

Farms.com™

Assets \$650K  
Liabilities 325K  
Net Worth 325K

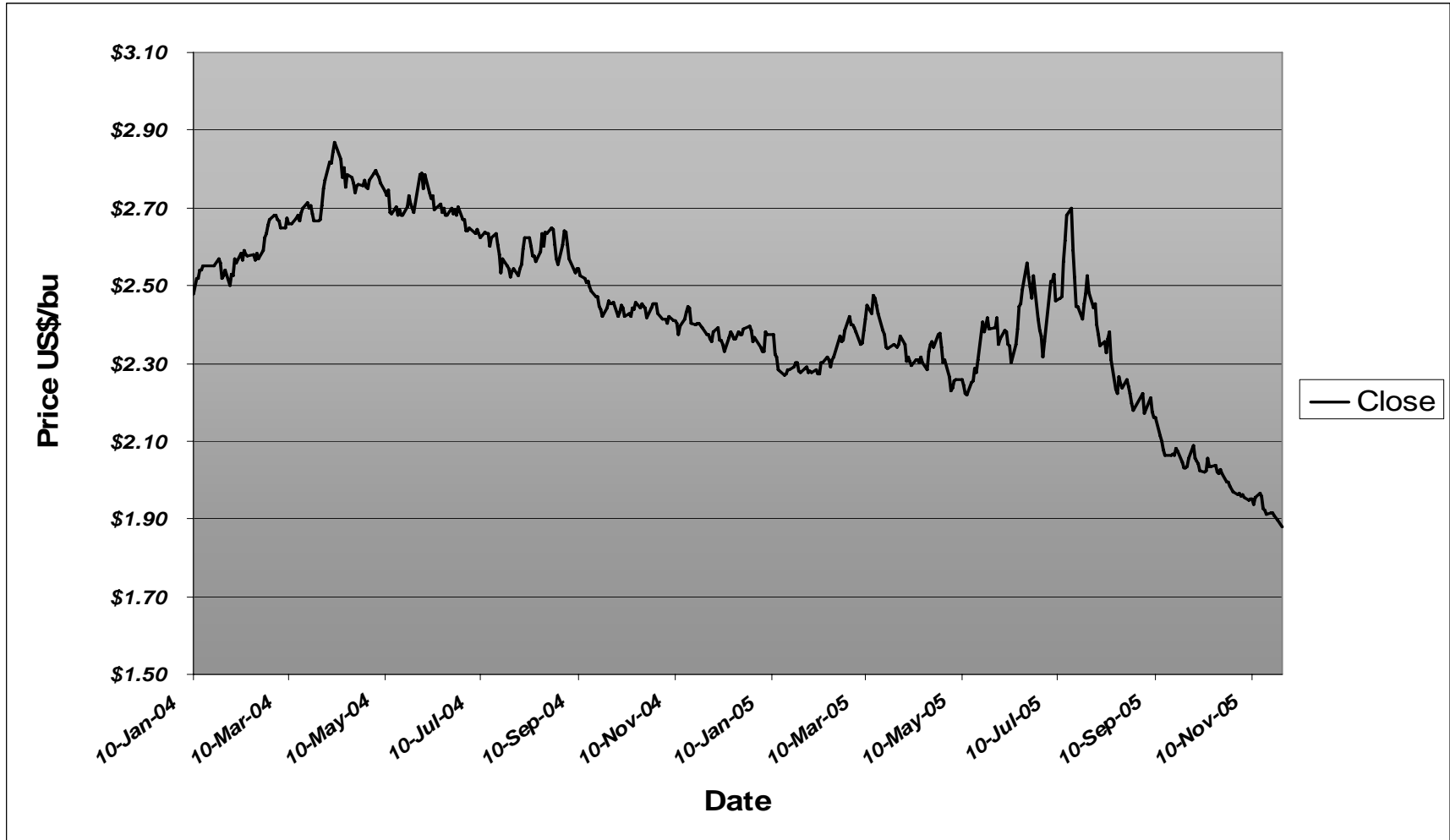
Cash Flow

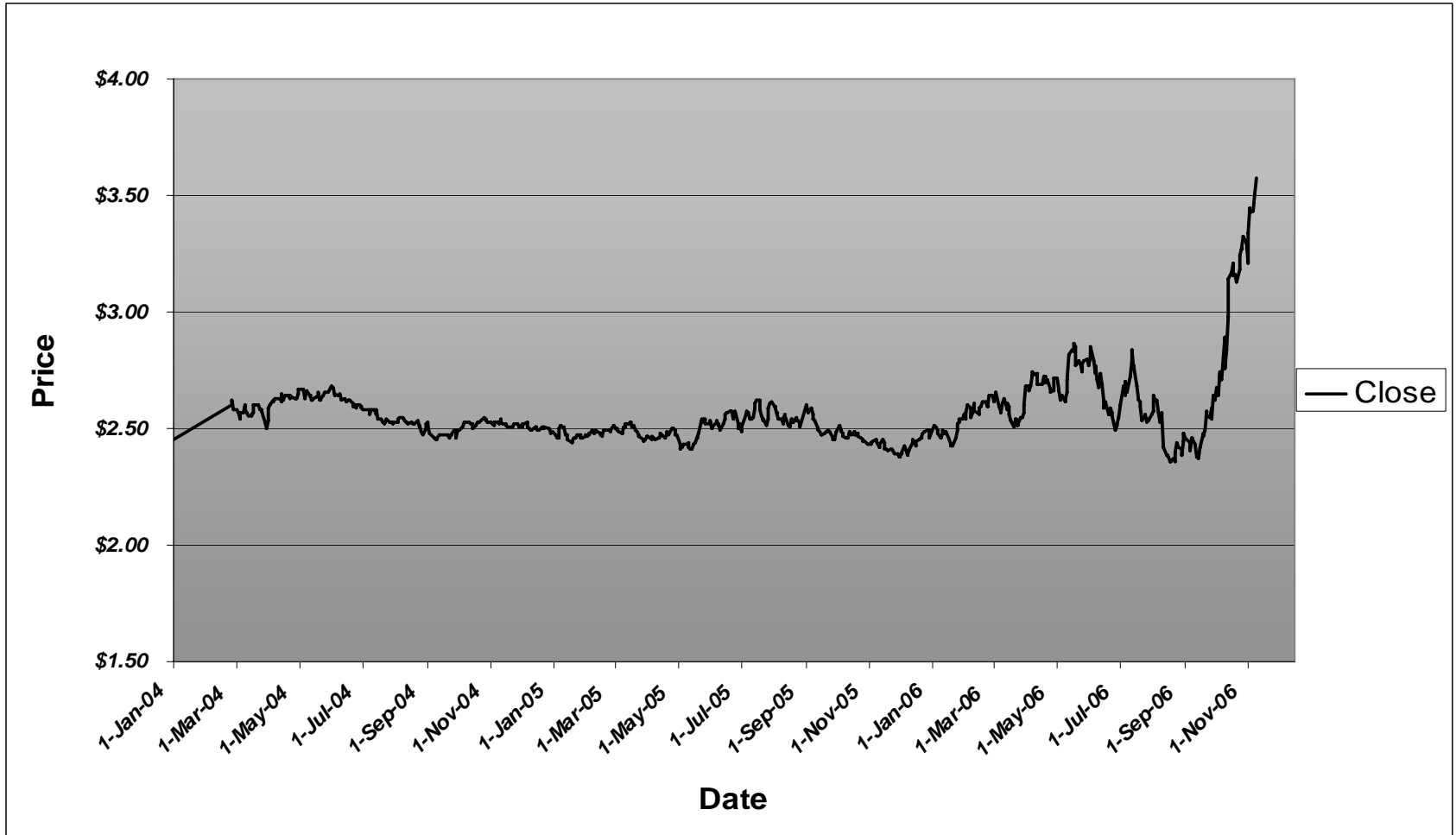
Interest Income

- Part of **Farms.com**<sup>™</sup> group. Consultants and innovative management solutions providers to the agriculture and food industries.
- We provide Specialized research and consultation both in-house and offsite to:
  - Downstream food production companies
  - Agricultural input buyers
  - Crop and livestock Production companies and individuals
  - Producer and user associations
  - Agriculture and food industry lenders

- The grain markets (corn, soybeans and wheat) have presented some of the highest CBOT prices in more than a decade
  - Corn use for energy (ethanol) production has been a major driver of price
  - What are the fundamentals driving this phenomenon and how long is this likely to last?
  - Going forward grain users and growers are still going to need to make a decision about when to buy or sell. The timing of this decision will continue to have a major impact on how well we do financially
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- During '03-'06 corn based ethanol production in the U.S. has increased by about 100%
  - During '06-'07 USDA estimates that 20% of corn produced will be used for ethanol compared to 12% in 2003/2004
  - Increases in crude oil, gasoline and ethanol prices have supported this rapid expansion
  - Harvest '06 CBOT (and cash) corn prices have hit 10 year highs even with the third largest U.S. corn harvest – DEMAND side pressure is the driver for current prices
  - Wheat prices are high based on SUPPLY side shortfalls.
  - Soybean prices have increased along with corn and wheat and is supported by estimated reduction in acreage during 2007 (and beyond?)
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<b>WASDE U.S. Balance Sheet</b>						
	1994/1995	1995/1996	2005/2006	2006/07 Oct	2006/07 Nov	2006/07 Jan
<i>Planted Acres</i>	79.2	71.4	81.8	78.6	78.6	78.3
<i>Harvested Acres</i>	72.9	64.9	75.1	71.0	71.1	70.6
<i>Yield per harvested acre</i>	138.6	113.7	147.9	153.5	151.2	149.2
<i>% Harvested vs Planted</i>	92%	91%	92%	90%	90%	90%
<i>Beginning Stocks</i>	850	1,558	2,114	1,971	1,971	1,967
<i>Production</i>	10,103	7,374	11,112	10,905	10,745	10,535
<i>Imports</i>	10	16	11	10	10	10
<b>Supply Total</b>	<b>10,963</b>	<b>8,948</b>	<b>13,237</b>	<b>12,886</b>	<b>12,726</b>	<b>12,512</b>
<i>Feed &amp; Residual</i>	5,534	4,711	6,100	6,100	6,050	5,975
<i>Food, Seed and Industrial</i>	1,693	1,583	2,975	3,540	3,540	3,535
<i>FSI other than ethanol</i>			1,375	1,390	1,390	1,385
<i>Of which, Ethanol for fuel</i>			1,600	2,150	2,150	2,150
<i>Growth in Other FSI Usage</i>			101%	101%	101%	101%
<i>Growth in Ethanol Usage</i>			121%		<b>134%</b>	<b>134%</b>
<i>Domestic Use, Total</i>	7,227	6,294	9,075	9,640	9,590	9,510
<i>Exports</i>	2,177	2,228	2,150	2,250	2,200	2,250
<b>Use Total</b>	<b>9,404</b>	<b>8,522</b>	<b>11,225</b>	<b>11,890</b>	<b>11,790</b>	<b>11,760</b>
<i>Ending Stocks</i>	1,559	426	2,012	996	936	752
<i>CCC inventory</i>	42	30	1			
<i>Free Stocks</i>	1,438	396	2,011	996	936	752

<b>Farms.com Risk Management Ethanol Proforma Income Estimator</b>											
								Base			
Cost of purchased corn (\$/bu)	2.00	<b>2.25</b>	2.50	2.75	3.00	3.25	3.50	3.75	4.00	4.25	4.50
		113%	111%	110%	109%	108%	108%	107%	107%	106%	106%
Cost per unit (gallon)											
Corn:		\$0.80	\$0.89	\$0.98	\$1.07	\$1.16	\$1.25	\$1.34	\$1.43	\$1.52	\$1.61
Gas, labour, trans and SG&A costs:		<b>\$0.72</b>	\$0.72	\$0.72	\$0.72	\$0.72	\$0.72	\$0.72	\$0.72	\$0.72	\$0.72
<b>Est. Total production cost per gallon:</b>		<b>\$1.52</b>	<b>\$1.61</b>	<b>\$1.70</b>	<b>\$1.79</b>	<b>\$1.88</b>	<b>\$1.97</b>	<b>\$2.06</b>	<b>\$2.15</b>	<b>\$2.24</b>	<b>\$2.33</b>
<b>Income Streams</b>											
From Ethanol sales (\$/gallon):		<b>\$2.09</b>	<b>\$2.09</b>	<b>\$2.09</b>	<b>\$2.09</b>	<b>\$2.09</b>	<b>\$2.09</b>	<b>\$2.09</b>	<b>\$2.09</b>	<b>\$2.09</b>	<b>\$2.09</b>
From DDG sales :		\$0.27	\$0.30	\$0.33	\$0.36	\$0.39	\$0.41	\$0.44	\$0.46	\$0.48	\$0.51
Gross Income per gallons:		\$2.36	\$2.39	\$2.42	\$2.45	\$2.48	\$2.50	\$2.53	\$2.55	\$2.57	\$2.60
<b>Est. margin per gallon:</b>		<b>\$0.84</b>	<b>\$0.78</b>	<b>\$0.72</b>	<b>\$0.66</b>	<b>\$0.60</b>	<b>\$0.53</b>	<b>\$0.47</b>	<b>\$0.40</b>	<b>\$0.34</b>	<b>\$0.27</b>
% income from ethanol:		88%	87%	86%	85%	84%	84%	83%	82%	81%	81%
% income from DDGs:		12%	13%	14%	15%	16%	16%	17%	18%	19%	19%
DDG price per Ton:		<b>\$87.44</b>	<b>\$96.75</b>	<b>\$105.80</b>	<b>\$114.63</b>	<b>\$123.26</b>	<b>\$131.71</b>	<b>\$140.00</b>	<b>\$147.19</b>	<b>\$154.27</b>	<b>\$161.26</b>
Sources:	USDA, EIA, D. Coltrain at KSU studies and in-house estimates and research										
Note:	production cost estimates are derived from VERASUN (VSE) filings for 9-months ending Sept 30, 2006										

			mg/y	
Total Current Capacity at 106 ethanol biorefineries			5,071.40	
Total Under Construction (50)/Expansions (7)				4,118.00
Total Capacity All Plants			9189.40	
Total Capacity CORN feedstock plants			8508.00	
Implied annualized Corn usage by mid 2007 at 100% capacity (in MM bushels)	gallons per bu =>	2.8	3,038.57	
USDA est. of 2005/2006 est. usage (in MM bushels):			1,600.00	
USDA est. of 2006/2007 est. usage (in MM bushels), October 2006 WASDE report:			2,150.00	

\* locally-owned

From the Renewable Fuels Association Website - Last updated December, 2006

Simulated Growth Rate:	10%	3342	billion bu of Corn
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Source: The Renewable Fuels Association Website – October, 2006 and In-house estimates.

<u>Plant Name</u>	<u>City</u>	<u>State</u>	<u>Feedstock</u>	<u>Capacity *</u>	<u>Start Date</u>	<u>Capacity in US Gals</u>	<u>Estimated Corn Usage</u>
<a href="#">GreenField Ethanol</a>	Varenes	PQ	corn	120	Jan-07	31.66	11.31
<a href="#">GreenField Ethanol</a>	Chatham	ON	Corn	185		48.81	17.43
<a href="#">GreenField Ethanol</a>	Tiverton	ON	Corn	26		6.86	2.45
<a href="#">Husky Energy</a>	Lloydminster	SK	wheat	130			
<a href="#">Husky Energy</a>	Minnedosa	MB	Wheat	10	Jun-07		
<a href="#">NorAmera BioEnergy Corp.</a>	Weyburn	SK	wheat	25			
<a href="#">Permolex</a>	Red Deer	AB	Wheat	28			
<a href="#">Pound-Maker Agventures Ltd.</a>	Lanigan	SK	Wheat	12			
<a href="#">St. Clair Ethanol Plant</a>	Sarnia	ON	corn	200		52.77	18.85
Under Construction							
<a href="#">GreenField Ethanol</a>	Johnstown	ON	corn	200	2008	52.77	18.85
<a href="#">GreenField Ethanol</a>	Hensall	ON	corn	200	2008	52.77	18.85
<a href="#">Husky Energy</a>	Minnedosa	MB	Wheat	130	Sep-07		
<a href="#">Terra Grain Fuels Inc.</a>	Belle Plaine	SK	wheat	150	Dec-07		
<b>Total Plants: 9</b>			<b>Total Capacity:</b>	<b>1416</b>		<b>245.65</b>	<b>87.73</b>

# Estimates of U.S. Corn Balance Sheet for '07/'08

<b>WASDE U.S. Balance Sheet</b>						
						<b>12.127</b>
	1995/1996	1996/1997	2005/2006	2006/07 Jan		<b>2007/2008</b>
<i>Planted Acres</i>	71.4	79.6	81.8	78.3		<b>90.454</b>
<i>Harvested Acres</i>	64.9	73.2	75.1	70.6		<b>82.3</b>
<i>Yield per harvested acre</i>	113.7	126.5	147.9	149.2		<b>150</b>
<i>% Harvested vs Planted</i>	91%	92%	92%	90%		<b>91%</b>
<i>Beginning Stocks</i>	1,558	426	2,114	1,967		<b>752</b>
<i>Production</i>	7,374	9,266	11,112	10,535		<b>12,347</b>
<i>Imports</i>	16	10	11	10		<b>10</b>
<b>Supply Total</b>	<b>8,948</b>	<b>9,702</b>	<b>13,237</b>	<b>12,512</b>		<b>13,109</b>
<i>Feed &amp; Residual</i>	4,711	4,975	6,100	5,975		<b>5,643</b>
<i>Food, Seed and Industrial</i>	1,583	1,670	2,975	3,535		<b>4,425</b>
<i>FSI other than ethanol</i>			1,375	1,385		<b>1,395</b>
<i>Of which, Ethanol for fuel</i>			1,600	2,150		<b>3,030</b>
<i>Growth in Other FSI Usage</i>			101%	101%		<b>101%</b>
<i>Growth in Ethanol Usage</i>			121%	<b>134%</b>		<b>141%</b>
<i>Domestic Use, Total</i>	6,294	6,645	9,075	9,510		<b>10,068</b>
<i>Exports</i>	2,228	1,900	2,150	2,250		<b>2,200</b>
<b>Use Total</b>	<b>8,522</b>	<b>8,545</b>	<b>11,225</b>	<b>11,760</b>		<b>12,268</b>
<i>Ending Stocks</i>	426	1,157	2,012	752		<b>841</b>

- As long as high energy prices persist expansion in corn based ethanol production is likely to continue – **this is the biggest swing factor**
  - The implication is that corn based ethanol producers' demand for corn supports corn prices **and such demand is likely to increase going forward**
  - The biggest threat to this picture is a sharp drop in energy prices
  - We also need to watch corn acreage and aggregate yield increases – yield increase is a Longer Term factor
  - Brazilian ethanol is cheaper and will check the greatest excesses of the ethanol industry. Shipping “wet” to the Caribbean avoids the ethanol import tax in the U.S.
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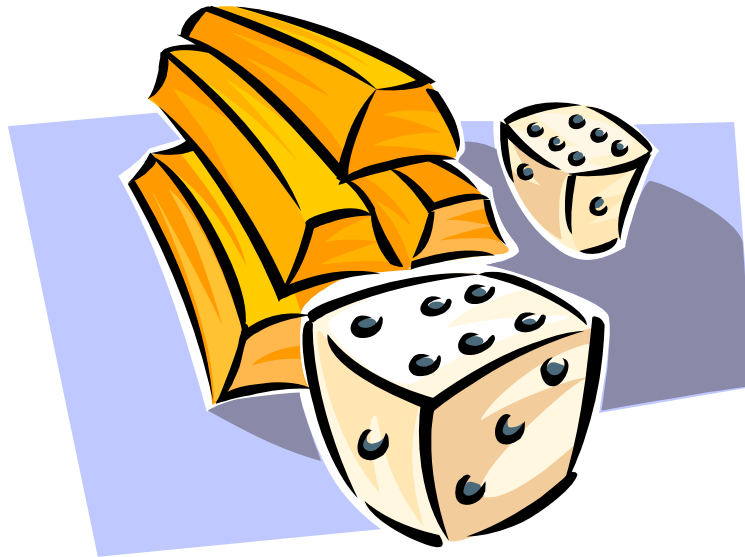
## Cost Benefit Analysis (April 3, 2007)

<b><i>U.S. Midwest COP estimates</i></b>			
	Corn	RR Soys (No Till)	HRS - Southern Plains
<i>Other non cash rent costs:</i>	\$339.13	\$187.08	\$129.86
<i>Adding cash rent:</i>	<b>\$180.00</b>	<b>\$180.00</b>	<b>\$62.80</b>
<i>COP/ac</i>	<b>\$519.13</b>	<b>\$367.08</b>	<b>\$192.66</b>
<i>Est. Yield in bu/ac</i>	<b>180</b>	<b>55</b>	<b>55</b>
<i>Est. COP per bu</i>	\$2.88	\$6.67	\$3.50
<i>Est. Basis:</i>	<b>(\$0.45)</b>	<b>(\$0.70)</b>	<b>(\$0.11)</b>
<i>Chicago Price:</i>	<b>\$3.99</b>	<b>\$8.14</b>	<b>\$4.78</b>
<i>Special Premiums:</i>	0	0	0
<i>Est. Current Selling Price \$/bu</i>	\$3.54	\$7.44	\$4.67
<i>In \$/MT</i>	\$139.36	\$273.37	\$171.59
<i>Income per acre:</i>	\$637.20	\$409.20	\$256.85
<b><i>Est. net profit per acre:</i></b>	<b>\$118.07</b>	<b>\$42.12</b>	<b>\$64.19</b>
<i>Rank:</i>	1	3	2

- Plants (even NEW plants) can be expected to buy corn and be profitable at \$4 per bushel *provided ethanol sells at \$2.00 a gallon or higher*
  - The price of crude oil (and by extension gasoline) may end up putting a floor under the price of corn
  - As corn prices move higher and gasoline prices trend lower, DDG sales become increasingly important as a revenue source for corn based ethanol businesses
  - Research shows that DDG prices are heavily correlated (>77%) to corn and soybean meal prices i.e. as corn prices move higher DDG sells for more
  - Is bio-diesel the next step on the agricultural based renewable fuels ladder?
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- The Long term seasonal trend for corn prices is likely to remain – it's driven by the production cycle and weather
  - Users and growers should still plan their purchases and marketing with an eye on the calendar and spot cash and available forward prices
  - Use the hedging tools available on the market!!!
  - Avoid the “miss the boat syndrome” – TAKE THE MONEY WHEN YOU CAN
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- Another Way to Speculate & Make Profit from the Futures & Options Exchange in Chicago.
- Trying to become an Expert at Futures & Options writing!



## **Farms.com Risk Management**

Farms.com has about 80 staff members. The core Service Team includes:

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Farms.com Risk Management has clients and is active in Canada and the U.S.  
We have offices in London Ontario and Ames Iowa

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# *Questions & Discussion*