 16)	39,269	31,464
Interest on margin loans (note 16)	81,522	103,507
(Loss)/Income before taxes	<b>1,245,469</b>	(3,120,373)
Income tax expense/(recovery):		
Current	14,212	58,280
Deferred	98,984	(456,743)
	<b>113,196</b>	<b>(398,463)</b>
(Loss)/Income from continuing operations attributable to		
Shareholders of the Corporation	<b>1,120,509</b>	(2,692,373)
Non-controlling interest	<b>11,764</b>	(29,537)
Total Comprehensive (Loss)/Income	<b>1,132,273</b>	<b>(2,721,910)</b>
Net (loss)/income per share:		
Continuing operations: basic /diluted	\$ 0.07	\$ (0.17)
Net: basic / diluted	0.07	(0.17)
Weighted average number of shares outstanding	<b>16,171,597</b>	16,211,391

The accompanying notes are an integral part of these interim condensed consolidated financial statements

**BEAUMONT SELECT CORPORATIONS INC.**  
**Consolidated Statements of Changes in Shareholders' Equity**

For the three months ended September 30, 2012 and 2011

For the three months ending September 30	2012		2011	
Common shares:				
Beginning of the year	\$	7,649,454	\$	7,670,234
Shares repurchased		-		(2,362)
Exercise of options		-		-
End of the period	\$	7,649,454	\$	7,667,872
Contributed surplus:				
Beginning of the year	\$	88,039	\$	88,039
Share based payments		-		-
Exercise of options		-		-
End of the period	\$	88,039	\$	88,039
Non-controlling interest:				
Beginning of the year	\$	472,720	\$	504,697
Net earnings to non-controlling interest		11,764		(29,537)
End of the period	\$	484,484	\$	475,160
Retained earnings:				
Beginning of the year	\$	13,263,789	\$	13,432,626
(Loss)/income during the period		1,120,509		(2,692,373)
Consideration in excess of share value		--		(1,639)
End of the period	\$	14,384,298	\$	10,738,614
Shareholders' equity	\$	22,606,275	\$	18,969,685

The accompanying notes are an integral part of these interim condensed consolidated financial statements

**BEAUMONT SELECT CORPORATIONS INC.****Consolidated Statements of Cash Flows**

For the three months ended September 30, 2012 and 2011

For the three months ending September 30	2012	2011
Cash provided by (used in):		
Operations:		
(Loss)/income from continuing operations attributable to Shareholders of the Corporation	\$ 1,120,509	\$ (2,692,373)
Add (deduct) non-cash items:		
Depreciation and amortization	183,476	181,597
Deferred tax (recovery)/expense	98,985	(456,743)
Loss/(gain) on sale of equity securities	(174,762)	442,429
Unrealized loss (gain) on securities held for trading	(1,381,699)	2,501,788
Non-controlling interest	11,763	(29,537)
	\$ (141,728)	(52,839)
Net change in non-cash working capital related to operations		
Accounts receivable	(718,730)	37,470
Accounts payable and accrued liabilities	438,953	278,523
Inventory	153,332	51,999
Prepaid expenses	13,525	1,369
Cash from operating activities	(254,648)	316,522
Financing		
Increase in bank and term loans	285,539	239,251
Increase (decrease) in margin loans on equity securities	3,094,681	(5,155,625)
Payments on leases	(2,216)	(2,096)
Shares purchased and cancelled (note 10)	--	(4,000)
Cash from financing activities	3,378,004	(4,922,470)
Investing		
Additions to property, equipment and intangible assets (note 8)	(19,265)	(79,331)
Sale/(Purchase) of equity securities	(3,210,449)	4,870,507
Cash from investing activities	(3,229,714)	4,791,176
Change in cash and cash equivalents	(106,358)	185,228
Cash and cash equivalents, beginning of year	1,848,086	2,083,604
Cash and cash equivalents, end of period	1,741,728	2,268,832

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

# BEAUMONT SELECT CORPORATIONS INC.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2012 and 2011

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### 1. Nature of Business

Beaumont Select Corporations Inc. ("Beaumont" or the "Corporation") is incorporated and based in Alberta, and is a public corporation with its shares trading on the TSX Venture Exchange under the symbol BMN.A. The Corporation is a management firm; managing both private investments as well as maintaining a portfolio of equity securities. Its key private investment is in Naleway Foods Ltd., a manufacturer of frozen foods operating out of Winnipeg, Manitoba. The corporate office is at 915 42<sup>nd</sup> Avenue SE, Calgary, Alberta, T2G 1Z1.

The consolidated financial statements of the Corporation as at and for the three months ended September 30, 2012 comprise the Corporation and its subsidiaries. These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

These unaudited interim condensed consolidated financial statements were approved by the Board of Directors on November 26, 2012.

### 2. Basis of Preparation

**Statement of Compliance** - These interim consolidated financial statements prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting) issued by the International Accounting Standards Board using accounting policies consistent with International Financial Reporting Standards which the Corporation adopted in its annual consolidated financial statement as at and for the year ended June 30, 2012.

The same accounting policies and methods of computation were followed in the preparation of these interim consolidated statements as were followed in the preparation of the annual consolidated financial statements as at and for the year ended June 30, 2012. Accordingly, these interim consolidated statements for the three months ended September 30, 2012 and 2011 should be read together with the annual consolidated financial statements as at and for the year ended June 30, 2012.

**Basis of consolidation** – The consolidated financial statements incorporate the financial statements of the Corporation and subsidiaries controlled by the Corporation. Control is achieved where the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany balances, transactions, income, expenses, profits and losses are eliminated in full on consolidation.

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, which include Naleway Holdco Ltd., Naleway Foods Ltd., Naleway Realty Holdings Ltd., Naleway Foods International Inc., Beaumont Fine Foods Inc., Beaumont Enterprises Inc., Beaumont Realty Corporations Inc., The Food Source Ltd., Angiogene Inc., and Beaumont Select Corporations Inc.

All of the subsidiaries, with the exception of Angiogene Inc., are wholly owned. As part of the acquisition of Angiogene Inc., the Corporation acquired less than 100% of the equity interests; therefore the interest held by other parties has been recognized as a non-controlling interest in these consolidated financial statements.

The functional currency of the Corporation and all subsidiaries is Canadian dollars.

# BEAUMONT SELECT CORPORATIONS INC.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2012 and 2011

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### 3. Accounting Policies

#### Financial instruments - recognition, measurement, disclosure and presentation

On initial recognition, financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. All financial instruments are classified into one of the following categories: fair value through profit and loss, held to maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Fair value through profit and loss financial assets are measured at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income and loss. Changes in fair value that are recognized in the consolidated statement of comprehensive income and loss include interest income and unrealized gains or losses. Held to maturity and loans and receivables are measured at amortized cost which is generally the initially recognized amount. Available for sale assets are reported at fair market value with unrealized gains or losses excluded from the consolidated statement of comprehensive income and loss and reported as other comprehensive income or loss, unless any impairment in their value is other than temporary, in which case the loss is charged against earnings. Other financial liabilities are measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial asset or liability upon initial recognition. The Corporation has classified its financial instrument carried at fair values based on the required three - level hierarchy:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flows methods.

The Corporation has made the following classifications:

- Cash and cash equivalents and the portfolio of equity securities are classified as fair value through profit and loss and are recorded at fair value under level 1.
- Accounts receivable, notes receivable and due from affiliated companies are classified as loans and receivables.
- Bank loans, term loans, accounts payable and accrued liabilities, margin loans on equity securities, related party liabilities and long-term debt are classified as other liabilities.
- The investment in an affiliated company is classified as an available for sale financial asset and is recorded under level 3.

**Non-controlling interest** - Non-controlling interest is presented in the consolidated statement of financial position as a component of shareholder's equity.

**3. Accounting Policies (Continued)****Future Accounting Pronouncements**

## IFRS 7, Financial Instruments: Disclosures

The IASB amended IFRS 7, Financial Instruments: Disclosures ("IFRS 7") in October 2010. IFRS 7 was amended to provide guidance relating to disclosures with respect to the transfer of financial assets that results in derecognition, and continuing involvement in financial assets. The amendments to this standard are effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. Management does not believe the changes resulting from these amendments will have a significant impact on its consolidated financial statements.

## IFRS 9, Financial Instruments

IFRS 9 *Financial Instruments* was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also required a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted. The Corporation is currently evaluating the impact on its consolidated financial statements.

## IFRS 10, Consolidated Financial Statements ("IFRS 10")

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements ("IAS 27"). This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, provided that IFRS 11, IFRS 12, and related amendments to IAS 27 and IAS 28 are adopted at the same time. The Corporation is currently evaluating the impact on its consolidated financial statements.

## IFRS 11, Joint Arrangements ("IFRS 11")

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted provided that IFRS 10, IFRS 12, and the related amendments to IAS 27 and IAS 28 are adopted at the same time. The Corporation is currently evaluating the impact on its consolidated financial statements.



# BEAUMONT SELECT CORPORATIONS INC.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2012 and 2011

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### 3. Accounting Policies (Continued)

#### IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Corporation is currently evaluating the impact on its consolidated financial statements.

#### IFRS 13, Fair Value Measurement ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Corporation is currently evaluating the impact on its consolidated financial statements.

#### Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27 and IAS 28. The amended IAS 27 addresses accounting for subsidiaries, jointly controlled entities, and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 11. These amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted provided that IFRS 10, IFRS 11, and IFRS 12 are adopted at the same time.

### 4. Inventory

	Sept 30, 2012	June 30, 2012
Raw materials	795,543	1,015,716
Finished goods	467,567	400,726
Total inventory	1,263,110	1,416,442

A total of \$1,444,577 (September 30, 2011 - \$2,400,199) of inventory raw materials were expensed during the three months. Material costs expensed are net of insurance receivable.

**BEAUMONT SELECT CORPORATIONS INC.****Notes to the Consolidated Financial Statements**

For the three months ended September 30, 2012 and 2011

**5. Portfolio of Equity Securities**

Marketable securities are held as collateral to satisfy the requirements of the margin loans.

**Equity Position as at September 30, 2012**

<b>Equity Name</b>	<b>Shares Held</b>	<b>Sector</b>	<b>Cost</b>	<b>Value</b>
AutoCanada Inc	574,800	Retail	\$3,760,834	\$7,340,196
Student Transportation Inc.	557,000	Transport	\$3,032,319	\$3,726,330
Horizons Beta Pro NYMEX Nat Gas Bull ETF	150,000	Investment	\$1,869,838	\$2,323,500
Altus Group	220,700	Services	\$1,661,899	\$1,979,679
Eagle Energy Trust	156,100	Energy Trust	\$1,600,224	\$1,575,049
BRI-Chem Corp.	493,900	Energy Service	\$1,657,244	\$1,338,469
Data Group Inc	276,000	Services	\$1,212,312	\$1,145,400
Poseidon Concepts Corp	27,000	Oil Exploration	\$238,734	\$394,470
Avenex Energy Corp	120,000	Oil Exploration	\$620,186	\$360,000
Logan International Inc.	81,000	Energy Service	\$358,525	\$311,850
Canexus Corporation	25,000	Manufacturing	\$182,327	\$214,250
Equal Energy Ltd	56,400	Oil Exploration	\$301,177	\$191,196
Boyd Group Income Fund	10,000	Services	\$124,230	\$157,500
Northwest HealthCare Properties	12,000	Consumer	\$110,790	\$156,960
Canyon Services Group	10,000	Energy Service	\$118,916	\$119,000
HNZ Group Inc Class A	4,000	Services	\$106,589	\$108,800
Great Western Minerals 8% April 2017 debenture	100,000	Mining	\$100,000	\$100,000
Algae Biosciences Corp.	422,000	Other	\$104,530	\$84,400
TORC Oil & Gas	20,000	Oil Exploration	\$86,910	\$63,000
INNOVATIVE COMPOSITES INTL INC.	100,000	Construction	\$79,710	\$13,500
24 other investments		Various	<u>\$543,761</u>	<u>\$373,734</u>
<b>Total</b>			<b>\$17,871,055</b>	<b>\$22,077,283</b>

# BEAUMONT SELECT CORPORATIONS INC.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2012 and 2011

### 5. Portfolio of Equity Securities (continued)

The majority of the Corporation's investments were classified as Level 1 as they are traded on active stock exchanges (Toronto, Nasdaq, NYSE and TSX Venture) with strong liquidity and quoted prices. The Corporation uses the last trade price for its valuation. The Corporation holds seven private placement investments classified as Level 2. These consist of one debenture, three equities and three warrants for a cost base of \$249,410 (2011 - \$149,410), and a market value of \$233,500 (2011 - \$166,050).

Investments, Fair Value	Level 1 Quoted market price	Level 2 Observable inputs	Level 3 Non-observable inputs	Total
September 30, 2012	\$21,843,783	\$233,500	--	\$22,077,283
June 30, 2012	\$17,076,874	\$233,500	--	\$17,310,374

The Corporation holds some large positions, relative to their daily trading, that represent a liquidity risk should a fast liquidation be required. The AutoCanada and Bri-Chem positions represent seventeen days and forty-nine days average trading respectively. A fast liquidation of these positions could have an adverse affect on price. No other position represents more than five days average daily shares traded. The Corporation believes that it has other investments that could be sold to mitigate the need for a quick liquidation.

### 6. Note receivable

In 2008, the British Columbia division of 571766 Alberta Ltd. (formerly Mrs. Willman's Baking Ltd.) was sold to Premium Brands Operating Ltd. Partnership in exchange for a note receivable in the amount of \$300,000. The note receivable earns interest at a rate of 6.5% per annum, payable annually. The principal portion of the note receivable is due and payable on May 2, 2013. As the due date is now within 365 days, the note receivable is now classified as a current asset.

### 7. Related party transactions during the year

#### (a) Investment in and due from affiliated company

The Corporation holds an equity investment in Somerset Properties Ltd. ("Somerset"). Somerset and the Corporation have a common shareholder and Director. Details of the amount due from and invested in Somerset are as follows:

	Sept 2012	June 2012
Investment in Somerset	\$ 2,924,157	\$ 2,995,417
Dividend receivable	--	--
Return of capital		(71,260)
Due from Somerset, unsecured, bearing interest at 6% per annum, with no specific terms of repayment	350,000	350,000
	<b>\$ 3,274,157</b>	<b>\$ 3,274,157</b>

During the quarter a dividend was declared and paid from Somerset Properties Ltd. to the Corporation in the amount of \$408,328.

# BEAUMONT SELECT CORPORATIONS INC.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2012 and 2011

### 7. Related party transactions during the year (continued)

#### (b) Director's loan:

A loan in the amount of \$10,000 was made to a Director of the Corporation and included in accounts receivable. Interest at 8% is charged and included in accounts receivable.

#### (c) Statement of comprehensive income and loss:

- Management fees charged by shareholders and officers of the Corporation included in corporate and administrative expenses: \$70,514 (2011-12 - \$70,514)
- Consulting fees paid to current and former directors of the Corporation included in corporate and administrative expenses: \$36,000 (2011-12 - \$15,800)
- Rent paid to a company controlled by an officer of the Corporation: \$20,550 (2011-12 - \$20,000)

### 8. Property and equipment

	Production Equipment \$	Buildings \$	Leasehold Improvements \$	Vehicles \$	Land \$	Total \$
Balance July 1, 2011	4,447,176	215,101	293,741	72,976	135,000	5,163,994
Additions	181,550	-	115,607	1,765	-	298,922
Depreciation	(613,861)	(61,871)	(44,966)	(22,019)	-	(742,717)
Balance June 30, 2012	4,014,865	153,230	364,382	52,722	135,000	4,720,199
Additions	18,163	-	75	-	-	18,238
Depreciation	(150,716)	(15,467)	(11,554)	(3,040)	-	(180,777)
<b>Balance Sept 30, 2012</b>	<b>3,882,312</b>	<b>137,763</b>	<b>352,903</b>	<b>49,682</b>	<b>135,000</b>	<b>4,557,660</b>

Included in depreciation and amortization expense at September 30, 2012 was \$2,699 related to the amortization of intangible assets. Included in additions to property and equipment at September 30, 2012 was \$1,027 of additions made to intangible assets.

### 9. Insurance Income

During the first quarter of 2013, a leak of ammonia from a freezer at Naleway Foods Ltd. required the Corporation to destroy all raw materials. The Corporation had sufficient insurance in place, and an advance payment has been received and recorded as income. The total amount of the claim has not yet been finalized.

**BEAUMONT SELECT CORPORATIONS INC.****Notes to the Consolidated Financial Statements**

For the three months ended September 30, 2012 and 2011

**10. Share capital:**

## a) Authorized:

- (i) Unlimited Class A voting common shares; and
- (ii) 100,000,000 non-voting Class B shares, Series 2.

## b) Class A common shares issued:

	Shares	Amount
<b>Balance, June 30, 2011</b>	<b>16,215,597</b>	<b>7,670,234</b>
Redemption of shares	(44,000)	(20,780)
<b>Balance, June 30, 2012</b>	<b>16,171,597</b>	<b>7,649,454</b>
Redemption of shares	0	0
<b>Balance, September 30, 2012</b>	<b>16,171,597</b>	<b>7,649,454</b>

## c) Stock options:

The Corporation has a stock option plan whereby officers, directors, employees and consultants may be granted options to purchase Class "A" common shares of the Corporation.

	September 30, 2012		June 30, 2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding options, beginning	168,750	\$ 1.00	168,750	\$ 1.00
Options forfeited	-	-	-	-
Options exercised	-	-	-	-
Outstanding options, ending	168,750	\$ 1.00	168,750	\$ 1.00
Options exercisable, ending	168,750	\$ 1.00	168,750	\$ 1.00

The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

## Black-Scholes weighted average assumptions used

Expected volatility	79 %
Expected dividend yield	n/a
Estimated forfeiture	50 %
Risk-free interest rate	3.14 %
Expected option life in years	5
Fair value per stock option granted September 29, 2008	\$ 0.62

The exercisable options have an expiry date of September 30, 2013 and a weighted average remaining life of one year.

# BEAUMONT SELECT CORPORATIONS INC.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2012 and 2011

### 10. Share capital: (continued)

#### Normal Course Issuer Bid

In June 2012 the Corporation filed with the TSX Venture Exchange a notice of intention to make a Normal Course Issuer Bid (NCIB) which commenced on July 2, 2012 to acquire up to 808,680 of its Class A shares. Purchases subject to this normal course issue bid are carried out pursuant to open market transactions through the facilities of the TSX Venture Exchange. Once purchased, the Class A shares are returned to treasury for cancellation.

For the three months ending September 30, 2012 the Corporation purchased and cancelled no shares at a total cost of nil.

Subsequent to the end of the quarter, the Corporation has not repurchased any additional shares under its Normal Course Issuer bid. The number of shares outstanding as of November 26, 2012 is 16,171,597.

#### Per share amounts

The weighted average number of Class A common shares outstanding during the three months ending September 30, 2012 was 16,171,597. (September 30, 2011 – 16,211,391)

### 11. Non controlling interest

The Corporation holds a 94.5% interest in Angiogene Inc., with the remaining 5.5% held by six other investors.

### 12. Capital disclosures:

The Corporation's breakdown of capital is as follows:

	September 30, 2012	June 30, 2012
Bank debt	\$4,130,347	\$3,844,805
Long-term debt	4,335	6,551
Margin loans on equity securities	9,129,632	6,034,951
Share capital	7,649,454	7,649,454
Total capital	\$ 20,913,768	\$ 17,535,761

The Corporation's objective when managing its capital structure is to use an appropriate amount of leverage that can be supported with its shareholders' equity having regard to the risks, rewards and nature of the activity being financed so as to improve the financial return to the Corporation's shareholders. The Corporation maintains strong working capital balances to ensure liquidity and measures its total long-term debt to shareholder equity (including share capital and retained earnings) striving not to exceed a ratio of 2:1. The Corporation applies a small percentage of capital to purchasing its own shares in a normal course issuer bid under applicable securities laws when the market value of its shares does not reflect the perceived underlying value of the Corporation.

The manner in which the Corporation uses its capital base varies differently depending on the division with most financing usually done at the division level. The food processing and distribution segment utilizes the bank lines to fund inventory and manage payables and receivables with the size of available bank line typically set as a function of a percentage of these amounts from time to time. The bank line contains current ratio covenants and

# BEAUMONT SELECT CORPORATIONS INC.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2012 and 2011

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### 12. Capital disclosures: (continued)

total debt to shareholder investment covenants, which have not constrained the Corporation in achieving its overall objective on capital management. The Frozen Food Division also periodically uses long-term debt for large equipment purchases and similar capital expenditures, by accessing specialized lenders. Those loans are secured against the equipment and occasionally supported by a parent guarantee with suitable long amortization periods corresponding to the equipment's expected life and the related operation cash flows.

The Investment Division uses its equity interest in the market portfolio to support margin loans on eligible investments to increase the total capital invested. This allows for an overall larger portfolio to generate distribution income and capital gains. Margin loans are dependent on marginability of the underlying stocks, as well as brokerage firm policies and equity on deposit. The Corporation has on occasion been requested to sell down positions in order to meet margin requirements, but has largely managed the portfolio to avoid margin calls.

### 13. Contingencies

The Corporation or its subsidiaries are involved in other litigation or claims in the ordinary course of business (currently mostly as plaintiffs). The amounts at stake in these disputes are not material individually nor in the aggregate. Therefore, no amount associated with these claims has been accrued as assets or liabilities, or recorded as income or charged as expenses on these consolidated financial statements. In the event that the Corporation is successful in a claim or is found to be liable for a claim, the resulting settlement will be appropriately recorded in the consolidated statement of comprehensive income and loss in the year as incurred.

### 14. Expenses by nature:

	Sept 30, 2012	Sept 30, 2011
Wages and salaries	\$197,570	\$191,570
Directors fees	10,500	11,300
Rent	20,550	20,000
Professional fees	47,516	3,792
Insurance	31,394	33,484
Office	70,378	32,612
Total	\$ 377,908	292,758

### 15. Financial instruments

The Investment Division of the Corporation manages an active portfolio of equity securities and as a result, a significant portion of the Corporation's assets are comprised of financial instruments. The use of financial instruments can expose the Corporation to several risks, including market, liquidity and credit risks.

Market Risk – Market risk is the risk that the fair value of, or future cash flows from the Corporation's financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in foreign exchange rates, interest rates, equity and commodity prices. The Corporation is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. The value of the Corporation's real estate investments are also subject to market fluctuations.

# BEAUMONT SELECT CORPORATIONS INC.

## Notes to the Consolidated Financial Statements

For the three months ended September 30, 2012 and 2011

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### 15. Financial instruments (continued)

There were no changes to the way the Corporation manages market risk since September 30, 2012. The Corporation manages market risk by having a portfolio which is not singularly exposed to any one issuer or sector.

**Margin Risk** – The Corporation utilizes margin, by borrowing against its investments to allow it to have a larger investment than would be possible without borrowing. While this does increase the gain when investments appreciate, it also increases the loss during a down market. In the event of a sharp downturn, the Corporation may be forced to sell securities it had not planned to in order to meet a margin call, where the value of the securities is not sufficient to meet the margin loan. The Corporation manages margin risk by maintaining an available margin excess that should minimize the need to sell its holdings. At September 30 2012, the Corporation had available margin of \$3,866,934 (June 30, 2012 - \$4,573,761) and a margin balance of \$9,129,632 (June 30, 2012- \$6,034,951).

**Liquidity Risk** – Liquidity risk is the risk that the Corporation will have sufficient cash resources to finance obligations as they come due. The Corporation's liquidity and operating results may be adversely affected if the Corporation's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Corporation, or if the value of the Corporation's investments declines, resulting in losses upon disposition. The Corporation generates cash flow primarily from its food division and from proceeds upon the disposition of its investments, in addition to dividends and distributions earned on its investments. The Corporation has sufficient investments which primarily consist of tradable and relatively liquid equity securities to fund its obligations as they become due under normal operating conditions. There have been no changes to the way the Corporation manages liquidity risk since June 30, 2012. The Corporation manages liquidity risk by reviewing the amount of margin available on a daily basis, and managing its cash flow. The Corporation holds investments which can be converted into cash when required. The Corporation uses the last close price in the valuation of its securities. If the bid price were used instead, the value of the portfolio would be \$21,855,129, a decrease of \$222,154 (June 30, 2012 - \$17,109,911, a decrease of \$200,463).

**Interest Risk** - Interest risk is the impact that changes in interest rates could have on the Corporation's earnings and liabilities. As at September 30, 2012 the Corporation had floating interest debt on its margin loans of \$9,129,632, and averaged \$8,168,980 for the three months at an effective interest rate of 4.0% (Q1 2011-12 average \$8,985,201 at 4.6%).



**BEAUMONT SELECT CORPORATIONS INC.****Notes to the Consolidated Financial Statements**

For the three months ended September 30, 2012 and 2011

**15. Financial instruments (Continued)**

Currency Risk - Currency risk is the risk that the fair value of or future cash flows from the Corporation's financial instruments will fluctuate because of changes in foreign exchange rates. The Corporation's operations are exposed to foreign exchange fluctuations, which could have a significant adverse effect on its consolidated results of operations from time to time. The Corporation presently derives sales for the past three months of \$238,411 in US dollars, and has \$1,043,678 in US Currency on deposit in US Dollar accounts, and \$100,000 in US dollar securities. The Corporation does not engage in any hedging activities to mitigate its foreign exchange risk. A change in the foreign exchange rate of the Canadian dollar versus the US dollar may increase or decrease the value of the Corporation's financial instruments. A one cent change in the exchange rate would change the value of our US dollar holdings by \$10,437.

**16. Investment income and finance costs**

Recognized in comprehensive income and loss

	Three months ended September 30	
	2012	2011
Investment income		
Interest from debentures and bank deposits	\$ 10,739	\$19,156
Dividends from Portfolio of Equity Securities	297,677	211,562
Dividend from Somerset Properties Ltd.	408,328	--
Total Investment Income	716,744	230,718
Finance Expense		
Margin interest	81,522	103,507
Loan interest	39,269	31,464
Total Finance Expense	120,791	134,971
Net Finance Income	\$ 595,953	\$ 95,747

**17. Segmented information**

	Three months ended September 30	
	2012	2011
Revenues:		
Food processing and distribution	\$2,571,728	\$4,341,319
Income (loss) before income taxes:		
Food processing and distribution	\$(649,949)	\$(81,081)
Investment division	1,609,087	(3,026,339)
Corporate	286,331	(12,953)
	\$1,245,469	\$(3,120,373)

**BEAUMONT SELECT CORPORATIONS INC.****Notes to the Consolidated Financial Statements**

For the three months ended September 30, 2012 and 2011

**17. Segmented information (continued)**

Assets By Segment	Sept 2012	June 2012
Corporate	\$7,256,594	\$7,107,982
Food processing and distribution	10,612,774	10,480,083
Investment division	22,077,283	17,310,374
<b>Total</b>	<b>\$39,946,651</b>	<b>\$34,898,439</b>

  

Liabilities By Segment	Sept 2012	June 2012
Corporate	2,019,964	1,758,055
Food processing and distribution	6,190,783	5,631,431
Investment division	9,129,629	6,034,951
<b>Total</b>	<b>\$17,340,376</b>	<b>\$13,424,437</b>

**Beaumont Select Corporations Inc.  
Corporate Directory****Directors**

Winston Ho Fatt  
 Andrew Hyslop  
 Terry Kent  
 Martin Pelletier

**Transfer Agent**

Computershare Canada  
 600, 530 8<sup>th</sup> Avenue S.W.  
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 Calgary, Alberta

**Head Office**

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 T2P 0R3

**Stock Symbol**

BMN.A

**Web Site**

<http://www.bsci.ca>

**Officers**

Winston Ho Fatt  
 Chairman of the Board,  
 Chief Executive Officer,  
 Chief Financial Officer  
 Andrew Hyslop  
 Corporate Secretary  
 Philip Gaiser  
 Controller

**Auditors**

MNP LLP  
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 T2P 3G4

**Investor Inquiries**

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**Shares Outstanding**

16,171,597