SUNOPTA INC.

Moderator: Steven Bromley
May 8, 2009
9:00 am CT

Operator: SunOpta, Inc. First Quarter 2009 Earnings conference call. Today's conference is being recorded.

Please note we will be having a question and answer session near the conclusion of the call.

At this time, it is my pleasure to turn the conference over to Mr. Steve Bromley, President and CEO. Please go ahead, sir.

Steven Bromley: Thank you, very much and good morning everyone. Welcome to our first quarter 2009 shareholder conference call.

I am joined on this call today by Tony Tavares, SunOpta's Vice President and Chief Operating Officer, Eric Davis, our Vice President and Chief Financial Officer and Ben Chhiba, the company's Vice President, General Counsel Secretary.

Before I begin, I would like to remind listeners that except for historical information, the matters discussed during this conference call may include forward-looking statements including without limitations statements relating to our operating results, market and economic conditions and expected incremental volumes and contributions, cost improvements, improved operating margins, additional expected revenues from new products and reductions in working capital.

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 cost 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 quarterly report on Form 10-Q to the quarter ended March 30, 2009 and annual report on Form 10-K for the fiscal year ended December 31, 2008, in the sections in these reports titled "forward-looking statements and risks factors."

Our Form 10-K for the fiscal year ended December 31, 2008 was filed earlier this year with the SEC and Canadian Securities Regulators and we plan to file our 10-Q for the quarter ended March 31, 2009 by no later than the close of business on May 8, 2009, that is today. Please note that except where specifically noted, our financial results are reported in U.S. dollars and in accordance with the U.S. GAAP. I want to mention at this time that we are going to target to keep this call to above 1 hour.

Let me start by saying that the deteriorating uncertain economic conditions which have gripped the global economy for a number of months, clearly led to a very challenging first quarter. January and February were especially difficult months. But the good news is we started to see some improvement in March and as we will discuss during this call, we have many reasons for optimism going forward.

In spite of the tough economic conditions, we remained focused on investing in a wide series of cost containment and increased productivity initiatives positioning our business for improved results and improved returns on assets employed. We will discuss key activities in the company throughout this call. But let me assure you that our management teams and staff are extremely focused and we are making a good progress. We are paying attention to every detail pursuing growth opportunities while at the same time turning over every rock in an effort to improve the cost effectiveness and efficiency of our operations.

For the first 3 months of 2009, we realized our 46th consecutive quarters of increased revenues versus the same quarter in the previous year. Revenues in the first quarter of 2009 were $232.1 million versus $230.4 million in the first quarter of 2008. These results reflected an $8.4 million increase in revenues from the SunOpta Food Group off set by declines in revenue and non-core businesses of $6.7 million.

The main driver of the increase in revenues in the SunOpta Food Group in the first quarter was the positive contribution of the April 2008 acquisition of The Organic Corporation, a European international sourcing and trading operation, totaling $25.5 million. This was offset by year-over-year foreign exchange rate changes versus the U.S. dollar and the impact of declines in commodity prices that have a direct correlation on selling prices totaling $15.9 million. Revenues in the first quarter were also impacted by significant inventory deleveraging that has been reported from consumers through retailers, branded product, suppliers and food manufacturers.

Fortunately, it seems we are starting to see the end of some of these inventory reductions. For the first quarter of 2009, we realized the loss of $1.7 million or 3 cents per diluted common share versus 1 point earnings – pardon me, of $1.5 million or 2 cents per diluted common share on the first quarter from 2008. These results include an increase in foreign exchange losses of approximately $1 million versus the first quarter, plus about $2.4 million of additional costs which were realized during the first quarter, and I will talk about those.

Adjusted earnings for the first quarter of 2009 were essentially break-even after adjusting for the additional pre-tax costs of $2.4 million. We expect that these costs will generate significant future benefits for the company. These costs included about $1 million in start-up costs related to our Modesto soymilk processing and packaging facility which is scheduled to begin production the week of May 18th. We also incurred severance and facility rationalization cost to approximately $700,000 within a number of our operating segments as we continue to position these operations for improved future performance.

Also, during the quarter, we incurred costs of approximately $0.4 million, or $400,000 investing in new packaging, new formulations and new products intended to revitalize a number of our company-owned natural health products brands. These new products will come to the market during the second quarter of 2009 and are expected to drive incremental volumes in contribution going forward thereafter. Adjusted earnings for the fourth quarter of 2008 were $2.4 million or 4 cents per share, common share after adjusting for additional professional fees which were incurred in 2008.

Please note that the adjusted earnings and adjusted earnings per share do not have any standardized meaning as prescribed by GAAP and, therefore, unlikely to be comparable to similar measures presented by other companies. This non-GAAP financial measure should be considered in the context of our overall GAAP results and a full reconciliation of these amounts were provided with our press release that was issued last night and is available on our Web site at sunopta.com – www.sunopta.com.

Operating income for the first quarter of 2009 reflects the loss of $400,000.00 as compared to income of $5.4 million in the first quarter of 2008 reflecting positive segment operating income in our core SunOpta Food Group operation off set by the combined effect of losses in our non-core businesses and corporate costs. These result reflect the combined impact of reduce volumes and margins due in part to inventory deleveraging and current macroeconomic conditions, unfavorable foreign exchange, and the additional costs that I described that were incurred in the quarter.

Segment operating income within the SunOpta Food Group decreased to $2.7 million, reflecting the difficult market conditions experienced during the quarter, combined with these additional costs. All operating groups reported reduced operating income versus the prior year with the exception of the SunOpta Fruit Group which improved by $2.9 million as compared to the first quarter in 2008 and in fact, achieves positive EBITDA in March, confirming our forecast to turn around in that business.

Segment operating results within Opta Minerals reflect a loss of approximately $800,000.00 in the quarter as compared to operating income of $2 million in the first quarter of 2008. These results reflect the significant drop in demand in the foundry and the steel industries as a result of decline in the global economy. Operations have been restructured to deal with this decline and the group is positioned to benefit from expected increases in infrastructure spending that should start to happen later this year. Segment operating results in the SunOpta BioProcess group marginally improved in the first quarter of 2009 versus 2008, but remain in the loss position. The group remains focused on leveraging their technology and expertise in the production of cellulosic ethanol.

At March 31, 2009, the company's balance sheet is strong reflecting a working capital ratio of 1.7 to 1, with accounts receivable and inventory values of approximately $292 million. Our long-term debt to equity ratio at the end of the year was 0.48 to 1, and total debt equity ratio was 0.83 to 1. Our company has total assets of approximately $574 million and a net book value of $3.42 per outstanding common share.

We have reached agreement with our lending syndicate to extend the term on our operating facilities scheduled for renewal on June 30 – June 29, 2009 through to December 31, 2009. As part of this agreement, we negotiated a waiver of financial covenants for the first quarter of 2009 and amended certain covenants for the balance of the fiscal year. This is very positive. Eric will provide further details in a moment.

We have made excellent progress over the quarter in addressing our markets and operations and have great confidence in our business focus on natural, organic and specialty foods and natural health products. We believe we will benefit from a number of long-term trends including the growing of interest in health and wellness around the world; the increasing awareness of the relationship between food consumed and quality of life; the staggering increase in long-term health cost and the need to address this at many levels; and the demand for sustainable and environmentally responsible business practices and products. We believe this all bodes well for our future.

I now would like to turn the call over to Eric Davis, our Chief Financial officer. Eric will provide some specifics related to the company's financial position and balance sheet items and an update on our debt. Eric?

Eric Davis: Thanks, Steve, and good morning to everyone on the line.

Based on the seasonality of our operations, we traditionally consume cash during that first quarter. For the first quarter of '09, operating activities consumed $4.5 million reflecting a slight improvement versus 2008. However, cash utilized during the first quarter of '09 for working capital purposes improved by approximately $7 million versus the first quarter of 2008 indicative of the organization's wide efforts to reduce our use of working capital, and we expect to see this trend to continue.

During the quarter, inventory declined to $190.4 million from $200.7 million at year-end. While total accounts receivable dollars have increased to 1.1 – $101.4 million versus $95.1 million at year-end. Days sales outstanding have remained in line with prior periods. Investing activities, including short-term investments, utilized $5.1 million in cash as compared to $2.9 million in the first quarter of 2008. This increase is primarily related to capital expenditures of $4.6 million for the period versus $2.4 million for the same period last year. Almost half of the $4.6 million was used on our Modesto Plant, Approximately another $1.6 million was spent on two new mineral facilities in southern U.S. and the expansion of pilot plant capabilities for SunOpta BioProcess.

I will like now to address our current debt status. At the end of Q1 we had total debt excluding cash balances of $183.6 million for an increase of $ 4.9 million over December 31, 2008. Our main facility that is held by a banking syndicate and services our core food operations excluding Europe and our non-core operations stood at $109.7 million including operating lines of $44.1 million. Subsequent to the quarter end, we negotiated amendments to our banking facilities. The agreement includes an extension of the maturity date of our current U.S. and Canadian line of credit facilities from June 29, 2009 to December 31, 2009. As part of the renewal process and as a result of our focus on working capital reductions, we have reduced the availability under our Canadian line of credit facility by $5 million, and Canadian and the revolving acquisition facility by $4.4 million. This reduces available facilities from the syndicate to approximately $145 million.

As I mentioned earlier, $109.7 million was drawn at the end of the quarter. The agreement also includes a waiver or certain financial covenants as of March 31, 2009 and amendments of covenants for the remainder of 2009. Our European sourcing and trading operations are financed via asset-backed operating lines which totaled $25.2 million at the end of Q1 and Opta Minerals are financed via stand-alone operations and long-term facilities of around $27.3 million, both of which do not have recourse to SunOpta.

In addition, the company has promissory notes due to various parties related primarily to companies that we have acquired. These are subordinated to the company’s banks.

We started the process to convert our current operating lines to facilities which will provide more flexibility and better utilize our company strong asset base. And we are targeting to complete this process no later than the end of the current fiscal year.

Steven Bromley: Thanks, Eric. We are most fortunate to be operating in food business segments with solid growth potential as health conscious consumers remain committed to natural organic foods and natural health products.

In hand with this, we continue to streamline our company's operations and in improving earnings and return on assets employed. We are implementing lean enterprise systems across our organization and are starting to realize the benefits of this initiative. And Tony will speak to us about that in a moment.

We do expect to achieve $10 million in savings and efficiency improvements by the end of 2009. We have also leveraged our global supply chain and achieved further cost reductions in areas such as energy, chemicals, packaging and new materials. Tony will talk about that as well. But, needless to say, attention to cost is key in this environment. As we move forward, our company's primary focus remained the improvement of operating margins and return on assets employed.

And our non-core operations, Opta Minerals and SunOpta BioProcess, which are now less than 10% of annual revenues are both strategically important businesses within the sectors where they compete. Opta Minerals was obviously significantly impacted in the quarter by the decline in the global economy especially the steel and foundry sectors. While Opta has yet to feel the impact of expected increases in infrastructure spending, we do believe it is well-positioned when that spending starts.

The company is focusing on a number of new product introductions and cost rationalization initiatives plus establishing the new operations in Florida and Texas which will improve the company sourcing and supply capabilities for silica-free abrasives in the southern region of the United States. And 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 green house 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 an excellent opportunity for SBI or the SunOpta BioProcess group.

In fact, earlier this week, President Obama signed the memo directing the USDA, the Department of Energy and the EPA, the Environmental Protection Agency, to form an inter-agency committee to expedite funding for renewable fuels. The Department of Energy also announced $786 million to be invested in NexGen biofuels through the Recovery Act and as well, President Obama directed the USDA to make available a large number of new funding opportunities detailed in the farm bill including loan guarantees, grants for commercial facilities, cellulosic feedstock assistance and support to retrofit corn ethanol plants for cellulosic production. We are really hopeful that this will provide the much need stimulus for a number of projects.

The group continues in its efforts to refine its technologies and applications in many parts of the world and has completed the expansion of a new pilot facility and continues to work on its joint venture initiative with Central Minnesota Cellulosic Ethanol Partners under the development of the commercial scale production facility.

I now would like to turn the call over to Tony Tavares, our Chief Operating Officer, who will discuss activities in the SunOpta Food Group.

Tony Tavares: Thanks, Steve and good morning everyone.

As Steve mentioned, the Food Group results for the first quarter continue to be affected by the downturn in general economic conditions. The double-digit growth, which the organic and natural foods industry has experienced over the past several years has not been there in the last two quarters.

Food sales volumes were essentially flat last year after adjusting for the impact of foreign exchange, decreased commodity prices and the acquisition of Tradin Organics in April 2008. A large factor creating the sluggish sales volumes over the past two quarters was the intensive effort from the part of the participants in the food supply chain to reduce inventory.

The good news is that Nielsen sales and other point of sales data showed comparatively stronger sales for natural and organic products at retail. We remain confident that sales demand will rebound this year when inventory levels throughout the supply chain are brought to the desired lower levels. In fact, we are starting to see sales pick up.

What are we doing to respond to these conditions and to ensure that the company emerges through this period much stronger and poised for growth and superior profitability? First, we are investing in our most important asset, our people. The key component of the Lean Enterprise, Lean Green and Blue Ocean initiatives is to invest in training programs so that all SunOpta employees learn how to recognize waste in all its forms and have a process to enable them to act and make improvements within a structured framework. We continue to make progress to lower our operating and general admin cost through these Lean Enterprises initiatives.

The number of continuous improvement projects is mushrooming as Lean takes a firmer hold across more and more parts of the company. The key to success in this area is to engage all of our employees in continuous improvement. The no-blame culture and the focus on process and continuous improvement is spreading. We are extremely pleased with the progress in this regard and I have seen impressive transformation in some of our facilities. We are very much on track to deliver the $10 million in run rate savings by the end of the year which we have spoken about previously.

As a result of these savings, we anticipate that operating margins will improve going forward. Another key objective for Lean is the systematic reduction in working capital by lowering inventory as a result of a more effective demand in sales planning and pulling versus pushing product through the value streams. We have done value stream mapping for a large number of our operations and are working on a number of opportunities. We remain confident in achieving a $20 million reduction in inventory this year.

We have also done a comprehensive review of all of our credit limits and credit terms. This combined with progress made with utilization of our Oracle enterprise system and increase focus have resulted in reduced sales and receivables in spite of economic conditions. In short, all of this can be described as doing more with less.

We are also investing in development of new products and new markets for existing products. The Blue Ocean strategy process has helped us to identify a number of opportunities and we expect to see a positive impact on sales in the second half of the year. In fact, a number of a new fiber products which have been brought to market by the Ingredients Group were the direct result of opportunities identified in the Blue Ocean process.

Finally, I want to mention the investments we are making in a number of SunOpta natural health products brands specifically the Vivitas, Herbon and Quest brands currently offered in Canada by Purity Life, our natural health products business. Our Vivitas supplement brand is being repositioned as Vivitas Woman, the only full range line of health supplements formulated specifically for women.

The Quest supplement brand is being repositioned as a full Lifestages product line. We will have the only vitamin and health supplement line with formulations designed specifically for children, teen girls, teen boys and adult and mature men and women. The Herbon Natural Throat Lozenges product line and packaging has also been totally redesigned with specific tabs for children, teens and adults and new “on the go” pack formats. We believe these will be real winners with great growth potentials.

Consistent with our environmental and sustainability goals all the new product formats have been designed to use less packaging and utilize recyclable materials all the while stream lining production processes. The packaging design has been tested extensively with consumers. A truly fresh and exciting new look across the board.

We are supporting the launches with extensive multimedia, print, television and Internet marketing programs coordinated with promotional activity. Customer reaction has been amazing with all chains listing our products. The sales and profit impact will start in the second quarter but we expect to hit full stride in the second half of the year. We are truly excited about the work that the team has done and about the future potential of these brands. The Purity Life branding initiative signals an evolutionary change for SunOpta. We will focus more attention going forward on developing and marketing unique products under our own brands utilizing our vertically integrated capabilities.

Having said this, we will also continue to grow our private label programs with our customers. Private Label products continue to grow at retail and we fully intend to participate in and help drive that growth for our customers. We strongly believe that we can excel in both areas.

I will now make some specific comments on the result of each of the operating divisions as well as update you on the status of some of the key ongoing initiatives.

The Grains and Food Group performed well in the quarter led by strong sales of aseptic soymilk and alternate beverages including new sales of major food service customer which began in late 2008. The group also had strong margins in grains operations due to good spot markets offset by poor results in sunflower operations due to weakness in the bakery kernel and byproducts markets. The group's roasting and packaging operations have much stronger operating performance versus the prior year which is expected to carry over to future periods as new customers are integrated along with the impact of numerous process improvements which have been implemented.

The first quarter operating income for the Grains and Foods Group of approximately $3.9 million was approximately $1.6 million less than last year due in part to lower commodity markets and margins and approximately $1 million in expenses related to the construction and commissioning of the Modesto plant.

Overall, the outlook for the Grains and Foods Group remains positive. Construction of the Modesto aseptic packaging is in final stages and we expect to begin production the week of May 18th.

The Ingredients Group had operating earnings of $0.8 million, slightly below last year's results due to improved operating cost and efficiencies and lower SG&A partially off setting weak demand in the fiber markets and poor margins and brans and dairy blends. The reduced demand for fibers has been larger than the management team expected in the first quarter. We expect demand to pick up over the balance of the year as we make further inroads of our new product launches and other sales initiatives. We expect the Ingredients Group full year operating income in 2009 to be ahead of last year.

Our Healthy Fruit Snacks operations, known as Kettle Valley, continues to show much improved operating results due to the Lean initiatives at Omak and Summerland plants. This business has now realized 5 months of profitable operations and we expect to realize a year-over-year operating income turnaround, approximately $3 million.

Performance is expected to continue to improve over the next three quarters as efficiencies improve and new innovative product offerings come to markets. The Fruit Group had a first quarter operating loss of $1.2 million versus a first quarter loss last year of $4.1 million. The Fruit Team has made significant progress in repositioning this business and reducing break-even levels. The Mexican plant operations have been rededicated to higher value IQF frozen fruit packaging at the Buena Park facility. The Salinas plant has been closed and the equipment and plant will be leased to another company and we will buy the fruit needed for our frozen requirement on a contract basis.

We have also closed the group sales and admin offices located in South Carolina and consolidated them at the Buena Park offices. In addition to lowering our break-even levels, these moves will result in further reductions in inventory and working capital.

We believe the Fruit Group actually performed much better than the GAAP results will indicate as the first quarter results include a number of non-recurring cost items consisting of severance payments and related cost for the closure of Salinas and the Global sales office of approximately $600,000 plus sell offs or rework cost related to aging inventory of approximately $500,000, in total, approximately $1.1 million in additional cost.

Demand for frozen fruit items was sluggish in the first quarter but have shown signs of resurgence. We also have several new sales opportunities which are expected to produce improved results in the second half of the year. The team is quite optimistic about operating results in the next three quarters and expects a full year operating income in 2009.

The International Trading and Sourcing Group operating loss in the first quarter was approximately $1.2 million compared to last year's operating earning of $0.3 million. This was due to sluggish demand for organic industrial ingredients and lower margins across a number of commodities in the United States and Europe. Although demand for industrial products is expected to remain sluggish, we are starting to see some improvements. Product margins and operating income are expected to improve considerably in the next three quarters as a result of increasing sales of cocoa on contracts carried over from 2008 and lower cost replacement product in some commodities like sunflower kernel.

We are also actively pursuing a number of new opportunities in retail Private Label for the European and U.S. markets using core products handled by Tradin, but these are not expected to result in new sales until the fourth quarter at the earliest.

Sales for private label products in the U.S. were 10% higher than last year in the first quarter and performance is expected to improve as a result of significant new contract for organic OJ which began in mid-March and is expected to generate revenues in excess of $10 million annually. There is continued interest in new private labels products given our current economic environment and we are actively pursuing a number of excellent opportunities.

The Distribution Group results were substantially below last year at $0.3 million operating profits versus $3.5 million profit in Q1 of 2008. Revenues in Canadian dollars were at the same levels as last year to approximately $70.7 million this year versus $70.5 million last year. But because of the decline in the Canadian dollar, the revenues in U.S. dollars are down substantially from last year, $56.7 million versus $69.5 million. Of the $3.2 million drop in earnings from last year, $1.4 million is in the natural health product business and the balance in the food distribution operations.

Clearly, the rapid decline in the value of the Canadian dollar has been a significant factor in the reduced profits. We simply have not been able to fully realize necessary selling price increases to off set the decline in the competitive markets where retail margins are also under pressure. A full review of all customer and vendor product margins has been performed and we expect to implement selling and purchase price changes as soon as possible.

Improved results may not be achieved solely as a result of price increases, however. There are many operating areas we can and will improve. An intensive Lean continuous improvement plan has been launched across the distribution group and we are already seeing improved results in many key metrics.

As for Purity, the natural health products component of the distribution group, the majority of the first quarter earning shortfall was caused by delayed timing of new product launches and reduced margins on distributed products due to softness in the markets, sales mix, as well as increased program fees to retailers and increased selling general admin expenses due to higher selling salaries and marketing expenses.

As mentioned a few minutes ago, the largest initiative within Purity is the re-launch of the three branded lines. The re-launch of products has gone exceptionally well with every single customer listing our product lines. We believe that we will recoup most of the resulting additional spending on the listings by the end of the year and be in a tremendous position going into 2010.

In summary, we are enthusiastic about the large number of exciting projects we have on the go. Although 2009 has been a challenge thus far, we are confident that we are on the right track and that we will emerge as a much stronger company poised to grow in what we believe is an exciting market segment with strong growth potential.

Steven Bromley: Thanks, Tony. In closing, the last 6 months have certainly been an interesting time for our industry and SunOpta, perhaps, the most challenging times in memory.

Having said that, it has also been a time for our organization to focus on cost control, productivity improvements and improve assets utilization. All areas that we believed are keys to our future success. The move to implement Lean across our organization and these efforts continue with the goals to realize annualized profit improvements of $10 million by year-end with more to follow. We have implemented Blue Ocean strategies in an effort to grow our markets and broaden the applications for our products and services.

We continue to reduce the use of working capital to improve and rationalize working capital practices and believe reductions of $20 million can be realized. We have extended our current syndicated banking facilities to year-end and now are actively engaged with lenders to realign our facilities with our strong asset base. Our hands are on the wheel. Reducing costs, reducing assets employed, implementing product development initiatives and new operations to meet customer demand, all focused on driving improved returns on assets and on equity. While the markets will not return to past times overnight, we are confident that as current economic conditions improve our product portfolio combined with improved operating metrics will position the company for future success.

Finally, I want to advise you that in keeping with the company's efforts to meet best practices and corporate governance, the Board of Directors yesterday approved certain changes to the company's employee stock purchase plan to ensure compliance with recommendations made by the Risk Metrics Group, ISS Governance Services. In particular, the revised plan now requires shareholder approval for matters relating to changes in employee contribution limits and to the discount factor applied to the exercise price. And these matters remains on the agenda for the upcoming annual and special meeting of shareholders being held this Thursday – coming Thursday, pardon me.

With that in mind, we would like to open the call to questions but I do want to remind you that we will not be commenting on the events that led to the re-statement of our 2007 quarterly financial results, events surrounding those statements are the subject matter of litigation before the courts in Canada and the United States and therefore, it is not appropriate to comment at this time.

And with that, I would like to turn it over for questions. Thank you.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, you may do so by pressing star 1 on your touch-tone phone. If you would like to withdraw yourself from the question queue, you may do so by pressing the pound sign. Once again, to ask a question, please press star 1 on your touch-tone phone. I ask that you please stand by as we await our first question.

Our first question comes from Mr. Peter Prattas from Fraser Mackenzie. Please go ahead, sir.

Peter Prattas: Good morning, guys.

Male: Hi, Peter. Good morning.

Peter Prattas: I have a few questions relating to your operating lines. We can firstly just go over the waiver, can you tell us what sort of magnitude that was and how about got expense and as well if you can comment on the, on the, on the (covenants) and would you characterize the amended (covenants) as tighter or looser than previous?

Tony Tavares: Well you know Peter, I guess the first point is on the (covenants) you know our first quarter certainly was below our expectations given, given where the markets where and some of the incremental standing that we incurred in order to reposition the business. So you know our (covenants) are based on a rolling 12 month EBITDA so you know we worked with the banking syndicate to amend the rolling 12 months going forward so that you know we are in a good position to meet those going forward. So we characterize them, I think that they are appropriate for our business and where we see the trends for the balance of the year. So that is on the (covenants). And you would ask about cost?

Peter Prattas: Either way but I mean is there a fee associated with that waiver in and how does that get expense? I am just trying to…

Tony Tavares: Sure. There was a fee that really is a roll up of the waiver and also with extension through to the end of the year and so, any fees associated with that will be written off over the course of the year and there were fees.

Peter Prattas: OK. And just lastly, on your plans to renegotiate the facilities by year-end using the asset based approach can you go over your thinking there and I guess what the expected roll out would be.

Tony Tavares: Well, we are going to look at a number of various forms of potential lending here you know. The reality is that we have a very strong asset base you know you take a look at the receivables in the inventory an dour assets are equipment versus the amounts that we have borrowed and you know there is great strength in there. So you know working with our lenders and also on our opinion, there may be some alternate forms of structuring that will work better for us including you know forms that will allow us to leverage the asset base that we have. So we are working with the lenders doing that.

What that would do is you know free up borrowing capability but quite frankly that is not something that we are intending on doing given the assets, partly given our efforts that are underway to reduce working capital into the Canadian controllers spending but you know it would better restructure ourselves so it would create availability of opportunities to come along that are appropriate. And on top of that, it would likely reduce our costs going forward.

Peter Prattas: Thanks very much.

Peter Thompson: That is all. Oh, Peter, you want to mention that the amended agreement will be – it will be posted with our, with our filings.

Peter Prattas: Great. Take care.

Operator: Thank you. And our next question comes from Mr. (Brent Joen) from RBC Capital Markets. Please go ahead, sir.

(Brent Joen): Good morning, gentlemen.

Male: Hi, (Brent), How are you?

(Brent Joen): How much of the new Modesto Facilities, the capacity is already kind of spoken for?

Peter Thompson: However, there will be significant customers that go into that facility as well as some product that will be transferred that you know make us more economical to move to the coast. The facility has been built such that it is going to be, it is built and it will operate but we can add more capacity as more you know as more demands comes in. So that the filling operations that we put in place there now you know are suited to the customers that come in. We are probably going to be at the 2/3.

(Brent Joen): Should we expect to see the one-time charges associated with the I guess not kind of having fully utilized that facility or at this point have we seen most of what we are going to see in terms of what kind of charges.

Male: Yes. You will certainly see some charges through to until we get it running here and we expect that operation to be profitable. As Steve has mentioned, it is very scalable. There is a lot more real estate than lines – theres room had you know additional lines. But with the revenues we have in place it is expected to make money from the get-go. The amount of million dollars that has been expense so far relates to pre-opening cost and you now probably pay something close to that for a month or 2 but it is expected to make money from the get-go.

(Brent Joen): Great. Just one more question for you, guys. You know you talked a lot about kind of operating margin improvement and across most of the business lines, and I know it is difficult to quantify, but can you give us kind of big picture sense to where you expect those margins to sort of settle eventually you know as we are thinking about kind of numbers in the out years?

Male: I think we've stated before that our long-term goal is to have operating margins of 8%, we are clearly not there and you know I think Tony get on the fact that this is going to be a continual improvement and we are just kind of continue to chip away at it you know combination of the efforts to reduce cost or expansion efforts, pricing, et cetera. So we are expecting you know continued improvement over 3 years as we work towards the 8% target.

(Brent Joen): Where do you think you would be if you had sort of normalize volume right now?

Male: That is a real …

Male: Yes. How much your finger on really.

Male: Probably unanswerable.

Male: I could not give you, I could not give you an answer without doing some work on that.

(Brent Joen): OK. Fair enough. Thanks, guys.

Male: Thanks to you, (Brent).

Operator: Thank you. Our next question comes from (Chris Kruger) from Northern Securities. Please go ahead.

(Chris Kruger): The last caller asked a couple of my questions but on the Modesto facility at that roughly 2/3 of current capacity level, can you give us just an idea of what that means for our revenue or kind of loose range there?

Male: For some of the revenue it is not only incremental, (Chris) because some gets transferred from Alexandria, 22 of them.

Male: I also do not have the number of top financial.

Male: The incremental revenue would be on the $10 million to $15 million annualized.

(Chris Kruger): OK. So higher number at Modesto and a little bit lower at Minnesota near-term?

Male: Yes, that facilities ((inaudible)).

(Chris Kruger): That 10 to 15? OK.

Male: What we are really providing opportunity for future you know for future growth. We were tapped out capacity of Alexandria, this just gives an opportunity to grow.

(Chris Kruger): Right. OK. As far as all the various cost setting moves you have done so far this year and I know you I believe stated targeted 10 million in annual settings by year-end. How far along you think you are as far …

Male: Well, again, this is, this is early on and we are still in development stage, training modes and we have not gotten all the facilities on board yet. But I would say we are more than 1/3 – close to 40% on the way there. This is as of now.

(Chris Kruger): OK. ((inaudible)) a portion of that benefit to the second quarter then?

Male: Yes. We should, we should begin to see you know sort of improvements you know quarter-over-quarter. The thing about this program is that it is cumulative. It is a little bit like you know drip, drip, drip and you sort of just you know keep adding to a bucket and eventually it overflows. That is the idea. There is no necessarily huge ground-breaking opportunities, just improving every part of the business and locking in the best practice and moving forward.

Over time, you know the previous caller asked about margins could very well be you know higher than the 8% we have. It is just, it is the never settle in for where you are now. But we are maybe 40% of the way there I would say.

(Chris Kruger): OK. And I think you commented on a new contract for organic OJ. I did not quite catch all that I was taking notes. Could you repeat that?

Male: Yes. We started in the month of April. We started shipping – we started a contract for organic OJ at club store I will leave it at that.

(Chris Kruger): And about 10 million in annual sales, is that what…

Male: The annual impact – annual sales this year.

(Chris Kruger): OK. Thank you.

Male: Thanks, (Chris).

Operator: Thank you. And our next question comes from Mr. (Bob Gibson) from Octagon Capital. Please go ahead.

(Bob Gibson): Good morning, everybody.

Male: HI, (Bob).

(Bob Gibson): In case I missed it, could you touch on your fruit acquisitions that you made in Central and South America and how they are doing?

Male: OK, we never acquired any business but we made investments in the businesses in South America. One was in Chile where we actually entered into a partnership in loaned money fro equipment that was used to process a number of products for us with our repayment schedule and that has gone – gone real well.

he second investment as you would recall last year we rode up the value of the investment, that was an investment in Argentina. We still deal with the business there but given the economic uncertainty that business had we had to write that investment off. That was done last year. We are hoping to collect you know that back over time through continued purchases. But it has not been successful as the Chile. We do not have an ownership position in any of those, direct ownership position.

(Bob Gibson): Could you maybe walk me through Salinas, why you closed it, what you see as the upside?

Male: Absolutely. Tony, do you want to …?

Tony Tavares: Yes. The upside in Salinas is that we are renting the equipment to another frozen food operator who will be able to bring volume of his own end and between our volume and his combined volume, we think we can buy and we know we can buy the fruit that we need at a lower pricing and we could operate it on our own. So it is a bit of a strategy of rationalizing industry capacity if you will and deriving the benefits. That is one opportunity.

The other thing that it does is that it makes our business a lot more variable. So carry less inventory on our own but we are able to you know adopt the change, just that type of thing. So that is the essence of it, of that deal.

(Bob Gibson): OK. And then, just lastly, on the BioProcessing deal you got in Minnesota, are you expensing that, any cost you get there or amortizing or how should that look?

Male: Those expenses are you know a lot of it is just engineering and designed work and that is being expense as we go.

(Bob Gibson): But eventually there is going to be actual construction, right?

Male: That would be the plan.

(Bob Gibson): So when you get to actual construction, are you going to amortize or expense that?

Male: Well, you capitalize that according to GAAP.

(Bob Gibson): OK.

Male: But right now there is no guarantee that, we hope there is a guarantee but until you actually finalize and we get through you know are well in to the second phase on that approach right now you keep expensing.

(Bob Gibson): OK. Thanks.

Male: OK. See you, (Bob).

Operator: Thank you. And our next question comes from (Chase Tafel) from Desjardin Securities. Please go ahead.

(Chase Tafel): Hi, good morning. (Chase) is filling for (Keith) this morning.

Male: No, problem. Get ((inaudible)).

(Chase Tafel): OK. So my first question was on the 20 million reduction inventory this year, sounds like a lot of that is going to come from the Food Group. I am just wondering if you could give a bit of a breakdown of where you see that coming from?

Tony Tavares: Yes, sure. It is going to come a number of divisions and I mean one of the interesting, one of the interesting things that if you look at the margin numbers year-over-year you will factor out the, the impact of (trodden) and you factor out we are already showing you know a good part of that reduction due to commodity grain decreases and foreign exchange differences in the Canadian inventories. What we are talking about in 20 million is not that, what we are talking about is actual volume you k now sort of volume declines. Food Group would be a component of that. We believe there is opportunity in the distribution group and we believe this opportunity in the international trading group. Anyone of those, anyone of those three operations, especially will be large, large contributors.

(Chase Tafel): All right, thank you. And wondering the frozen (fruit) inventory I think it was a 6 to 7 million at the end of the year, any updates on that or are we through it or still somewhere to go?

Tony Tavares: We continue to sell the you know those inventories not carrying as of the end of March I think was around 2-1/2 and we expect again by the end of the year the target is to have no inventory of frozen fruit that was not produced in 2009.

(Chase Tafel): OK. Great and the last one just a housekeeping item, wondering if you could give the diluted share standing for the end of this quarter and last? Please?

Male: Share outstanding for this quarter?

(Chase Tafel): Diluted? Yes.

Male: This quarter and the last quarter?

(Chase Tafel): And last, previous year same quarter?

Male: This year? (Chase), we will move on the calls and I will get it for you before we get of the call.

(Chase Tafel): OK. Great, thanks.

Male: Thanks.

Operator: Thank you. And now our next question comes from Mr. (Ron Pollack) who is a Private Investor. Please go ahead, sir.

(Ron Pollack): Can you provide an update where the CMEC easy feasibility studies stands and what is left to do?

Male: Sure. As you will recall, the second phase of that study was being you know a lot of the support for that second phase is coming through the next-gen grant of almost $1 million. That phase of the study you know gets into a lot more of detail, work that goes in behind phase 1 and we are looking to conclude phase 2 late third quarter and so, I say it is on schedule.

One of the key parts was the group completing the expansion of their pilot facilities which are now done and so they really moved into the pilot to verify a lot of the detailed engineering work that has been done and sort of moving through to the completion late third to the end of the year.

(Ron Pollack): And if you get the results you hoped for what is the road map after that?

Male: Well, at the same time I should indicate that there is a lot of work being done in funding, at the same time you know pursuing all of the various and loan funding opportunities that are available with the governments and also talking to third parties who may partner and become part of, part of that facility. The goal at the end of that would be to actually twin a cellulosic ethanol plant beside the current ethanol plant, and at a commercial scale you know higher than 10 million gallons per year.

And so, the program from there would be of course moving forward with the funding and then the construction.

(Ron Pollack): You said the CMEC study can you talk about what else is going on in that division that were obviously of ((inaudible)) I awhile but there has been things you discussed as potential areas, is it still potential or is that gone by the way side?

Male: Well, there are still a lot of potential contracts interests enough the projects that you know the Chinese projects are not moving along as quickly as possible due to the economic situation in China. But there is a number of projects that the group has ongoing, they've developed some new equipment that is at a smaller scale that will facilitate smaller pilot projects in a number of people – a number of contacts who want to bring to the market.

You know, our pilot scale equipment as it was designed and was quite large so it require a fairly large application and you know many of our customers indicated that you know if the pilot scaling could also be a bit smaller it would help them get in to their activities quicker, so that has been ongoing and you will hear from the group between now and at the end of the year on that front.

There are a number of projects around the world and some in the United States. The big issue is funding right now and as I indicated earlier you know it looks like the U.S. government took some actions this week to free up some dollars to assist in those projects. So that will all help.

(Ron Pollack): Are you anticipating that SunOpta will be in a position to give some of that funding?

Male: We are applying, yes we are.

(Ron Pollack): On your inventory, what is your target dollar amount ultimately that you would like inventory to be at?

Male: Oh, boy, if you ask Tony that, nothing. No, go ahead.

Tony Tavares: I do not recall what the amount was at the end of the calendar 2008 but 200 or so we are target – it was 200 last year, we are targeting minimum of 180 of this year. Again, I personally believe there is a potential to cut a lot more than that over time as some of these programs are. It is a question of aligning our more traditional businesses, the ones that where you do not have to buy (across) and demand ((inaudible)) and really in my view coming some of those businesses has almost been an inventory in half. But for this year we set, I think, a modest reduction target of 20 million going forth. I expect as we build on that it will be considerably less than that.

(Ron Pollack): Do you have a time frame from where you think you will get to where you do not need to lower the inventory anymore? How long is it going to take to get there?

Tony Tavares: Yes. Again, the thing with this sort of lean culture and lean initiative is that it is never a destination and this is really about a journey and you know the moment that you think you are you know you have completed you have not. So anyone of the operations wherever we are next year is you know in a positive constructive ways is never good enough. That is the kind of mentality that we are trying to tend still. So it is not really, it is not really the right question, I do not think.

(Ron Pollack): Is there anything new to report regarding strawberries on the national fast-food chain sector?

Tony Tavares: Working on some significant opportunities in the very division, absolutely but nothing I can really share. We have got some – we have – we have just recently secured some nice business there and I am not so sure if it is all that public in the industry for now to talk about it. But there is some good progress on increasing that, yes.

(Ron Pollack): Last question, you have announced the company has started the process of converting its current lines of facilities which will provide more flexibility, do you have a projection of what this conversion will cost?

Male: There definitely will be fees and cost associated with it. It really would be early for us to give you a really quantified number on that, (Ron).

(Ron Pollack): OK. Thank you.

Male: Thanks a lot.

Male: I might just also wanted to – (Chase) you had asked on the, and for others on the call, the diluted weighted average number of shares outstanding. March 31, 2009, $64, 556,333. So, $64,556,333, March 31, 2008 $64,307,911. $64,307,911.

Operator: At this time, gentlemen, we do not have any additional questions. Ladies and gentlemen, if you do wish to ask a question, you may do so by pressing star 1 on your touch-tone phone.

There are no questions at this time, sir.

Male: Great. Thank you very much. And just to wrap up, I want to thank everybody for joining us on the call today. We really do look forward to the future. It has been tough (siding) here in the economy and I know we are not alone and everyone has been impacted in one way or another but we are very excited about the future. And as always, please fell free to give us a call and we work hard to answer all the calls from our shareholders. We appreciate your time and your support. We look forward to chatting you – chatting to you again in the second quarter. Thank you.

Male: Good day.

Male: Good day.

Operator: Ladies and gentlemen, that does conclude this SunOpta, Inc. first quarter 2009 earnings conference call. We thank you for your participation and hope you have a great day. Thank you.

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