FOR THE NINE MONTHS ENDED

MARCH 31, 2013

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Beaumont Select Corporations Inc.

# Beaumont Select Corporations Inc.

# REPORT TO SHAREHOLDERS

The investment division saw a 17.9% increase in the equity value of its portfolio during the third quarter, as investors refocused on dividend paying stocks. Solid price appreciation was achieved in the Corporations top two positions, which by the end of the quarter represented 53% of the portfolio value.

During Q3, the food division recovered almost all sales volumes lost as a result of our previously reported ammonia leak and production shutdown. Quarterly sales were down 4.3% compared to the third quarter of the previous year.

The Corporation's interim financial statements for the third quarter ended March 31, 2013 were not audited or reviewed by the Corporation's auditors. This quarterly Management's Discussion and Analysis (MD&A) was made as of May 22, 2013.

**FINANCIAL HIGHLIGHTS**

The Corporation's financial results for the three and nine months ended March 31, 2013 compared to the same period in the previous fiscal year include the following:

- Stock prices climbed to record levels in the United States, as worries over the fiscal cliff disappeared and investors moved back to large cap equities.
- The Investment Division had unrealized gains of $1.332 million, and realized gains of $776 thousand in the most recent quarter.

| $ millions | **Mar 31, 2013** | Dec 31, 2012 | Sep 30, 2012 | Jun 30, 2012 | 3 month Change | 9 month Change |
|---|---|---|---|---|---|---|
| Portfolio value | **$24.941** | $20.967 | $22.077 | $17.310 | 19.0% | 44.1% |
| Margin Loan | **11.510** | 9.578 | 9.130 | 6.035 | 20.2% | 90.7% |
| Equity in Portfolio | **$13.431** | $11.389 | $12.947 | $11.275 | 17.9% | 19.1% |

- Net income for the third quarter was twelve cents per share, and totalled ten cents per share for the first nine months of the year.

Financial Highlights

| | Three months Ended | | Nine months ended | |
|---|---|---|---|---|
| | **March 2013** | March 2012 | March 2013 | March 2012 |
| Net Sales | **$4,128,771** | $4,314,757 | **$11,236,646** | $13,742,818 |
| Operating Income (Loss) | **(142,425)** | (38,761) | **(1,063,112)** | 34,338 |
| Net Income (Loss) | **1,862,363** | 1,170,903 | **1,678,699** | (9,484) |
| Net Income (Loss) per share -basic | **0.12** | 0.07 | **0.10** | 0.00 |
| Net Income (Loss) per share -diluted | **0.11** | 0.07 | **0.10** | 0.00 |
| Funds from (required by) Operations | **23,495** | (182,432) | **44,300** | (276,275) |
| EBITDA | **2,285,647** | 1,889,578 | **2,805,434** | 1,123,354 |
| EBITDA per share – basic | **0.14** | 0.12 | **0.17** | 0.07 |

| | **As at** | |
|---|---|---|
| | **Mar 2013** | June 2012 |
| Total Assets | **$41,994,563** | $34,898,439 |
| Shareholder's Equity | **$23,170,295** | $21,474,002 |
| Shares outstanding | **16,166,097** | 16,171,597 |

## CORPORATE PROFILE

Beaumont Select Corporations Inc. is a management corporation, which directs investments in the food processing and real estate industries, as well as a portfolio of equity securities.

The Food Division concentrates on providing high quality private label and branded products of a specialty nature in the food sector. These products are distributed to food wholesalers and retailers in North America including most major retail chains. The products are produced by a wholly owned subsidiary, Naleway Foods Ltd., located in Winnipeg, Manitoba in a Canadian Food Inspection Agency (CFIA) certified plant owned by the Corporation.

The Corporation manages a portfolio of equity securities held for investment purposes. The corporate Investment Division operates within defined parameters as established by the Board of Directors and reports to the Investment Committee of the Board.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's discussion and analysis (MD&A) of the results for the three months (referred to as the third quarter or Q3) and nine months (referred to as the first nine months) in the fiscal year ending June 30, 2013 (referred to as 2012-13) should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended June 30, 2012 and the accompanying notes as well as the Corporation's unaudited consolidated financial statements and notes for the three and nine months ended March 31, 2013. All financial information is reported in accordance with International Financial Reporting Standards (IFRS) unless noted otherwise. The financial measure of earnings before interest, taxes, depreciation and amortization (EBITDA) or funds from operations referred in this MD&A do not have a standardized definition prescribed by IFRS and are therefore not readily comparable to similar measures presented by other corporations even in the same industry. The Corporation's method of calculating EBITDA and funds from operations may not be comparable to similarly titled amounts reported by other issuers. The Corporation believes these earnings measures are useful supplemental measures of performance, as they provide investors with an indication of the amount of funds available for reinvestment or distribution to shareholders. Investors should be cautioned, however, that EBITDA and funds from operations should not be construed as alternatives to using net income as a measure of profitability or the statement of cash flows as a measure of liquidity and cash positions.

## CONSOLIDATED FINANCIAL ANALYSIS

### Revenues

Overall revenues for the first nine months of fiscal 2012-13 decreased 18.2% (or $2.51 million) from the first nine months of 2011-12 to $11.237 million. The ammonia leak that occurred in the first quarter caused a complete shutdown of the building, as well as the destruction of all raw materials and finished goods. The Corporation had other storage facilities with finished goods, but the need to remove damaged materials, clean and restock left us unable to produce for several weeks. In the third quarter, sales declined $186 thousand or 4.3% as the Corporation continued to fight to regain market share and shelf position.

### Financing Expenses

Interest on term debt, lines of credit and bank charges totalled $41 thousand for the third quarter of 2012-13, up from $38 thousand during the third quarter of 2011-12. Higher bank borrowings were the focus of the increase, as interest rates stayed steady.

Interest on margin loans for investments in equity securities increased to $112 thousand for the third quarter of 2012-13 compared to $77 thousand in the same quarter of the prior year. During the quarter the average margin loan was $11.22 million, up from $8.05 million in the third quarter of the prior year. For the first nine months of the year, margin interest rose to $299 thousand, from $248 thousand the year before.

The quarter's average margin loan represented 46.8% of the portfolio value, an increase from 41.1% in the same period in the prior year. For the first nine months, margin usage averaged 44% of the portfolio, compared to 43% in the first nine months of 2011-12.

**Other Income**

The Investment Division's contribution to other income in the third quarter included realized gains of $776 thousand and unrealized gains of $1.332 million. Dividends, distribution and interest income of $241 thousand grew compared to the third quarter of 2011-12 at $170 thousand. As well, the percentage of equity investments in dividend paying stocks grew from 79.5% in March 2012 to 84.5% in March 2013. For the nine month period, the Investment Division produced a net income of $2.848 million, with unrealized gains of $2.259 million, realized gains of $22 thousand, margin expense of $299 thousand, and dividend income of $866 thousand, excluding the dividend from Somerset Properties.

The third quarter generated realized capital gains in the retail and financial sectors, with the greatest realized losses in the services and oil exploration sectors.

Additional income was earned in the third quarter of 2012-13 as a result of the insurance settlement ($171 thousand), as well as rental income of $7 thousand from subletting a portion of the head office.

**Net Income**

Net income from operations before income taxes was $1.949 million for the third quarter of 2012-13 ($1.838 million for the first nine months) compared to a gain of $1.593 million for the same period in the previous year ($228 thousand for the first nine months of 2011-12).

**Cash Flow from Operating Activities, EBITDA**

Cash flows from operating activities for the third quarter of 2012-13 increased to $246 thousand from a negative $150 thousand in the same period of 2011-12.

EBITDA for the third quarter of 2012-13 increased to $2.286 million ($0.14 per basic share) from $1.89 million ($0.12 per basic share). The increase was due to unrealized gains in the investment division.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is a non-GAAP measure commonly used by financial analysts and investors to show the cash generation potential of the Corporation, unaffected by its method of capitalization. The material difference between EBITDA and cash flow from operating activities is the inclusion of realized and unrealized gains in EBITDA, and the exclusion of working capital changes.

| EBITDA<br>In thousands of dollars | 3 months | | 9 months | |
|---|---|---|---|---|
| | **Mar 2013** | Mar 2012 | **Mar 2013** | Mar 2012 |
| Net Income | **$1,868,758** | $1,192,839 | **$1,699,169** | $(3,506) |
| Add back: | | | | |
| Margin Interest | **112,087** | 77,271 | **299,329** | 248,231 |
| Loan Interest | **41,477** | 37,806 | **117,315** | 102,201 |
| Current Taxes | **303** | 18,853 | **63,454** | 93,936 |
| Deferred Taxes | **79,546** | 381,168 | **75,738** | 137,657 |
| Depreciation | **183,476** | 181,641 | **550,429** | 544,835 |
| EBITDA | **$2,285,647** | $1,889,578 | **$2,805,434** | $1,123,354 |

**Deferred Tax Assets and Liabilities**

The Corporation's balance sheet as of March 31, 2013 includes a total of $3.095 million of deferred tax assets and $2.057 million of deferred tax liabilities. The Corporation's ability to realize the value of the deferred tax assets is dependent upon the Corporation generating taxable income within the time frame for those tax losses that have an expiry or taxable capital gains for those tax losses that are of a capital nature. The Corporation currently believes those conditions can be met. In the event such an assessment no longer seems reasonable, an impairment to that asset will have occurred and a corresponding impairment charge will be required at that time. The appropriateness of the deferred tax liability (and also deferred tax assets) carried on the Corporation's balance sheet is in turn monitored and tested through the regular annual income tax filing process.

**Related Party Transactions**

The following related party transactions occurred during the first nine months of 2012-13:

Management fees were charged by companies associated with the Chairman, CEO, and by the Vice President of Naleway Foods Ltd. for management services which are included in corporate and administrative expenses aggregating $70,514 during the third quarter, and $211,543 for the first nine months.

Fees were paid to current and former directors of the Corporation for professional, management and other services rendered in the ordinary course of business. The aggregate $40,200 of such expenses was included in corporate and administrative expenses during the third quarter ($115,000 for the first nine months).

Rent of $20,550 was paid during the third quarter to Somerset Properties Ltd, a corporation 80.6% controlled by the Chairman. For the first nine months, rent totalled $61,650.

## FINANCING ACTIVITIES & LOANS

During the third quarter of 2012-13 the Corporation paid down $744 thousand on its credit lines, as its insurance claims were paid.

During the third quarter of 2012-13 the margin loan balance increased $1.932 million to $11.51 million compared to the beginning of the third quarter. The outstanding margin loan balance at March 31, 2013 represented 46.1% of the portfolio's market value, an increase compared to 35% of the portfolio's market value as of June 30, 2012.

## LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2013, the Corporation had total operating credit facilities of $2 million with various institutions of which $817 thousand was available at the end of the third quarter, after expected insurance claims. The operating facilities may be drawn down or repaid at any time, and there are no scheduled repayment terms. The Corporation believes that available cash flow from operations, working capital surplus and its borrowing facilities will be sufficient to fund its required capital expenditures and debt repayment obligations. The Corporation and its affiliates were in compliance with all banking ratios during the third quarter.

Dividends and income trust distributions from the Investment Division of $866 thousand exceeded margin interest expense of $299 thousand by a minimum of 150% for the first nine months of 2012-13 and continue to be cash flow positive net of margin interest charges. A dividend of $408 thousand from Somerset Properties was declared and received during the first quarter of 2012-13.

The Corporation understands that income trust distributions are not guaranteed, can be reduced or eliminated at any time, and can be made up of returns of capital. In order to ensure positive cash flow from the equity portfolio, individual investments may be sold and / or replaced from time to time in order to rebalance the portfolio.

Most large investment holdings are in liquid stocks, and provide an available cash source to fund any new or existing investments. The use of margin coupled with the investment in Income Trusts and REITs has the distributions exceeding margin interest by a factor of two for the latest quarter. The Corporation has occasionally realized portions of its equity securities portfolio as and when capital resources were required for operations.

Quarterly results are unaudited.
$ Thousands (except per share data)

| | | **2013-12** | | | **2012-11** | | | **2011-10** | |
|---|---|---|---|---|---|---|---|---|---|
| | Q-3 | Q-2 | Q-1 | Q-4 | Q-3 | Q-2 | Q-1 | Q-4 | Q-3 |
| Revenue | $4,129 | $4,536 | $2,572 | $4,506 | $4,315 | $5,086 | $4,341 | $3,887 | $4,697 |
| Op Margin | (142) | (96) | (825) | 121 | (39) | 119 | (46) | (55) | 186 |
| Income (Loss) after tax | 1,869 | (1,302) | 1,132 | (192) | 1,193 | 1,526 | (2,722) | (2,853) | 2,225 |
| EBITDA | 2,286 | (1,030) | 1,550 | (196) | 1,890 | 2,038 | (2,804) | (2,849) | 2,831 |
| EBITDA Per share- basic and diluted | 0.14 | (0.06) | 0.10 | (0.01) | 0.12 | 0.12 | (0.17) | (0.18) | 0.17 |

**REPURCHASE OF COMMON SHARES**

In June 2012, the Corporation received approval from The TSX Venture Exchange to acquire an additional 808,680 shares, representing approximately 5% of the issued and outstanding class "A" shares, through a renewed Normal Course Issuer Bid. During the first nine months of 2012-13, the Corporation repurchased 5,500 shares from the market, compared to 40,500 shares purchased in the first nine months of 2011-2012.

Subsequent to the end of the quarter, the Corporation has purchased no shares under its Normal Course Issuer bid. The number of shares outstanding as of May 22, 2013 is 16,166,097.

# DIVISIONAL REPORTING

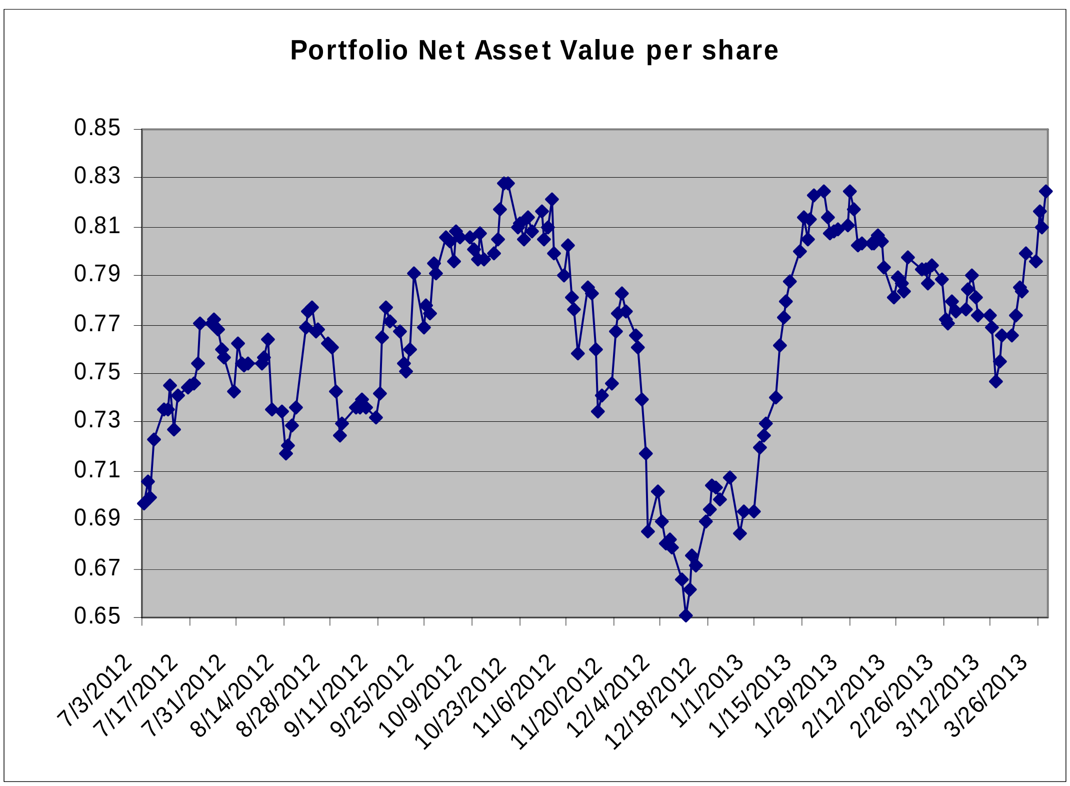
## INVESTMENT DIVISION

During the third quarter of 2012-13 the portfolio of equity investments rose as concerns over the US 'fiscal cliff' were quelled following a New Year's Eve deal. The equity in the investment portfolio (portfolio value less corresponding margin loan) grew 17.9%, compared to the S&P TSX Composite index growth of 2.5% during the third quarter.

For the first nine months of 2012-13, the portfolio of investments recorded an investment profit of $2.848 million, boosted by a gain of $2.237 million in the third quarter. The investment change was made up of the following:

| | 3 months ending | | 9 months ending | |
|---|---|---|---|---|
| | **Mar 2013** | Mar 2012 | **Mar 2013** | Mar 2012 |
| Dividends and distributions | **$322,409** | $243,406 | **$947,284** | $615,897 |
| Return of Capital | **(81,460)** | (73,861) | **(81,460)** | (73,861) |
| Interest expense | **(112,087)** | (77,271) | **(299,329)** | (248,231) |
| Realized gains (losses) | **776,312** | (427,001) | **22,009** | (426,066) |
| Unrealized gains (losses) | **1,331,973** | 2,365,080 | **2,259,027** | 1,381,328 |
| Total investment gain (loss) | **$2,237,147** | $2,030,353 | **$2,847,531** | $1,249,067 |

Additional dividends and interest were earned outside the investment division, as Somerset Properties paid a dividend of $408,328 during the first nine months of the current year, and interest of $32,607 was earned on debentures and bank deposits.



Net Asset Value (NAV) is a non-GAAP term describing the total value of the equity portfolio less margin loans divided by the total number of shares outstanding as at a specific date. There is no comparable Canadian GAAP or IFRS measure. The Corporation presents NAV to assist shareholders in their evaluation of the Company's value. The NAV presented consists only of the Corporation's equity portfolio, and excludes all other assets and liabilities.

During the third quarter of the current year we realized gains in the retail sectors, while the greatest realized losses occurred in the energy trust and oil exploration sectors. Over the nine month period of this year, realized gains were in the retail and energy services sectors, while realized losses appeared in the services and oil exploration sectors.

As at March 31, 2013, 35.6% of investments (by market value) were in the retail sector, followed by the transportation (20.6%), services (12.4%), energy trusts (9.6%) and energy services (8.5%) sectors.

At the end of the current third quarter, the ten largest investments comprised approximately 81.5% of the total portfolio's cost base, and 86.6% of the total market value. The top investments are (ranked by total market value):

- AutoCanada Inc
- Student Transport of America Ltd
- Altus Group
- Eagle Energy Trust
- BRI-Chem Corp
- CanElson Drilling Inc
- Element Financial Corp
- US Airways Group Inc.
- Argent Energy Trust
- BGC Partners Class A

The remainder of the portfolio is spread out over 41 other stocks. Overall the portfolio is weighted 84.5% by market value into dividend paying stocks. The Corporation continues to monitor the market as a whole, along with a wide variety of stocks, and will change its market weight from time to time.

As of May 21, 2013 the total market value of the portfolio of investments has increased to $33.322 million and the margin loans have increased to $15.683 million, resulting in a 31.3% increase in the equity portion of the portfolio from March 31, 2013 to $17.639 million. The Corporation has been and will continue to preserve its capital. Margin levels have risen to 47.1% of the total portfolio value. The top ten now consists of:

- AutoCanada Inc.
- Student Transport of America Ltd
- Eagle Energy Trust
- Altus Group
- US Airways Group Inc.
- Element Financial Corp
- CanElson Drilling Inc.
- BGC Partners Class A
- American Hotel Income Properties REIT
- MBIA Inc.

The portfolio net asset value stands at $1.09 per share as of May 21, 2013.

**FOOD DIVISION**

During Q3, the food division continued its promotional activity to recover sales volumes lost as a result of an ammonia release in its building in late July 2012 which release resulted in the need to suspend production. Customer sales were down 4.3% during Q3 compared to the same quarter in the prior fiscal year with January and February sales actually trending ahead of 2012 data for those same months though March sales were slightly lower. Competition remains intense in the Corporation's mature food categories.

Direct expenses increased slightly due to increased storage and direct promotional discounts offered during promotions in the quarter. Naleway's direct costs include significant cost elements that are not directly variable with production or sales volumes. Nine month data for the Food Division was materially affected by the ammonia release noted above making operating results comparisons to the same period in 2011-12 meaningless.

During the third quarter of 2012-13, the Corporation received further payments from its insurer relating to its product loss claim and in April 2013 the first interim payments (exceeding $500,000) towards its business interruption claim. Also in April, the Corporation submitted its final supporting material to the insurer for payment of amounts claimed under the Corporation's business interruption insurance coverage. The claim is expected to be finalized by mid summer. Payments by the insurer towards the business interruption portion of the claim will be included as income when such payment has been received from or approved by the insurer.

Subsequent to the end of the quarter, the food division settled a legal dispute in its favour, where it had previously created a $207 thousand legal liability. As a result of the settlement, the Corporation will not be required to make any payments and will then reverse the $207 thousand reserve.

## OUTLOOK

The Food Division is entering its seasonally slow period until September during which time required plant maintenance is completed with the corresponding costs. Management continues to look for ways to increase sales.

Since the end of the third quarter US stock markets have risen to record levels, while Canadian markets are still below March 31 levels by 0.1%. Despite the concentrations on Canadian stocks, by May 21st the equity portfolio has moved upwards to $33.322 million, while margin loans have risen to $15.683 million. The resulting net equity position stands at $17.639 million, for a gain of 31.3% or $4.208 million since the end of the third quarter.

## Forward-Looking Statements

This quarterly report, and principally in the Outlook section, contains forward-looking statements including statements regarding the business and anticipated financial performance of the Corporation. Words such as “anticipate”, “expect”, “believe”, “could”, “estimate”, “goal”, “intend”, “plan”, “seek”, “strive”, “will”, “may” and “should” and similar expressions, as they relate to the Corporation and its management, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect the Corporation’s current expectations concerning future results and events.

These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results and performance of the Corporation to be materially different from the future results and performance expressed or implied by such forward-looking statements. A number of factors could affect the actual results, including but not limited to, input costs, competition, general stock market sentiment and access to capital markets. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Corporation’s expectations only as of the date of this report and not as a representation by the Corporation that the objectives and plans of the Corporation will be achieved. The Corporation undertakes no obligation to update publicly or otherwise revise any forward looking statements, whether as a result of new information or future events or otherwise, except as may be required under applicable laws.

## Risk Management

The Corporation’s activities expose it to a variety of risks, including economic, political, financial and operating risks. These include, but are not limited to, the following:

**Focus on Key Products, Customers**

The Food Division offers a limited number of products. Its reliance on key product lines and key customers creates a risk both on the individual product as well as the dependence on the whole line in terms of sales revenue.

**Operational downtime**

The Food Division maintains a regular maintenance program and adequate insurance on its facilities and equipment with the objective of limiting production downtime. An extended period of unfilled orders could adversely affect future sales, however this has not been an issue to date given the Food Division’s strong order fill rate over decades of operations.

**Exchange Rates**

While the percentage of sales to the United States is small, any change in exchange rates can affect the Corporation both in terms of revenue and cost of goods sold, as some of the ingredients are either sourced from the United States and / or priced in US dollars. Overall, a decrease in the Canadian Dollar versus the US Dollar is beneficial to the Corporation.

**Interest Rates**

As both an investor and a borrower of funds, changes in interest rates can affect the Corporation’s returns as well as costs. The Corporation regularly monitors costs and returns and seeks to make adjustments quickly to mitigate risks.

**Credit Risk**
As both a long term and short term borrower, the Corporation is dependent on others to lend money to finance raw and finished goods inventories, and provide guarantees to customers and suppliers.

**Margin Risk**
The Corporation's Investment Division uses margin loans to enhance returns on investment. However, a fall in the value of investments results in a greater loss as the equity base is smaller than would have occurred if margin had not been utilized.

**Investment Risk**
The Corporation's Investment Division invests in primarily securities publicly listed on Canadian stock markets in order to enhance returns, but has suffered losses when individual investments decline in value because of worldwide economic and political problems.

**Economic Risk**
The Corporation's equity portfolio closely follows economic data from Canada, USA, Europe and Asia. A change in the outlook to this economic data can have an adverse effect on the portfolio value.

**Political Risk**
Similar to economic risk, a change in the political landscape across any key economy can affect the mood of the investment market, and in turn affect the portfolio value.

**Black Swan Events**
The equity markets are affected by many external factors, and an out of the blue, or 'Black Swan' events as they are known, can move the markets and effect the investment portfolio.

## 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. Currently a charge of $206,847 was recorded in the 2009-10 fiscal year, and has remained pending the result of a contract dispute.

Subsequent to the end of the quarter, this dispute was resolved in the Corporation's favour and the resulting settlement will be recorded in the consolidated statement of comprehensive income and loss in the year as incurred.

# Additional Information

For additional information on the Corporation, readers should also refer to the Corporation's annual report and other additional information filed on www.sedar.com.

Winston Ho Fatt
Chairman and Chief Executive Officer
May 22, 2013