SUNOPTA INC.

Moderator: Steve Bromley
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9:00 am CT

Operator: Good day and welcome to the SunOpta Inc. fourth quarter 2008 earnings conference call. Please note that today's conference is being recorded.

I now would like to turn the meeting over to Steve Bromley, President and CEO. Please go ahead, sir.

Steve Bromley: Great. Thank you. Thank you very much and good morning, everyone. Welcome to our year-end shareholder conference call.

I'm joined on the call today by Tony Tavares, SunOpta's Vice President and Chief Operating Officer; John Dietrich, Vice President and Chief Financial Officer – pardon me, I think I called Tony Chief Financial Officer, Chief Operating Officer, sorry for Tony, and Ben Chhiba, the company's Vice President, General Counsel, and Secretary.

Before I begin, I would like to remind listeners that except for historical information, for matters discussed during this conference call may include forward-looking statements, including statements relating to our operating results and expected cost savings. All forward-looking statements reflect our current views with respect to future events and are subject to risks and

uncertainties and assumptions we have made in drawing the conclusions included in such forward-looking information.

Many factors could cause our actual results, performance, or achievements to be materially different from those expressed or implied by our forward-looking statements, including those factors and assumptions set forth in the company's annual report on Form 10-K for the fiscal year ended December 31, 2008, and the sections in that report titled Forward-Looking Information and Risk Factors, which will be filed with the SEC and Canadian securities regulators. We plan to file our 10-K for the year ended December 31, 2008, by no later than the close of business on March 11, 2009.

Please note that our financial results are reported in U.S. dollars and in accordance with U.S. GAAP. I want to mention at this time that we are targeting to keep this call to approximately 1 hour.

In spite of the issues that faced us in 2008, our results, while less than originally expected, were positive in a number of ways. We achieved revenues of over $1 billion for the first time in our company's history. We achieved strong internal growth. We achieved record results in several segments. We achieved strong cash flow from operations. We achieved significant debt reduction. All our banking ratios are in compliance.

We maintained tight control on expenditures, including CAPEX. We restructured our management team and added new members to our board of directors. We expanded our global footprint, positioning the company as a strong global player in natural, organic, and specialty foods and natural health products.

We executed on initiatives to improve the long-term profitability and return from our operations. And we greatly improved our processes to address internal control material weaknesses identified in 2007, and we started the implementation of Lean Management.

Over the course of our call today, we'll provide further details related to these achievements.

We began 2008 with great confidence and optimism having realized revenue growth of approximately 35% versus 2006 and having continued to execute on strategic initiatives which had significantly expanded our company's global footprint and vertically integrated natural, organic, and specialty foods model.

Unfortunately, this excitement and optimism was impacted early in the year by our discovery that inventories within the SunOpta Fruit Group were overstated, leading to the need to restate earnings for the first three quarters of 2007 and delaying the filing of our annual financial statements pending an exhaustive internal review of the root causes which led to this write-down. The resulting recommendations from this review have now been implemented across the organization, and the SunOpta Fruit Group is now well positioned for the future.

And if the issues in the Fruit Group weren't enough, the deterioration of the global economy towards the end of the year was most difficult for all of us, and this has presented ongoing challenges to our business, our employees, customers, suppliers, and our valued shareholders.

Having said all of that, as we embark on 2009 with – we embark on 2009 with cautious optimism, aware of the difficulties in the current global economic environment but confident that our core positioning as a key player in health conscious food categories, combined with the numerous cost control, efficiency, and product development initiatives that have been and continue to be implemented, will lead us to improved results in 2009 and beyond.

For fiscal 2008, we realized revenues of $1.055 billion, an increase of 31.5% versus fiscal 2007 revenues of $802.5 million. This increase includes a consolidated internal growth rate of approximately 16%. Revenues in the SunOpta Food Group increased to $960.3 million, an increase of 32.4% versus 2007, and revenues in Opta Minerals Inc. increased to $93.4 million, an increase of 23.9%.

Revenue growth slowed in the fourth quarter as a result of the current global economic crisis which was especially evident in Opta Minerals where the steel and foundry industries were severely impacted. Our core food and natural health product operations were also impacted but still recorded positive internal growth in the quarter of approximately 10% after accounting for the effects of the dramatic swings in foreign exchange.

While it is reasonable to assume that we should not expect the growth rates which we had been experiencing, we all need to eat, and we believe that our healthy products portfolio is well positioned for continued success as consumers continue to seek healthy, cost effective eating options.

For fiscal 2008, we realized the loss of $10.9 million, or 17 cents per diluted common share, after expensing $13.7 million, or 21 cents per diluted common share, for the impact of non-cash charges for goodwill impairment and non-cash tax valuation allowances. These write-downs were, in part – were due in part to the impact of the recent decline in our stock price combined with the current economic conditions. We want to be clear that these are non-cash items and do not directly impact any of our banking covenants or the strength of our balance sheet.

Adjusted earnings for fiscal 2008 were approximately $13.3 million, or 21 cents per diluted common share, after adjusting for the following: the non-cash charges for goodwill impairment and tax valuation allowances of 21 cents per share; professional fees, severance, and related costs incurred during the year related to the investigation of internal controls in the SunOpta Fruit

Group and the restatement of financial results for the first three quarters of 10 cents per share; non-recurring start up and operational costs including the impact of the flooding on our Ingredients operations and start up costs related to plant expansions, including the buildout of our new Modesto, California, soy processing and packaging operations which totaled 4 cents per share; and the unfavorable fourth quarter arbitration decision within the SunOpta BioProcess Group of 3 cents per share.

For comparison purposes, excluding non-recurrent start up and operational costs, which I just mentioned, earnings were – adjusted earnings were $10.8 million, or 17 cents per diluted common share. This compares to our previous adjusted net earnings guidance of 19 to 23 cents per diluted common share.

Included in our results for the fourth quarter were approximately $3.6 million pre-tax, or 4 cents per diluted common share, of specific inventory write-downs to mark these cost to market as a result of significant decreases in these inventory values during the fourth quarter. Approximately $2.8 million of this adjustment was within Opta Minerals Inc.

Please note that the adjusted earnings and adjusted earnings per share numbers that we have provided do not have any standardized meaning prescribed by General Accepted Accounting Principles and therefore are unlikely to be comparable to similar measures presented by other companies. This non-GAAP financial measure should be considered in the context of SunOpta's GAAP results, and a full reconciliation of these amounts were provided with our press release.

Segment operating income for the year was $15.9 million as compared to $5.7 million in 2007, an increase of 181%. Segment operating income within the SunOpta Food Group increased 84.9%. The improved segment operating income in the Food Group was driven by record results in the SunOpta Grains and Foods Group and SunOpta Distribution Group, improved results in the SunOpta Fruit Group as the business was repositioned for the future, and the impact of a

sharpened and continued focus on margin improvement and cost containment, which continues into 2009. We will discuss a number of these actions in a moment.

Segment operating income within Opta Minerals declined approximately 17% to $5.5 million in 2008 reflecting the precipitous drop in the fourth quarter in the foundry and steel industries as a result of the decline in the global economy, and a $2.8 million write-down in magnesium inventories to net realizable value, as I mentioned previously. Without this write-down, operating income in the group would have improved approximately 25% versus 2007.

Operations have been restructured to deal with industry declines, and the group is expected to benefit from increased infrastructure spending later in 2009 as government infrastructure spending initiatives begin.

Segment operating results in the SunOpta BioProcess Group improved in 2008 but remained in a loss position with an operating loss of $3.3 million versus an operating loss of $6 million in 2007. The group continues to focus on leveraging its technology and expertise in the production of cellulosic ethanol, a category that is expected to offer excellent long-term growth potential as the world looks to reduce its dependence on fossil fuels and reduce greenhouse gas emissions.

For the fourth quarter we realized sales of $245 million, which represents a 16.8% increase from the previous year. The quarter had internal growth of 9.7% after adjusting for foreign exchange movements. We did see some revenue weakness in certain sectors due to the economic downturn and a desire of customers to manage their inventory levels. And we'll talk more about this in a minute.

On a GAAP basis in the fourth quarter, the company realized the loss of 17 cents, or 27 cents per diluted common share, including the impact of the non-cash charges that we previously spoke of totaling 21 cents. In addition, the company incurred the costs of the unfavorable arbitration

decision in the BioProcess Group plus some professional fees and related costs, all in all totaling 4 cents per diluted common share, resulting in an adjusted loss for the quarter of $1.1 million, or 2 cents per share. And of course these results include the pre-tax commodity cost write-downs of $3.6 million.

I'd now like to turn the call over to John Dietrich, our Chief Financial Officer, and he will provide some specifics related to the company's financial position and certain balance sheet items. John?

John Dietrich: Thanks, Steve and good morning everyone. During fiscal 2008, we realized cash from operating activities of $33.7 million versus utilization in 2007 of $35.1 million, an improvement of almost $69 million, indicative of the extensive efforts to reduce working capital and control spending across the organization.

Excluding the addition of credit facilities related to acquisitions completed in 2008, we reduced our bank indebtedness by 24.6 million versus an increase of 18 million in 2007. This was very positive, and we are focused on continuing to do so in 2009.

At December 31, 2008, the company's balance sheet is strong, reflecting a current working capital ratio of 1.74 to 1 with accounts receivable and inventory values totaling approximately $296 million. Our long-term debt-to-equity ratio at year end was 0.49 to 1, and total debt-to-equity ratio was 0.79 to 1. Our company has total assets of $581 million and a net book value of $3.52 per outstanding share.

Compared to 2007, after excluding acquisitions, we have seen a reduction of accounts receivable, and improvement in days sales outstanding of approximately 5 days. During the year we have made a focused effort to reduce credit limits and improve the aging of our receivables.

This has been very successful, and we will continue to focus on our aging and days outstanding in these difficult economic times.

Excluding inventories obtained with the 2008 acquisitions, inventories in our base business has declined approximately 10 million despite internal growth. The largest decrease was in the Fruit Group where the bulk of the long 2007 inventory position has now been sold.

Inventory turns have improved by one-half turn and expected to improve further in 2009. We see inventories as our biggest improvement on the opportunity over the course of this year.

At the end of the year, we remain in compliance with all bank covenants and expect to remain compliant going forward through 2009. I would like to detail our banking arrangements. In essence, we have four facilities and total debt excluding cash balances at the end of the year of $178.7 million.

The first facility is held by our banking syndicate and services our core food operations, excluding operations in Europe. Total debt on this facility at the end of the year was $95.4 million, including operating lines of $28.5 million. The annual renewal of the operating line component of this facility occurs at the end of June each year, and we are working with our bankers currently to complete this renewal.

Our European sourcing and trading operations are financed via an asset-backed operating line with total notes outstanding of $30.9 million at the end of the year. Opta Minerals are financed via stand alone and operating long-term facilities of $28.6 million. Both of these facilities are stand alone and do not have any recourse to SunOpta.

In addition to these facilities, the company has promissory notes due to various parties primarily related to companies that were acquired, and these amounts are subordinated to the company's banks.

Capital expenditures were $9.7 million during 2008, our lowest level in 5 years and down from 2007 levels where we spent approximately $30 million. During 2009, we will continue to tightly control capital spending with a focus on completing our current projects such as the Modesto facility and projects intended to improve operating performance and reduce our environmental footprints.

I will now turn this call back to Steve.

Steve Bromley: Thanks, John. We are most fortunate to be operating in food business segments which are less volatile than many others. We continue to streamline our company's operations aimed at improving earnings and return on assets employed. We have recently commenced implementation of Lean Enterprise Systems across our organization under the direction of Tony and have set a target of a further $10 million in savings and efficiency improvements by the end of 2009.

We also continue to leverage our global supply chain aimed at achieving further cost reductions in areas such as energy, chemicals, packaging, new materials, et cetera. Tony will speak about much of this in a few moments, but needless to say, attention to cost is key in this economic environment.

For 2009, we expect to expand sales from new products such as organic packaged soups and alternate beverages, expanded healthy fiber offerings and new healthy convenience foods products prepared at our healthy fruit snack and healthy grains processing and packaging operations.

We also expect to benefit from our new soy processing and packaging operation in Modesto, California, which is expected to be operational late in the second quarter of 2009. This operation, when combined with our existing aseptic packaging operation located in Alexandria, Minnesota, is expected to bring total annual production capacity to between 250 and 300 million quarts of soymilk and alternate beverages, the largest such operations, in our belief, in North America that is dedicated to these products.

When combined with cost reduction and rationalization initiatives, excuse me, and the avoidance of certain non-recurring and, for the most part, non-cash costs incurred in 2008, we feel we should realize much improved results in 2009. As we move forward, our company's primary focus remains the improvement of operating margins and return on assets employed.

In our non-core operations, Opta Minerals Inc. and SunOpta BioProcess (SBI), which are now less than 10% of annual revenues, are both strategically important businesses within the sectors where they compete. Opta Minerals has grown to a wonderfully profitable company with revenues approaching $100 million in operations throughout North America and Europe. During 2009, the company will focus on new product introductions and cost rationalization initiatives plus two new operations in Florida and Texas, which will improve the company's sourcing and supply capabilities for silica-free abrasives in the southern regions of the United States.

While Opta has been impacted by the current global economic downturn in the foundry and steel industries, operations have been restructured, and we feel the business is well positioned to capitalize on anticipated increases in infrastructure spending in the coming years.

SunOpta BioProcess remains focused on the utilization of its technologies in the production of cellulosic ethanol. The opportunities in this sector are attractive as the world looks to reduce its dependence on fossil fuels and reduce greenhouse gas emissions.

While production of cellulosic ethanol in North America is very small, the renewable fuel standards in the U.S. call for 16 billion gallons of cellulosic ethanol by 2022, a large task and a great opportunity for SBI's expertise.

The group continues in its efforts to refine its technologies and applications around the world and is making progress. They are completing expansion of a new pilot facility, and they continue to work on a joint venture initiative with Central Minnesota ethanol partners – cellulosic ethanol partners on the development of a commercial scale production facility.

I'd now like to turn the call over to Tony Tavares who will discuss activities in the SunOpta Food Group.

Tony Tavares: Thank you, Steve and good morning everyone. Excuse me. As Steve mentioned, we are fortunate to be in the food business, and we believe this leaves us well positioned relative to most industries to weather the weakness in global economic markets.

There appears to be a concerted effort on the part of most of our customers to reduce inventories possibly driven by the same efforts on the part of their customers and consumers in general. In fact, this is one of our objectives, as well.

Our focus in sales will be to reach out to new customers and to expand the uses for our products to counter what we believe will be sluggish industry demand. In addition to significant new supply contracts with major food service operators for aseptic soymilk products from our Modesto and Alexandria facilities, and fruit smoothie products from our Pacific Fruit facility, which we have previously communicated, there are active projects underway in all divisions to expand sales with new customers, new products, and innovative applications.

We are using the Blue Ocean framework for strategic planning across all divisions, and market expansion is a key part of the strategy sessions. As we move forward, we believe that our focus on operating margins and return on assets employed is the best way to work through troubled markets and position ourselves for the many acquisition and other opportunities we expect over the coming months.

The use of Lean Enterprise and Lean Green Systems across all departments in all SunOpta companies will be key to achieving these results. Through standardizing best practices, leader standard work, visual performance boards, daily accountability, and lean management systems, our objective is to continue the transformation of the culture of our company and to make continuous improvement and environmental cost reduction a part of everyone's job description.

The gains will be steady and incremental and, over time, we believe quite substantial. We have set an internal objective of $10 million in annualized savings as a direct result of these initiatives by the end of 2009.

We also expect the lean initiatives to significant reduce the amount of working capital employed, especially inventories, and improve fill rates and other customer-related performance measures. We are currently process mapping the order to cash value screen in each of the divisions to identify opportunity areas and sub divide complex processes into more manageable parts. We have set an internal objective of $20 million in further inventory reductions by the end of 2009.

Although this process will target all inventories, we will focus especially on reducing inventories of higher priced specialty items where we believe the risk of reduced demand may be higher.

In addition to Lean Enterprise and Lean Green initiatives, there are also a number of specific costs and working capital reduction initiatives in each of the divisions. We have reduced our fixed

payrolls by over $3 million per year. This number is in addition to a company-wide salary freeze and reductions in hourly wages resulting from lower production levels at some facilities.

Reduced prices of natural gas and other process and materials will represent savings for the company and reduced spending on travel and other admin expenses will also generate savings. In total, we expect savings from these initiatives in the range of $6 million annually.

And we continue to aggressively pursue further opportunities to reduce costs and improve efficiencies.

The new aseptic facility in Modesto will present opportunities to expand our sales but will also reduce the cost of delivered product to important markets in the Western United States.
The Grains and Food Group also has successfully widened its sourcing area for sunflower, which will allow for better capacity utilization at these facilities and increase sales without a corresponding increase in inventories. In the Fruit Group, we have restructured our operations to concentrate our processing activities in Irapuato, Mexico, Buena Park and Pacific Fruit facilities, and will buy the balance of our frozen fruit requirements from co-packers.

In addition – in addition to lowering our fixed expenses and providing annualized savings of approximately $1-1/2 million, this will also lower our inventory and working capital and result in greater flexibility to respond to market conditions.

The Ingredients Group has made a number of process changes to reduce the use of expensive materials and have improved yields resulting in a total annualized savings of approximately $800,000. They have also launched a number of innovative new fibers offering increased functionality, and recently we entered into an agreement for the addition of an insoluble fiber with specific functional qualities to its portfolio.

Taken collectively, the scope of the many initiatives underway should help us to offset the effects of the economic downturn. And I can assure all our shareholders that the management team is committed to generating solid bottom-line performance in 2009.

Steve Bromley: Great. Thanks, Tony. While 2008 was perhaps one of the toughest years in our company's recent history, we embark on 2009 with a cautious sense of optimism, aware of the difficulties in the current global economic environment, but really confident that our core positioning as a key player in health conscious food categories, combined with the numerous cost control, efficiency and product development initiatives that we have implemented will lead us to improved results in 2009 and beyond.

As I stated earlier, our focus is on improving operating margins and our return on assets employed. We are committed to this at every level of our organization.

Our stock price has fallen recently to new lows, and I can assure you that we are not aware of any undisclosed information that is causing the share price to decline. We continue to focus on managing our business to increase shareholder value via new sales, new products, cost rationalization, and management of working capital. We believe the stock price will increase as we remain focused on improving the fundamentals of our business.

With that, we would like to open the call to questions but want to remind you that we will not be commenting on the events leading to the restatement or the audit committee's investigation. The events surrounding the restatement are the subject matter of litigation before the courts in Canada and the U.S., and, therefore, it is not appropriate to comment further at this time.

Thank you, and we'll open the calls to – open the call to questions.

Operator: Thank you, sir. Ladies and gentlemen, if you do have any questions at this time, please press star then 1 on your touch-tone phone. But remember if you're using a speakerphone, it is preferable to lift the handset first. Please go ahead and press star 1 now for any questions.

And our first question will be from Ed Aaron of RBC Capital Markets.

Ed Aaron: Thanks. Good morning, guys.

Male: Hi, Ed.

Male: Morning.

Ed Aaron: So, it's a jungle out there, but you did a nice job managing the cash this quarter so that was good to see. I was hoping maybe for you to elaborate a little bit on the sales trends that you're seeing you know both in terms of you know where you're seeing relative strengths and weakness in your business, and then also any color you can give us, since there's so much volatility out there right now, on what you see you know even kind of into the first quarter because you do have 2 months under your belt here.

Steve Bromley: Yes. Well, generally on sales trends first, Ed, some general comments. You know I think, like everybody in this industry, the last number of months have been – have been a little bit more, I'll use the word volatile – probably not the right word – but you know we're seeing a lot of our customers adjusting inventories. I mean, as Tony mentioned, we're adjusting inventories so I know our suppliers are talking about inventory adjustment.

And so I think we're all dealing with retail customers of ours and manufacturing customers adjusting their inventory carrying levels. That's also being driven by, I guess, a common theme

that everybody's talking about now is pantry deloading and you know where you're just not carrying as much inventory at the house and that sort of thing.

So we've been working through that. We saw inventory adjusting starting later in the fourth quarter and certainly has carried on in the first quarter because we've had customers who you know you saw significant declines and then they pop back to pretty much the levels that you would have expected in the past. So you know that has certainly been a factor out there.

As a general rule you know we have seen what I would call more expensive, exotic products you know very high cost, high antioxidant, specialty type products, slow down significantly. They're not an exceptionally large part of our business but they're part of our business. So we've seen that slow down. (That) and a lot of those products are sold through you know independent and sort of super high you know the super natural channels where there's also been some slow down.

Center (of the plate) type products you know organic soymilks, frozen fruits, and those sort of things, have held up quite well. You know private label products seem to hold up pretty well in this environment. You know so we're not going to see growth of 20% like we did in prior years, I can assure you of that. But you know there's still really good demand and people continue to eat.

But as a general rule, the higher the price, the greater potential that you know there may be some impact. At the same time you know we're about 50% organic and 50% natural, and a lot of the natural products are a little less cost so they're not as impacted. And you know we have some customer segments you know we do sell products into you know products that go into McDonald's for their fruit parfaits and apple dipper products and fiber in the fajitas and those sort of things. That's doing very well as you know because their business is strong.

So still lots of learning to do but you know sales are certainly not where they were last year but holding up.

Ed Aaron: Great. So down year over year in the first quarter, is that the implication there?

Steve Bromley: Yes. Yes.

Tony Tavares: They're down sort of marginally to a year ago. It's Tony Tavares. The real issue for us is determine how much of the small drop we've seen is caused by inventory reduction taken on the part of customers and how much is really some of the change in demand.

We're quite confident that the demand piece is a real small part of it. So as long as demand remains pretty well (par) to last year or even a small marginal drop we think will be all right.

Ed Aaron: What about in terms of any pricing pressure in the supply chain? I mean you know there's a lot of price taken on the way up with commodities and now, like (Meiers) is (cutting) down the other way and we have a much more difficult environment. It seems like you know (including) all the supermarkets talked about this. I mean, there was kind of more pricing pressure working its way down through the supply chain. And just wondering if you – how much of that you've seen thus far. Thanks.

Male: Yes, a lot of the selling prices are – a lot of our parts are sold you know with not a formula exactly but you know certainly proportional to the cost of our commodities. So as the commodity prices come down, selling prices will come down but margins you know will stay pretty much intact. That's one comment.

The other comment on the increased cost, certainly we saw a run-up (all the way) through last year. And on some cases, they're coming down, like energy, for example. And you know we certainly intend to share some of those savings as we come down with our key customers. And again, still believe we can do that and keep margins at our good level.

Ed Aaron: OK. That's all I had but just one quick point of clarification, when you mentioned sales down modestly, is that on an internal basis or a total company basis? Is there still a little bit of acquisition in there?

Male: That was – I think what I was referring to is a slow down in our internal growth rates.

Male: Yes, growth.

Ed Aaron: OK. Thank you.

Male: OK? Great.

Operator: Thank you. Our next question will be from Scott Van Winkle from Canaccord Adams.

Scott Van Winkle: Hi. Thanks. First, on the soymilk facility you've just – you're just opening – if you said this I apologize I didn't catch it – but how much of the volume do you currently already have kind of pre-sold or have demand for when that facility opens at the end of the second quarter?

Male: percentage of their capacity or – we have a significant amount of volume that's been pre-sold to go through that facility, if that's the question that you're answering, you're asking.

Scott Van Winkle: It is.

Male: Yes. So you know we've brought on some new customers and we have other new customers that will come on in that facility. So we certainly don't have that facility sold out you know which leaves us opportunity to move into some new product categories. But there is good demand to open that facility.

Tony Tavares: Yes. The facility can house multiple lines. We're putting in one line to begin with, and I believe we've got – we've got two lines, sorry, excuse me. We've got roughly three-quarters…

Male: Yes.

Tony Tavares: …pre-sold. So that's a great start and lots of room to you know to go from there.

Scott Van Winkle: Excellent. And you know as you look across your product categories you know you have you know things like oat fiber that aren't necessarily you know sold only into the natural and/or organic food segments. So if – and this is probably a tough question but you know if we're talking about economic sensitivity based on price, if you were to kind of look at your business and say what percentage of it goes into more the conventional food industry, could you do that?

Steve Bromley: It's a little bit hard to do, Scott, but other than to say that 50% of what we do goes into organics and 50% goes into natural. So if the natural category that ends up in more of the conventional foods, food business, and – I don't know if I could comment…

Tony Tavares: Yes. I mean, the only comment…

Steve Bromley: …(maybe) 25%, 30%?

Tony Tavares: …we don't track it.

Steve Bromley: Not only do we track the business, but maybe 25% or 30%. And to your point you know one of our largest – one of the things that fiber is used for is not so much for its health benefit but for its functional benefit because fiber can go into food products. And as you, I know you're aware, fiber is an (extradizing) agent and essentially it acts like a binding agent or a sponge when

it gets into food and it can absorb water and oil. So it provides some interesting functional capabilities.

So you know fiber is used in just every day food products to reduce breakage you know in crackers to add a little bit of moisture by putting the fiber in and adding some moisture so that the cracker isn't dried out as quick and breaking. And it's used in all kinds of applications like that.

And you know any time we can go to a food manufacturer with an application that says, "If you put in some fiber, you could also put in some water." You know and so then that may offer up some interesting cost savings and that sort of thing. So it's a way that we can sell the product. And that's certainly attractive in this economy.

Scott Van Winkle: And you talked a lot about the kind of channel (delevering), everyone taking inventory out at each level of supply chain, which is you know certainly the topic of the day in the industry. I'm wondering if you look at your segments, where that's a more significant issue and where it's not as much a significant issue.

Steve Bromley: The area where we've seen it being the biggest issue – well, the group within our businesses where we've seen some significant impact is in our international servicing and trading group who are you know essentially 100% organic products and you know of all of our groups had the highest level of what I'd call specialty products. You know so they've certainly been impacted because they're into the high antioxidant berries and a number of those things. And so that's been a business that you know we've seen some real impact in.

You know there's some good visibility going forward that you know we're going to see some positive turnaround in a couple of the categories within that business. But they've been impacted, especially on the North American side. Not so much on the European side.

And then in our distribution business we've seen the impact because they're distributing across all of the categories you know be it dry, fresh, frozen. And you know we certainly – they've seen the deloading impact.

Scott Van Winkle: OK. And Steve, this is more of a kind of, I guess, a question of your opinion. There's a rumor that the leading soymilk brand is going to drop organic. And I'm wondering if that were the case, would there be any opportunity for you in that regard?

Steve Bromley: Well, we hope so. You know about 90 – I don't know exact number, but over 95% of soymilk today is organic. And you know our belief is the consumers want organic and they've been used to getting organic. Certainly if that were to change, that would open up some real opportunities to replace that organic consumer and provide private label products into that category.

But we've heard that. It's in the market, isn't it?

Tony Tavares: I think it's more than a rumor now. It's done, I think. I think so.

Steve Bromley: We've heard the same thing if it isn't done.

Male: But it (provides) an opportunity for us.

Steve Bromley: It will be interesting to monitor and we're on it.

Scott Van Winkle: OK. And last question, you talked a lot about you know cost savings, kind of a new culture of saving dollars and you threw out some numbers. Maybe I didn't catch this, but is there any acceleration of integration efforts? You know you've got some fairly distinct operating

segments. Is there some opportunity to kind of double up the responsibilities in you know across those segments or in those segments?

Tony Tavares: I've – the answer is a definite yes. I think the focus the last 9 months since I've been here is really to provide a common way of looking at the businesses, a common way of reporting the numbers, just a common philosophy of continuous improvement, a common way to (get at) things and still leave all the entrepreneurial spirit there.

And what results is sort of a matrix structure that you know you have the autonomy but you bring groups together in new product development and marketing and sales you know to try to play the strengths up and – or to leverage the strengths of the various divisions.

So I'd say yes, and there are very specific projects that we've started, for example, to leverage our competencies and international sourcing of things like coffee and cocoa, juices, and try to leverage that for the other divisions and leverage sales. So it's a work in progress. I don't think we're ever going to be totally done with it, but without a doubt, there's more momentum in that area than there was before.

Scott Van Winkle: Great. Thank you. Look forward to seeing you guys this afternoon.

Male: All right. We'll see you, Scott. Take care.

Operator: Thank you. Our next question will now come from Peter Prattas of Fraser Mackenzie.

Peter Prattas: Good morning, guys.

Male: Peter.

Peter Prattas: Just first off wanted to touch upon your profitability specific to the food group, looking at Q4 and sort of getting a gauge of what we can expect throughout 2009. By my calculations, it looks like at the gross margin line you might have been at around 13% gross margin in foods at Q4, suggesting maybe that the macro effects are delaying your ability to improve your margins.

And so I just want to get a sense from you guys if you think that's where it might stay just because you have the macro forces working against you or you know will we stay at around the 14%, 15% range gross margin in 2009? Or can you get to sort of the level that you're hoping to get to?

Steve Bromley: Well, I mean, (we expect) it to improve, but you know in the fourth quarter we obviously had a number of the inventory write-downs that impacted that business. And you know in the fourth quarter as well you know we slowed some facilities in order to dramatically reduce our inventories in those businesses. So you know there was a negative impact around that.

Also on the Canadian distribution – the Canadian distribution business you know we didn't – the Canadian dollar fell dramatically versus the U.S. dollar so we were in a position where we weren't able to get that pricing passed through to our customers. So we would be – we have no intention of seeing gross margins on an ongoing basis – economies aside here, just for a minute – in that business at those levels.

You know Tony went through a number of initiatives across our business from new products, new cost rationalization to rationalization of facilities, leveraging what we have. You know we would be extremely disappointed if the numbers stayed at those levels going forward.

I qualified that just for a moment by saying as the economy is shifting around and you know we're shifting the cost base and our infrastructure to align with that you know there may be you know some sort of shorter term buffeting there, but longer term we're focused on much higher margins.

Peter Prattas: Understood. And just related to the inventory, then, can you give us an update on where the berry inventory is now, the old stuff, and you know whether there's potential for, I guess, further write-downs in terms of some of your other products, just keeping in mind where pricing maybe has gone in the recent months?

Steve Bromley: Sure. So first thing you know at the end of 2007 – I don't have the exact numbers in front of me, but I can tell you at the end of 2007, we had almost $50 million in frozen fruit inventory, and that had been sold through. And we were down around $6 million, $7 million by the end of the year and that continues to be (paid to down) now. So that issue is really all behind us now.

We've seen – and you know as Tony mentioned, we will never see the run-up in those inventory levels within our fruit business ever again. The business has been restructured. As Tony has mentioned, we've changed our purchasing patterns. We've changed the way we process. We've idled – we've rationalized some facilities so that we're not going to process all the berries ourselves anymore and we're going to partner with other co-packers to do some packing so we can buy as-needed rather than process all at one point you know in the processing season during the year.

So there's been a number of initiatives undertaken there. Generally speaking, we have seen commodity costs come down versus you know early into the fourth quarter. So most grain inventories have come down. Most fruit inventories – costs have come down. So you know those are coming down. And as Tony mentioned, depending on our relationship with our customers, we pass most of that through as soon as we can.

Obviously we won't get all the benefit right away. You know on the grain side of the business, for example, we would have contracted at higher prices and we would have sold at higher prices for

next year. But over time, those prices will all come down, or they appear to be coming down. You know so we'll see that as well.

That'll impact the top line a little bit (but) commodity prices are just coming off and there'll be a little less – a little less built into our sales. But you know…

Tony Tavares: I think there's a general statement with you know what I'd say is that from a cost perspective, processing perspective, significant improvements, far from close to you know where it's going to go and where it can go. But significant improvements over where we've been.

Number one challenge this year is to you know to try to get those costs to outstrip what's going to be sluggish (to map). And you know we're confident we've got a lot (variants) that are going right. That's kind of the number one (work hard). And you know if we're going to spend – find the capital and reduce inventories. It's really trying to turn unproductive assets into something that'll generate more.

So it's a year where we have to make do and do well with less.

Peter Prattas: OK. And just one last question relating to cap ex. You had brushed upon it in the opening remarks there, but just trying to get a sense – because you have committed to a couple things in 2009, can we get a sense of how much capital spending you're going to have, or have committed to, early on in 2009 until you get those two facilities running and how much that'll work out to be for the full year? I mean, I'm guessing maybe 20 million for the full year with that (fine downloaded).

Male: (That would) be on the high side, Peter. Probably be 15 million to 20 million, in that range.

Peter Prattas: OK. Great. Thank you.

Male: Hopefully 10, but Tony wants to spend all the time. I'm just kidding.

Tony Tavares: It's not a bad number. And again, really what – what we're trying to do, honestly, is to try to get all of that out of our inventories.

Peter Prattas: Great. Thank you.

Male: Thanks, Peter.

Operator: Thank you. Our next question will be from Bob Gibson of Octagon Capital.

Bob Gibson: Good morning, everybody.

Male: Hi, Bob. How are you?

Bob Gibson: I'm OK. When you talk about commodity write-downs, 3.6 million.

Male: Yes.

Bob Gibson: So is the 2.8 Opta in there?

Male: Yes.

Bob Gibson: OK. And can you give us some color where the other 0.8 might come from?

Steve Bromley: Yes, it was high antioxidant – a number of products, but generally speaking, fruit business, high antioxidant berry type products where the markets just fell right off and the pricing fell right off.

Bob Gibson: OK.

John Dietrich: And you can't have them – there's no hedge mechanism there so you're kind of stuck in the middle.

Bob Gibson: OK. Great. OK. So my math is not so good, so I'm looking at your goodwill year over year.

Male: Yes.

Bob Gibson: And yet you wrote down 10 million. Can you walk me through how come it's…

Male: Well, it'll change, Bob, because we added goodwill for the (Trodden) acquisition and (MCP) and Opta Minerals, plus you get an exchange effect on the Canadian goodwill as well.

Bob Gibson: Exchange effect. OK.

Male: But the biggest difference would be the (Trodden) acquisition.

Male: Yes. There were two acquisitions – you know well, there's only one food acquisition and you know as you know we're not focusing on acquisitions at this state in the game, and there was one in the minerals business as well.

Bob Gibson: OK. So just acquisitions. And then now you just mentioned FX, corporate…

Male: Yes.

Bob Gibson: …are you guys being paid in U.S. bucks or Canadian?

Male: Now, we're – are we being paid? Canadian dollars.

Male: Canadian.

Bob Gibson: OK. So part of that corporate cost increase this quarter was probably FX related, right? Not FX. It was just additional bodies?

Male: I can assure you that there weren't additional bodies. And so what…

Tony Tavares: I think we had some foreign exchange expense in the quarter (outstanding) some gains that we had in previous quarters.

Male: In Q3 there would have been FX gains. In Q4 there was an FX – there wasn't (a whole) lot there. I can assure you there were no incremental heads at a time when we're cutting back.

Bob Gibson: Cutting back. OK. And then lastly, can you walk me through the fruit group this quarter, why is it losing money? Like, just walk me through the mechanisms (of the quarter).

Male: OK. Yes. In the second and third quarters of the year, they're in the processing season, and that's where they have the bulk of their – that's where they have the bulk of their earnings. The first and fourth quarter is their packaging but they're not processing fresh fruits. They don't absorb as much overhead. So first and fourth is you know our lower earnings periods. You know during the fourth quarter, a concerted effort was put forward to reprocess as much of the old product as possible and continue to move that through. So those were the key drivers.

Bob Gibson: OK. So now that I've got a full year under my belt, that's kind of how I should be modeling this going forward, right?

Male: Yes. First and fourth are low and second and third are the better quarters, yes.

Bob Gibson: OK. Great. Thanks.

Male: OK.

Tony Tavares: But a large impact is selling through all that old stuff, which you know you've written it down but when you sell it, you don't make anything on it.

Male: Don't make anything on it. Yes.

Tony Tavares: So that's – a good part of the margin should improve there.

Bob Gibson: OK. Thank you.

Male: We're happy to report that we won't be talking about that much longer.

Operator: Thank you. Our next question will now be from Chris Krueger of Northland Securities.

Chris Krueger: Good morning, guys.

Male: Hi, Chris.

Male: Good morning.

Male: Hi, Chris.

Chris Krueger: Had a lot of questions answered already, but just two quick ones. In the current quarter we are in, just a few weeks to go in the first quarter, on the debt issue, can you give us an indication if you're – are you paying down more debt during the first quarter? And if so, can you give us a range of maybe how much we would expect by the end of the quarter?

Male: We really…

Male: Let's just deal with some general concepts. We're continuing to conserve cash. You know a major cash draw starts kind of into the fourth quarter when we get into the fruit season again. But we're working hard to conserve our cash balances. You know we're limiting the amount of capital spending that we're doing other than with you know the projects that we have underway and you know it's not real, real big money that we're spending.

You know we expect to continue to sort of year over year sequentially, based on the how the business trends and when we're spending and not spending on various inventories, we expect that to continue to improve.

And you know our goal, as Tony mentioned, is we believe there's lots more to come out of inventory. We've done a great job of controlling our receivables, and, of course, that's a very critical area in this day and age given the customers that you do have. We're fortunate to be dealing with wonderful customers who, for the most part, are quite stable. You know we'll continue to leverage our payables as much as we can. And you know we believe that that's all part and parcel of our you know improving our return on the assets that we have employed and continuing to pay down our debt.

Chris Krueger: OK. So then to follow up…

Male: I apologize. I just can't give you the number for the end of the quarter. It's…

Chris Krueger: …that's fine. As far as, I don't know if you can answer this, but as far as your first quarter debt covenant, at this stage in the quarter how comfortable are you with your ability to get by there?

Male: We feel good about it.

Chris Krueger: OK. Thank you. That's all I have.

Operator: Thank you. Our next question will be from Sarah Lester of Sidoti & Co. Please go ahead.

Sarah Lester: Good morning.

Male: Good morning, Sarah.

Male: Hi.

Sarah Lester: You talked about – a little bit about acquisitions. And I know you've had sort of a pause over the past year or so. But can you talk about acquisitions? Is that going to start changing?

Male: You know not in the immediate future. I mean, this is a time in our life where we're very much you know very much focused. I'm sure if you compared what we were saying a year, year and a half ago, compared to what we're saying today, we are very focused on our platform that we've built and put into place and on improving efficiencies from that and improving the return on that. It's

also a time where we're managing our resources, our cash resources and our financing resources very carefully.

And quite frankly you know there's going to – there will be deals out there at a point in the future, but they're not – it's not an area that we're spending a lot of time on. You know we do get some opportunities that come across. It's not our first focus by any stretch but you know unless it's just too good to be true.

You know we are really happy with the platform that we have. We see some great internal growth opportunities where we can just build off the platform that we have. So it's not something that we're focused on. The day will come again, for sure, and we'll be ready to go when that happens. But for now, we're very much focused on leveraging what we have across the business.

Tony Tavares: I think the focus this year is we'll be strengthening the platform. And when we do go into acquisition mode – which you know Steve mentioned there's a lot of opportunities there – we all believe that. We'll be much better positioned to digest a lot more. So – but it's a year to consolidate and get by with less.

Sarah Lester: OK. All right. That's all. Thank you.

Operator: Thank you. Our next question will be from Keith Howlett with Desjardins Securities.

Male: Hi, Keith.

Keith Howlett: Hi. Just a few questions. On the fruit inventories, am I correct that the $5 million to $6 million will be gone by the end of first quarter '09? Is that…

Steve Bromley: You know some of these – the goal is to move them as quick as humanly possible. And you know some of these are – the best way for me to describe it is they're specific types of materials that you know will go when the specific customer needs that type of material again. So the sooner the better, but I wouldn't necessarily you know – we're not going to just through it out, so.

Tony Tavares: And Keith, that's the gross amount of inventory. We have hefty reserves against that as well.

Male: Well over half.

Tony Tavares: We're working through it quickly. I don't think it's really – it's really not possible to put an exact date. But by the end of 2009, we won't have anything in inventory that we wouldn't have made in 2009. That's the target.

Keith Howlett: And just on the (clues) business, I was trying to understand from the restructuring you've done in the food group, have you more or less closed down the (clues) processing facility or?

Male: No.

Male: What has happened is there's a large processing facility in the Los Angeles area, and there was a second facility in the Salinas, California area that (was in the leased) operation. And we've rationalized the Salinas operation and won't be operating that this year. And as we indicated, we've entered into supply arrangements with other packers to do that.

And that really allows us to be variable you know not have as much of a fixed platform in place. The Mexican operation is still running. In the second smaller Mexican operation we've done

really the same thing as we've done in Salinas where we've – we're not going to run it this year and we'll go to more of a variable cost base.

But no, that (very) operations are still what they were just with rationalized operations.

Keith Howlett: And on the – maybe just on the fruit bar operation, can you speak as to how you're doing on the new line in capacity utilization and…

Male: This is one of Tony's greatest achievements so I'll let him brag.

Tony Tavares: (I don't want to brag.) The team did a (bit of) work and they were one of the operations that jumped on the lean enterprise systems first and you know had started. And when I got here in June, we really (put) acceleration and that operation was profitable in the fourth quarter and continues to be profitable at the start of the year. And they are on budget top line and bottom line.

So a lot of – again, far from a completed work. It's never really quite done, but substantially improved from where it was.

Keith Howlett: And on the opening up of Modesto, I presume it's going to take some volume from Alexandria, so I'm just wondering how to sort of – I don't know, that may or may not be wrong, but how will the two operate in terms of capacity utilization?

Male: There will be some move of inventory, Keith. And part of that is you know our customers just can't afford to ship product all the way across the country. So we will shift some inventories around and rationalize and streamline operations accordingly.

Keith Howlett: So Alexandria has sort of been running full tilt. Sort of like the two of them will be 80% or 85%? Or how's it sort of…

Male: Yes, we'll take – we'll rationalize and you know but you're right, like we've been sort of putting as much (line) as we could into Alexandria, so that'll shift around. And then there's some new business opportunities that'll come in and fill those holes. You know we've talked about moving into organic soups and – (all to) organic (tech pack) soups and some alternate beverages and those sort of things. So there's new business to come in, as well, once we get that stabilized.

Keith Howlett: And then just on the – sort of on the new product front, I don't know whether this is feasible or possible or – could you envision sort of a SWAT team that's trying to develop you know new private label products internally, I guess you know using the resources across your…

Tony Tavares: Yes, (once) we're on what we have and it's coming together, it's what we've coined our virtual center of excellence, our virtual product development team. So using the folks that are in the various divisions, we're going to – where we have an individual in marketing who's going to lead that effort, have some common guidelines to apply within the divisions and certainly have guidelines on the products that we're going to develop using the talents of the divisions.

So very much so, and not a whole lot that we can talk about right now and not a whole lot, frankly, that I'd want to talk about right now. But I think you're going to see some nice innovation towards the end of this year. So you know very much – very much taking you know sort of our ability to do supplements, with our ability to do fiber, with our ability to make it portable in a handheld form, all those things are being worked on.

Keith Howlett: Just briefly on the bioprocess division, can you just update us on where the Verenium and the China pilots are or any new news there?

Male: Well, our – you know the Verenium facility has been up and running and Verenium have had a number of announcements recently with that facility now being – their pilot facility being up and running. And they've announced that they're moving on to start the development of a commercial facility. So we're hopeful on that front.

Our guys are scheduled to be – I'm going to stop talking about China. Our guys are scheduled to be back in China at a point in time. We're told that it's in the large oil company's budget for this year. So you know that's positive but quite frankly, I've told you that they're scheduled to go back in the past and we're a bit at the whim of you know the calendar that they're following over there. But we're still in dialogue and hope that it'll happen, but boy, it's been a lot slower to happen.

You know at the same time on the bioprocess side you know the Obama Administration are certainly putting alternative fuels and you know greenhouse gas emissions high on the agenda, which all looks good. They're putting money behind development of alternative energies, which is good. You know the renewable fuel standards have been written.

And you know I talked about the fact that we need you know it's calling for 16 billion gallons of cellulosic ethanol by 2022. And for those of us who are getting a little older, that may sound like a long time away but it's 2009 now so it's not a long, long time. You know last year in North America I believe we produced you know (food) to ethanol of around – I don't know the exact number – but about 10 billion gallons. That was through 140-plus facilities.

So you know you can get your head around what has to happen over the next 10 years if we're going to be able to produce that type of cellulosic ethanol. That's a lot of opportunity.

So you know these economic times aren't helping move big projects ahead. That's for sure. But you know there is a real inertia, if you will, from political sources to make it happen. And I think that that's going to be very positive for us.

Tony Tavares: You know the real excitement around bioprocess within SunOpta is there's, I guess, a belief among the team here that the next 2 or 3 years with oil prices where they are, you're going to see limited number of big commercial sized projects. But we also firmly believe the result of it (being what Steve) just said because you're going to have a large number – huge number – of (pilot) plants going up.

So we spent a lot of time developing what we think is a real innovative way of putting a pilot plant into operation at much less cost. So we like to dominate that part of the process now, and we think over the next 3 or 4 years, that'll put us in a really great place when the commercial projects come on board.

So there's been a lot of innovation over the past few months in that area.

Keith Howlett: And is that what you'll utilize in the Central Minnesota…

Male: No.

Tony Tavares: That's commercial.

Male: That's a commercial scale.

Keith Howlett: That's commercial scale.

Steve Bromley: Yes. One of the issues, Keith, is that you know to Tony's point, that people need to move into pilot scale operations you know and to prove out the technology. And you know our system was expensive and it's – because it's a larger scale. So we spent a lot of time working on

how our technology can be better placed to assist in getting to pilot scale on a more economical basis for people that need to move into this industry.

Tony Tavares: Yes. (Modular) it sort of (clicks) into scalable to a certain extent. It's all good stuff.

Keith Howlett: And is the – I guess the Central Minnesota is in the phase two still?

Steve Bromley: Phase two. Yes.

Keith Howlett: Great.

Steve Bromley: And proceeding. I think you know we announced that we received a grant for almost a million dollars to (suit up that) from the state of Minnesota, who are great partners.

Keith Howlett: And you just – one last question on the tax rate, I guess the bioprocess is a separately taxable entity, as Opta Minerals is, as food is. Is that correct?

Male: Yes.

Male: That's correct. We have various different tax jurisdictions, but SBI is a separate one, Minerals would have separate ones in Canada, the U.S., and the European operations. The food group would have essentially one jurisdiction in Canada, one in the U.S., and then its European operations. And then various other ones, Mexico, China.

Keith Howlett: So what sort of tax rate, just on the food business, do you think would be likely going forward?

Male: I was just going to say, you've got different (effective) rates depending on the jurisdictions. So our total would be around 32 to 35.

Keith Howlett: Thirty-two to 35. On just the food side?

Male: No. Total.

Male: Total.

Keith Howlett: Total for the whole – (I wanted it kind of)…

Male: Minerals would be in that area, too.

Keith Howlett: OK. And presumably the losses you have at bioprocesses, you can't do anything with them? Is that…

Male: We end up taking a full valuation of those losses as they occur because we don't – we hope we don't – we've got a lot of losses coming out right now on that group, (on a) consolidated tax rate that I gave you though.

Keith Howlett: It's all built into that 32 to 35 overall?

Male: Yes.

Keith Howlett: Great. Thanks very much.

Steve Bromley: Thanks, Keith. Take care.

Operator: Thank you. Our next question will be from Ron Reuven or Reuven Enterprises.

Ron Reuven: Hey, guys. How you doing?

Male: Hey, Ron. How are you doing?

Ron Reuven: All right. In regards to the alternative energy initiative being pushed by the Obama Administration, are you guys applying or is there such grants that you're trying to get at this point for the bioprocess group?

Steve Bromley: Yes, we are. We're working on getting grants for the – a number of areas but one of them – by the way, these are a combination of grants, loan guarantees, et cetera, obviously right now looking at working on the Central Minnesota project. Yes, we are.

Ron Reuven: OK. Do you – when you apply for these grants, do you apply for a certain dollar amount or is it just a grant and whatever they're going to give you?

Male: You apply for – you know I don't…

Tony Tavares: Yes, we have specialists that are helping us with each of the projects to get the maximum amount. But I don't know if that's – I don't know if …

Male: I don't know if I can properly answer that.

Ron Reuven: OK. What about in Canada? Are you…

Male: There are also opportunities in Canada as well.

Ron Reuven: Got you. All right. Now as far as the debt repayment that you're doing right now, do you – once you pay this debt of, I mean, based on your, I guess, the deals that you have with the financial institutions, does that – is that – once that money is paid, are you able to get you know borrow the money again without redoing a whole application? Or is that paid and it's done?

Male: No. What we did is we just paid down our operating lines. And these are revolving operating lines so you go in and out of them at any point. You know you had – they go up and down all the time. And so you know the bottom line is when you're generating cash, in the periods where you're generating, you apply it to your lines. And then you know at times you'll need cash to fund some of the operations and those lines go back up.

So they're revolving, and they go up and down.

Ron Reuven: Got you. Got you.

Male: There is also a component – there is also a component where we're paying down long-term debt under fixed terms and that once they're down, they're down.

Ron Reuven: Yes.

Male: And most of that's the subordinated debt.

Ron Reuven: Got you. OK. And in regards to Eric Davis' hire, I know one of the – one of the things that you mentioned is that he has the ability to get up to 50% of his salary as a bonus based on certain metrics reached. Are you comfortable discussing those metrics?

Steve Bromley: I can tell you how the bonuses work across our company. I won't get into the specifics but you know we have bonus programs across the company for our executives and senior

management that are based upon a combination of factors. And those factors are corporate net income and return on net assets, so we use RONA targets, which you know encourages all the operators and all the executives to focus on our earnings and also focus on our balance sheet and the return on net assets.

And the various levels are across the organization, so if each one of the operating groups you know they'll have specific targets but they also will have a large portion tied into overall corporate net income. So Eric will be bonused on very much the same metrics that Tony, myself, John…

Tony Tavares: The same boat.

Steve Bromley: …we're all in the same boat.

Ron Reuven: OK. All right. And I guess, I know you discussed a little bit more in regards to the China (Resources and Alcohol) deal that you've been working on what seems to be a century, is – are they backing out of it? Are they not interested anymore? Or are they just very, very slow and like the rest of the world right now?

Steve Bromley: No, I think you need – we need to be clear. China (Resources and Alcohol) already have a pilot operation.

Ron Reuven: Right, but I'm talking about the second chapter, the commercial.

Steve Bromley: No, there's more than one party in China.

Ron Reuven: OK.

Steve Bromley: OK? So you know they continue to work on their operation and refining their operation. And you know we continue to try and support them wherever we can in that process. And you know so they're still doing what they're doing. And the other party in China is also working on a similar operation, but they haven't commenced as of yet.

Ron Reuven: OK. But as far as the commercial plan, is that something that is still in discussion with China (Resources and Alcohol) specifically?

Steve Bromley: We're still talking to them about where they're going with their project, and yes.

Ron Reuven: OK. OK, that's it. Thanks a lot, guys. Appreciate it.

Steve Bromley: Yes. Thank you.

Operator: Thank you. Our next question will be from William Dittl of Goto Company. Please go ahead.

William Dittl: Oh, hey gentlemen. How you doing?

Male: William, how are you?

William Dittl: Pretty good. Just going over the food group and, I mean, you guys were in a pretty unique situation here. Global sourcing, you guys were exporting to over 30 companies. And, of course you know the key focus right now is margin-building strategies. Just going over some of these other countries where the demand is still even stronger than it is in the U.S., do you guys kind of feel that you can meet some of that turnover, even though you're trying to reduce inventories? Do you guys think you could be efficient there in reaching out to those markets?

Tony Tavares: Yes. It's Tony Tavares. The way I'd answer that, I mean, the inventory reduction objectives or initiatives, before we expect to be able to do that and improve flow rates – so it's really not a – it's not a question of a tradeoff between service and customers and reducing inventories. We think there's a lot of – there's a lot of green space there where we can do both.

So the inventory reduction initiatives will in no way affect our ability to service any viable customer.

William Dittl: OK. And yes, I think there was a pretty much confirmation of the big – one of the biggest (windmill) companies taken off three organic brands, which should be favorable to you guys. Just question on percentage, what percentage of your Modesto facility is going to go service that new contract that you guys have with the retail operator for 20 million in revenues a year? Is there a certain amount of percentage that you guys are diverting from Modesto to that? Do you know what it is?

Male: That facility, Modesto will service that account. And it is the about 25% to 35% of the opening volume.

William Dittl: OK. OK. And then there's a real (plausity) of the cellulose ethanol plants coming up, especially what we're looking at in terms of commercial plants. And increasingly it's putting a focus on the plants that are actually either up and running, number 1, and have been funded by the DOE, and there's a lot of projects that have kind of gone belly up, either turned away their DOE money, their federal funding, and they're not meeting prerequisites for commercialization.

Male: Yes.

William Dittl: And you guys, that's where your milestones are kind of coming in here. And my question for you guys is with some of these advances in the enzymes and hydrolysis stages, it looks as

though that's really favoring steam explosion pretreatment. And I'm wondering what you guys have to say in that effect in terms of these advances, like single step fermentation and things like that.

Male: Well, we're biased and we agree.

William Dittl: OK.

Male: We think that you know all of this development is – it looks you know helps to position the business going forward.

Tony Tavares: And we also think we have a better – certainly a much better story to tell everybody on the environmental site. We have processes more environmentally friendly. And it's going to be a major plank of our selling proposals.

William Dittl: OK. That is one of the going interests of a lot of places right now, especially with the administration, the cost of doing business is always including the (cause in) the environment. So, all right, well thanks very much, gentlemen.

Male: Thanks a lot. Take care. Bye.

Operator: Thank you. We now have time for one more question, which will be from Ron Pollack, Private Investor.

Ron Pollack: Yes, on the (CMEC) feasibility study, can you give some additional information in terms of completion date, are the results positive, negative? Where does that stand?

Male: Well, we made it through – Ron, we made it through the – we went through the first phase. And we were satisfied with where things were at. The second phase involves much more detailed planning, much more detailed engineering, much more detailed study across the entire phase.

We're proceeding through that phase. I think it'd be fair to say that there hasn't been a showstopper come up that says that you know it isn't a viable project and that we shouldn't keep you know moving forward with it, and we're doing that. You know we would expect that that would be behind us kind of late third, early fourth quarter.

Ron Pollack: And at that point, if you get the thumbs up, with the economic times what they are, do you have the ability to proceed with the commercial project or would that be delayed?

Male: No, as we indicated you know the bioprocess group are well funded and they have you know significant resources. And they would be looking you know as we mentioned earlier, be looking to receive you know take on other funding sources, and that can be through – primarily through you know various government programs that are in place or other partners as well.

Ron Pollack: Do you have a target date?

Male: Target date for?

Ron Pollack: Beginning – (this deal) on the ground.

Male: No. We don't have a specific date. It really depends on you know how long of a phase – all the phase one – pardon me, phase two work gets completed. And then once that's completed, there'd be a date into the ground.

But you know at the same time you know there's a bunch of streams that we're undertaking. We're obviously going down the study side and we're also talking and working partnerships to help fund that facility.

Ron Pollack: Are you talking to any oil companies about partnerships?

Male: Yes.

Ron Pollack: And you've mentioned the fact that the U.S. government stimulus infusion can positive impact Opta. Have you run any projections that you can share?

Male: We haven't run specific projections because, quite frankly, at this stage of the game you know the government is – it's very hard to tell exactly where the government are putting the money and what they're putting it into and you know how we can most – how we can benefit from that.

You know our – the infrastructure side of the abrasives is in industrial mineral sides of the business. Obviously it would be benefactors in bridge cleaning and road building and all of those sorts of projects. You know as of this stage of the day – as of today, I can tell you that you know the government money isn't flowing out yet in significant portions of the business (sea).

So you know that's very much a – we know it's coming and our customers claim it's coming but nobody knows when it's coming.

Tony Tavares: We've done a lot of modeling on our process as to you know what type of oil price you know we'd need to you know to make it viable. And we feel pretty good about it.

Ron Pollack: One last question. On the aseptic soymilk contract that you've announced with a food service restaurant company, you said it's going to create revenue of 15 million to 20 million annually. Do you have a projection for what the net income on that money would be?

Male: We don't.

Ron Pollack: And have you announced what the restaurant company is?

Male: No, we haven't.

Ron Pollack: OK.

Male: We want to but they prefer us not to do so.

Ron Pollack: Great. Thank you.

Male: Thanks a lot.

Operator: Thank you. And that was our last question.

Steve Bromley: Great. Well, thank you very much, operator. And to everyone on the call, thank you very much for joining the call today. I know we said we'd keep it to an hour and we're a little bit over, but we wanted to get in as many questions as we possibly could.

As you can tell, there's a lot of interesting and hard work going on in our organization. And we're very confident about the future. And we thank you all for your support. As always, feel free to give us a call if you have any questions. And we look forward to chatting to everyone again soon.

Take care. Thank you.

Tony Tavares: Thank you very much.

Male: Bye.

Operator: Thank you. Ladies and gentlemen, this does conclude your conference call for today. Once again, thank you for participating. And at this time, we ask that you please disconnect your lines. Have yourselves a good weekend.

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