



From Producer to the World

Third Quarter 2009 Conference Call Transcripts
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Speakers:

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Lori Ireland, *Chief Financial Officer*
Omer Al-Katib, *Corporate Development Manager*

OPERATOR: At this time, I would like to turn the conference over to Omer Al-Katib, Corporate Development Manager. Please go ahead, Mr. Al-Katib.

OMER AL-KATIB: Thank you. Good morning. Thank you for joining us and welcome to our third quarter conference call to discuss our results that were released today. Our press release has been filed with SEDAR at sedar.com and is also available from our website at alliancegraintraders.com. On the line with us today, we have Murad Al-Katib, President and CEO of Alliance Grain Traders and Lori Ireland, our Chief Financial Officer. Before we get started, I would like to remind everyone that today's call may include forward-looking statements. Such forward-looking statements are given as of the date of this call and involve risks and uncertainties. A number of factors and assumptions were applied in the formulation of such statements and actual results could differ materially.

For additional information with respect to forward-looking statements, factors and assumptions, we direct you to our news release and our continuous disclosure documents as filed on SEDAR at sedar.com. In addition, note that we do not intend to discuss any undisclosed material information today. I'll now turn this over to Murad for some comments and then we'll go to questions.

MURAD AL-KATIB: Thanks, Omer. Thank you all. And I welcome you to our third quarter conference call, our first conference call as a dividend paying corporation. So welcome to our shareholders and other guests.

The positive signs of recovery, the past quarter, in the global economy were somewhat dampened in the agricultural sector by cool and wet weather during the growing season

and a slow and late completion to harvest in Canada. But even with the completion of the harvest and these weather factors, there's a positive outlook for 2009, 2010 crop year for the full line of products handled by Alliance.

Lentils, chickpeas and peas were among the crops that were harvested prior to the end of September, before the onset of cooler fall weather conditions. In lentils, peas and chickpeas, we forecast over 99% of the harvest is complete and even in November, there were significant volumes of canola, flax and cereals that were still in the fields or just combined over the past week. Dry edible beans in Manitoba were among the latest crops with quality still holding out, even with a late season upon us.

We want to continue to share a few of our views with you during this call. In a general sense, I just want to reiterate that world demand for food and quality proteins demanded by a growing global population continued throughout the year, as expected. Demand for pulse crops, lentils, peas, chickpeas and beans, the staple protein consumed by hundreds of millions of consumers daily in all corners of the globe remains high. But a challenging third quarter, with a late harvest and low carry-over stocks hampered Alliance's ability to fulfill this demand. Sales volumes in Alliance's Canada, US and Australian businesses were down approximately 6.5% from quarter three 2009 and when we compare that with quarter two 2009, and sales revenues in our business units declined by about 8%. We had very low capacity utilization, without a new crop available for processing. Usually by August 15th, we're in full swing, receiving new crop level deliveries, but new crop this year was not in full harvest until after September the 7th. This left a very modest 2009 crop delivery within our quarterly results presented here.

But the bottom line, and the positive bottom line, is that pulse's harvest was late, but Mother Nature cooperated in the fall of 2009. We did not have a major frost incident, even with the very late harvest.

As we've stated in the past, Alliance Grain continues to work to meet management expectations despite challenging market conditions. The late completion of harvest and

near full depletion of stocks in most origins of the world made it difficult to match available quantities to demand.

However, as the largest value-added processor of pulses in the world, Alliance Grain leveraged our existing relationships with producers and customers to find a way to maximize the grain in our system and to fill as much demand as possible to our customers all over the world.

This was in part achieved through product diversification, a cornerstone of our global strategy; specifically, diversification into other types of lentils, other specialty crops, such as chickpeas, peas and canary seed. While this assisted us in producing the expected results in this quarter, this also gave Alliance the opportunity to strengthen its position in new and different markets, setting up a diversified opportunity going forward.

Let me relate to you an example of what I mean. Our new investment in a chickpea processing facility in Regina, Saskatchewan, was a key move, allowing Alliance to establish itself, this quarter, as a premier world shipper of high-quality chickpeas to the global canning, packaging and ingredient markets. Carryover stocks of chickpeas were available and were processed and marketed and this was a positive development for our company going forward. In doing this, we reported sales of \$73.3 million, compared to \$107.886 million in the same quarter last year. EBITDA decreased 23%, Q3 2000 -- over Q3 2008, with a reported Q3 2009 EBITDA of \$8.3 million. As you can see, with a significant decline in overall business volumes, Alliance is still showing strength in a challenging supply environment. This is a testament to our business strategy and team and I'm optimistic that our future is bright.

There are a number of points I want to share with you. First, in this quarter, the transformational acquisition of Arbel was completed. The added capacity in these facilities and the diversification in terms of market access and product mix has helped to minimize risk and maximize our shipments during this quarter and in quarters going forward.

The acquisition was an important component of our global origin diversification strategy to take advantage of harvest seasons in four major pulse producing countries, or regions, of the world. So we're active in all of these regions now and we can capture both production and freight advantages that each region offers.

Second is the continued strength Alliance shows with regard to management's ability to execute on growth strategies and opportunities in the marketplace. Access to the public equity market, strong financial performance and steady demand for our products, couple that with the ability to successfully integrate new acquisitions, and bring them online, are positive components to our business strategy, continuing the path of growing a solid global foundation. The assets acquired in past acquisitions are now online and we continue to see positive returns on these investments. New assets acquired, such as the Arbel acquisition, give us an excellent growth platform for future success.

I am pleased to report that the Arbel acquisition integration is on track and we will venture to complete this process within our target of the end of the first quarter of 2010. And another thing I want to add, in the Arbel acquisition, is not only the assets, but a very significant addition of management strength, management depth and the depth of the Alliance management team is something that I think that many people who are familiar with our Company and our story are just starting to appreciate. So this is not a one-man company, we have a very deep and very strong management team to go forward and grow.

Another part of this strength in the Arbel acquisition comes with the addition of new products and product lines, such as the small packed consumer product line of pulses and milled durum wheat products offered by Arbel and the Arbella brand of pasta. Taking a managed approach to integrating these commercial brands into our core line of business will, we feel, bring continued growth and additional value-added business.

Finally, while an excellent crop was expected and delivered in Canada and the US, even with these positive expectations, I want to reiterate, people need to eat so we forecast continued strong demand for our products. Our items are not ones where consumers

can simply wait on market projections, like they might with other commodities that are in the nice-to-have categories our products are need-to-have staple proteins. With efficiencies in value-added processing, taking advantage of freight opportunities, diversified markets and origins, as well as a well-instituted risk management program, Alliance has capitalized on opportunities at hand and will continue to do so.

Going forward, through the end of 2009 and 2010, the harvest in North America has been a positive one, above average pulse crops in Canada and the US, guaranteed plentiful stocks, to continue to execute our business plan. Good economics to producers bring more sustainable acres into our production. With current conditions, good results in Australia and Turkey are expected as well, later in 2009 for Australian new crop and Turkey will -- is forecast to return to a more average supply scenario as well, in 2010. This will translate into ample supply of pulses for exports throughout the year, as newly harvested product becomes available across the globe. And as demand is there, Alliance will be there to fill supply to our facilities in Canada, the US, Australia and Turkey.

In the past three years, we've seen pulse acreage in Canada rise over 25% to around 7 million acres. The dollar value of Canadian pulse exports through the first half of the year are over \$1 billion, driven principally by emerging markets and high demand, specifically, lentil exports for the 2008, 2009 crop year are up 51% through May. While shipments of dried peas and beans have jumped 38%, this is -- illustrates a very strong sector here in the Canadian market.

Other pulse crops, including chickpeas, mustard, canary, sunflower seeds, are up as well and there are similar trends in other major origins. Overall, the growth opportunities are substantial and Alliance holds a large advantage, with strong assets, diversified product offerings, access to markets and logistics solutions.

We'll continue to grow as the business requires and utilize our assets in a manner that fits with our strategies. Our eyes are opened to a new strategic -- to new strategic acquisitions that will help us to consolidate the global pulse industry and strengthen our position in key markets that we're active in. This strong market position and overall



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financial condition of Alliance will position us to build on the successes we've enjoyed to date and grow as opportunities present themselves.

I'd like to thank you for your interest in Alliance Grain Traders. And along with other members of our management team, I'm pleased to answer your questions at this time.

OPERATOR: Certainly, sir. We now begin the question-and-answer session. The first question comes from Robert Winslow of Wellington West Capital Markets. Please go ahead, sir.

ROBERT WINSLOW: Good morning.

MURAD AL-KATIB: Hey, Robert, how are you?

ROBERT WINSLOW: I'm well, thanks. Murad, maybe you can just enlighten us a little bit here on gross margins, please, on a per-ton basis, if you could give us a sense of what your gross margin per ton was this quarter versus the year ago quarter and/or the last quarter, Q2 '09, please?

MURAD AL-KATIB: Well, I -- as you know, Robert, we don't disclose specific gross margins per ton. But if you look at the overall gross margin percentages, you can see a market improvement from quarter three 2009 compared to quarter three 2008.

There's a couple of trends that are moving in that direction. One is continued differentiation of our products within markets. We've added some very significant expansion of our color sorting and optical color sorting capacity within our Canadian markets and our green lentil program. Continued diversification of our markets is leading to a gross margin improvement because we're really skimming the best opportunities in all of the markets that we play in, instead of forcing product into certain markets to be able to drive volume. So I think that's a difference, as a food processor and not as a commodity company, we continue our ability to drive that gross margin percentage up and I think it's translating into better results.

You've also got to factor in the fact that it was only two weeks, but there is two weeks of inclusion of the Arbel business as well, in the quarter, and we do expect domestic Turkish business to be a more positive margin profile, especially with the branded products, strategy, particularly focused with the Arbella pasta.

So I'm pleased with the gross margin improvement and ultimately we were very adamant in our quarter two discussions that in quarter two we saw margin erosion due to escalating commodity prices that had kind of escalated faster than the ability of markets to catch up. So I think that quarter three, really what it does, is reaffirms our ability to maintain our margins or even improve our margins in a declining commodity price system. Because one of the things, Robert, as you know, somebody who's followed our story closely over a number of periods, there was some folks that felt that as commodity prices rose, our margins rose accordingly. When commodity prices would decline, they would decline with that; this quarter continues to show that we're not a commodity story, we're a food story.

Robert Winslow: Okay. If -- that's fair. If you can't give us the dollar value margin, and I understand that, maybe you can give us a sense, then, just of relative margin improvement? So if I look back to Q3 '08 and then compared Q3 '09, on a per-ton basis, was your gross margin up 10%, 20%, 30%?

MURAD AL-KATIB: Well, I did tell you within my comments, on a disclosure basis, that our North American business volumes were down let me just check the figure that I gave you here. The sales volume was down about 6.5%.

ROBERT WINSLOW: And that's, you said, North American?

MURAD AL-KATIB: That's Canada, US and Australia.

That's the original Alliance business prior to the acquisition.

ROBERT WINSLOW: Got it.

MURAD AL-KATIB: We do have volume down and margins improved. So...

ROBERT WINSLOW: Okay. Got it.

MURAD AL-KATIB: ...definitely a positive trend and one that will continue to drive forward.

ROBERT WINSLOW: Thank you very much.

MURAD AL-KATIB: You're welcome, Robert.

I think we've got Christine Healy next?

OPERATOR: The next question is from Christine Healy of Genuity Capital Markets. Please go ahead.

CHRISTINE HEALY: A question for you. Lentil prices, they've been really firm despite the huge crops in Canada and in the US and that people are saying it's because of the poor weather in India. Just wondering, do you expect the lentil prices to remain at these levels into the spring when the farmers here have to make their planting decisions? Or do you see it as more of a short term or if you could just let us know your opinion on the prices?

MURAD AL-KATIB: I mean -- a couple of things; on the price side, certainly lentils are dramatically outperforming other crops. I mean, you've seen an adjustment on canola, cereal grains, flax seed, all of the other commodities. Lentils have been very resilient due to demand factors and in India, monsoons have been short on moisture and there's a view that Indian demand conditions will continue as we go forward.

There's a couple of points on price; I mean, for us, because of the model that we use to basically sell on a gross margin per-ton basis, positive prices to the grower is actually a very positive thing for our business overall. We end up in a position where growers want to plant the crop, our supply becomes much more stable and we see the effects of what we've seen over the last year, where acreage dramatically increased, we're going to have healthy stocks to go from one season to another, so we think that that's a positive development.

Our prediction, at this point, is stability on pricing and we can't forget that we do have Australia coming in with a new crop in December. So we may see prices softening off a bit in the New Year. On the other hand, return profiles are going to remain very positive. So there are views within the market that acreage will be up again next year. And so I think it's a very positive for the price profile for growers.

CHRISTINE HEALY: Yes, that's exactly what I'm trying to get a handle on is the prices and how it will impact the farmers' planting decisions next year. So you think it'll be sustainable, these increases in lentil acreage?

MURAD AL-KATIB: I mean, you know what, Christine? It's really a factor of how do lentils perform relative to the other crops. And today the gap is so large that even if lentils were to correct downwards, the return profile is still above the other crops.

CHRISTINE HEALY: Yes.

MURAD AL-KATIB: So we are looking for a sustainable acreage and demand profile, if the Indian situation is as the Indian meteorological authority is reporting, then there is very little chance of a significant bumper crop in India, which means continued strong demand from the Indian subcontinent. That's good for the pulse industry.

CHRISTINE HEALY: Okay. Thanks very much, Murad.

OPERATOR: The next question is from Anoop Prihar of GMP Securities. Please go ahead.

ANOOP PRIHAR: Good morning. Just a couple of questions. First, on your receivables, I noticed that in your disclosures, about 80% of your receivables are overdue. And I was wondering, that seemed like a large number, if you could give us some context on that? And in addition to which, there was a significant amount written off during the quarter as well, versus none last year. I wondered if you could comment on that.

MURAD AL-KATIB: Anoop, first of all, I guess, on the receivable overdue, really that's a function of revenue recognition policies. Revenue is recognized when product is invoiced to the buyers. So from that perspective, we have long transit times, so if we're selling more on cash-

against-documents basis the transit times actually can be up to 45 days. So some of these receivables, they may show up in an overdue scenario, but they're really not overdue because they're actually cash against documents at arrival of cargo and these are Export Development Canada insured receivables, therefore they're current, but they just show on an aging schedule because that's generated by the accounting system.

So I can assure you that there are no issues with overdue receivables and this is normal course of business as we continue to grow the book. Now, provisions for credit losses, I don't know what figure you're looking at, but look at the ...

ANOOP PRIHAR: I'm looking at the -- I'm looking at note eight on page 11, you -- it looks like you wrote off \$7.5 million of receivables and I'm wondering if you can give us some context there.

MURAD AL-KATIB: No, that's \$7.5 thousand.

ANOOP PRIHAR: Oh, I beg your pardon, 7.5 thousand?

MURAD AL-KATIB: Yes, yes, I know there's no doubtful account issues.

ANOOP PRIHAR: Okay.

MURAD AL-KATIB: I think the total, as written off, actually was \$7,500 and then we recovered another \$3,800. So the net is nearly nothing.

ANOOP PRIHAR: I understand. Okay. My mistake, just the second question is, can you reconcile the accounting on the acquisition for us? Because I remember at the time you made the announcement on the Arbel deal, there was about \$56 million, \$57 million of debt that you were going to assume? And I'm wondering where that shows up on your balance sheet and your cash flow statements in the quarter?

MURAD AL-KATIB: Well, there's a couple of factors. I mean, obviously, at the reporting period, September 30th, we had a significant amount of credits that were closed off. So receivables were turned into cash and debts were paid down. And then obviously surplus cash within

Alliance was used to retire down a certain number of the debt exposures that were reported in the pro forma.

Now you will notice one revision, the goodwill numbers reported in the pro forma versus the actual opening balance sheet reported in our notes; note three, under "business combinations." There is an effect of assets are actually valued in US dollars, but reported in Turkish liras and the Turkish lira actually revalued significantly from a -- I think the figure at the valuation period of 2009 was TRY1.688 per USD1, whereas at business combination period, it was 1.48. So we had a significant revaluation of the Turkish lira to compensate for the excessive devaluation that happened in late 2008, early 2009.

So that adjusted the goodwill figure slight, as asset values translated down. But again, that's a non-cash snapshot, asset value loss in Turkish liras. So other than that, the business combination was pretty much reported as we expected.

ANOOP PRIHAR: How much cash was in Arbel at the time you closed the deal?

LORI IRELAND: About TRY2 million.

MURAD AL-KATIB: Yes, it was about -- you mean just actual cash balance?

ANOOP PRIHAR: Yes.

MURAD AL-KATIB: That was TRY2 million.

ANOOP PRIHAR: Okay. All right. Thanks.

OPERATOR: The next question is from Michael Simpson of Sentry Select. Please go ahead, sir.

MICHAEL SIMPSON: Oh, hi, Murad. Maybe you could talk to us, if you see any opportunities in the bean processing side?

MURAD AL-KATIB: Yes. I mean, Michael, beans for me is one that we've talked a lot about. We continue to believe, in the Company, that bean processing is a product line that could mirror what we've done in lentils. We look at the global consumption of beans, forecasted at about 18 million tons versus lentils at about 4.5 million tons. So you can see the magnitude of the opportunity is large. And when we look at it, it's a multi-origin strategy, much like we've done in lentils, with Canada-US being one origin, Turkey being another, where we already have a strong presence in beans, and then if we add in China and we add in places like Argentina, we may have a very solid global diversification business acquisition plan for beans and we're very seriously looking at what we can do in that effect as we go forward, acquisition-wise and organic capacity construction as well.

MICHAEL SIMPSON: Okay. Thanks, Murad.

MURAD AL-KATIB: No problem, Mike.

OPERATOR: We have a follow-up question from Robert Winslow of Wellington West Capital Markets. Please go ahead, sir.

ROBERT WINSLOW: Yes, Murad, it may be a little bit early yet, but you indicated that the integration of Arbel is tracking well. I believe your initial expectation on synergies was USD5 million. Any update on that?

MURAD AL-KATIB: Robert, integration is going well and the reason for that is the marketing integration, we forecast it be complete by end of December. The bottom line is that these companies were already working so closely together as kind of associated entities that the traders in Turkey know all traders here in Canada. They already spoke every day so now it's a matter of just coordinating pricing and coordinating purchasing decisions.

I will tell you that the synergies that we discussed were things like distribution, freight synergies and option-origin pricing synergies, whereby we can now be in a position where we're selling to an Egyptian importer, for December or January delivery, and

making it our option whether we ship from Canada, Australia, the US or Turkey. And those things are going very well.

Where we are seeing the strategy of prompt deliveries from Turkey, capturing a premium compared to longer transit times from Canada, and so we are feeling that the synergy number that we estimated will be achieved and we think it was a very achievable figure that we put forward. So I'm pleased overall with the marketing integration that's happening and that will continue to track well. On the administrative side, we've already achieved a lot and you, as experienced business people, can understand, the complexity of the first quarter reporting, when we you have this type of a business combination.

So I'm pleased with the ability of the Turkish side to continue to deliver timely and accurate reporting. For those of you who aren't aware, we have hired a full-time Turkish CFO to work with our CFO here, Lori Ireland, and so he has taken control of the accounting function and we're quite pleased with the financial controls and their ability to do what we need to do there.

So, overall, I think things are tracking as we expected, Robert.

ROBERT WINSLOW: Thank you.

OPERATOR: We have a follow-up question from Christine Healy of Genuity Capital. Please go ahead.

CHRISTINE HEALY: Hi there. A question on Q4. I'm just wondering, how many weeks of higher utilization will we see at the Arbel pulse plants in Q4? What's the timing of your lentil shipments from Canada to Turkey?

MURAD AL-KATIB: Well, you will -- you would have seen -- if new crop came in, in around after the 7th of September, as I stated in my comments, you're really looking at late September, October shipments.

CHRISTINE HEALY: Yes.

MURAD AL-KATIB: And you really won't start to see Canadian product arriving into Turkey just basically in the last week or two as with the first arrival. So there will be product arriving for portions of the quarter.

CHRISTINE HEALY: Okay.

MURAD AL-KATIB: And so I think that's a positive thing for their supply side in Turkey.

On the other side though, durum wheat and other things have been available. So the Arbel business continues to track along as we expect. And, again, I'm very optimistic.

CHRISTINE HEALY: So mid-November then? Is that accurate? Mid-November?

MURAD AL-KATIB: Mid-November is the widespread start of arrivals.

CHRISTINE HEALY: Okay. And if I could sneak in one more question, when we were in Turkey last month, you were talking about looking to expand Arbela into Canada. And I noticed some of the members of the Arbela team are going to Toronto, to go to a trade show, to gauge interest in the product there. Could you give us an update on that?

MURAD AL-KATIB: Yes, I mean, Arbella launch in Canada and in other areas of the world are ongoing efforts.

CHRISTINE HEALY: Yes.

MURAD AL-KATIB: We did display, at the Grocery Innovations Show in Toronto, which is one of the main retail shows. And the bottom line is, is that we have a very attractive product. And the Arbella family brand, with the Legion of Superheroes characters and the child characters have really attracted a lot of interest.

And so that is a lead into the full range of other pasta products that we have. We're optimistic in the ability to do that.

At the same time, I put my comments very carefully to say we're going to take a very managed approach to the overall growth of the branded product strategy. And so from that perspective, we're really assessing each entry, Christine, as kind of like a bolt-on acquisition, where I have to look at what's the costs of entry, what's the returns and then decide whether the capital actually justifies the investment.

So I'm optimistic. And it's not only Canada, I mean, we've got efforts right now in South America on increasing the presence. We have efforts into other areas of Europe, we have a very strong push in Israel. As we speak, Arbella's been launched and it's doing very well. The Arbella team is in China right now, at a show in Shanghai.

We did a China launch on Arbella and that's also going very well, to go along with our Japanese launch that happened two years ago. So we're optimistic that that brand is going to continue to grow globally and one that's going to be very good returns for the shareholders.

CHRISTINE HEALY:

Okay. If I could just clarify something that you told -- you were talking with Robert Winslow on, just the gross margin, 18.5% this quarter. Historically, you've been closer to 15%. And I'm getting from your comments that you do see this level as sustainable? If you could just comment on that; is the full increased 18.5%, do you see that as sustainable? Or is any portion of that improvement related to tight supply?

MURAD AL-KATIB:

You know what, Christine? I can't really give you much more guidance. We don't give that type of clarification. So all I can tell you is that we continue in our efforts to look for markets that improve our gross margins.

CHRISTINE HEALY:

Yes.

MURAD AL-KATIB:

And we're optimistic in our ability to continue to drive those types of margins as we go forward.

CHRISTINE HEALY:

Okay. Thanks.

MURAD AL-KATIB: Thank you.

OPERATOR: The next question from Sheel Jimbal, a private investor. Please go ahead, sir.

SHEEL JIMBAL: Well, hi. Thanks. Congratulations for the good results.

MURAD AL-KATIB: Thank you.

SHEEL JIMBAL: I have a question in terms of analysis, as a private investor. I don't see any earnings per share or any per share numbers in all this. Is that going to change or you can't publish that?

MURAD AL-KATIB: Actually, we do, in the "Management Discussion and Analysis." I'm sorry. In our Consolidated Statements, if you refer to our Consolidated Financial Statements on page two, under the Income Statement, the Consolidated Statement of Income, we do actually have the basic net income per share, the diluted net income per share and the basic weighted average number of shares outstanding and the diluted number there. So you can refer to that and you can see those figures presented in the financial statements.

SHEEL JIMBAL: Okay. So it's not in the summaries and the details?

MURAD AL-KATIB: It's actually in the consolidated statement of income.

SHEEL JIMBAL: Okay.

Secondly, what is the pay-out ratio right now for your dividends?

MURAD AL-KATIB: Sorry, I didn't hear you.

SHEEL JIMBAL: The pay-out ratio for your dividends? Pay-out ratio for cash flow?

MURAD AL-KATIB: I just have to check the figure. The pay-out ratio is actually -- we have it calculated. Just one second, let me refer to my number here.

It's -- this quarter was 29.18%.

SHEEL JIMBAL: Okay. So you're planning to stay that low? Or is there plans to increase that somewhere in the future?

MURAD AL-KATIB: I mean, the dividend policy is a quarterly decision by the Board. We're a growth company, we are going to maintain a dividend yield to our shareholders, but we're definitely going to continue to grow the company.

SHEEL JIMBAL: Okay. Thanks.

MURAD AL-KATIB: You're welcome.

OPERATOR: We have a follow-up question from Anoop Prihar of GMP Securities. Please go ahead.

ANOOP PRIHAR: Yes, maybe just a question for Lori. In the MD&A, you make reference to interest expense payment -- interest expense being higher than normal due to the balloon payment on early retirements at the Arbel facility. Could you give us a sense as to how much that was?

LORI IRELAND: Well, they --.

MURAD AL-KATIB: Yes, it was a -- .

LORI IRELAND: They -- .

MURAD AL-KATIB: Go ahead.



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LORI IRELAND: They had a -- their operating lines were at a higher interest than ours, so it made more sense to spend some of the cash there to pay those down. And it was approximately \$1 million.

MURAD AL-KATIB: TRY1 million.

LORI IRELAND: Or TRY1 million, yes.

ANOOP PRIHAR: So that was a payment balance?

MURAD AL-KATIB: Yes.

ANOOP PRIHAR: Okay. Thank you.

MURAD AL-KATIB: But, again, Anoop, we did the calculation, I mean to retire those facilities and renegotiate them was a very good move for Alliance going forward. Because our cost of borrowing is much lower than Arbel's was. And that's one of the synergies that we stated in this whole thing.

OPERATOR: We have a follow-up question, again, from Robert Winslow of Wellington West Capital. Please go ahead.

ROBERT WINSLOW: Follow-up after follow-up, eh?

MURAD AL-KATIB: It's okay. Robert, you're asking the questions everybody else wants, then, yes.

ROBERT WINSLOW: Okay.

MURAD AL-KATIB: I hope Christine and Anoop are next, so.

ROBERT WINSLOW: This is my last question, I think.

MURAD AL-KATIB: That's all right. That's all right.

ROBERT WINSLOW: In the past, Murad, you've mentioned prospects to expand the business into China. Unless I missed it on the call, I did duck out for just a second here, is there any kind of update on what China may have to offer Alliance Grain Traders?

MURAD AL-KATIB: I mean, to us, China is a very interesting market and I mean, to anyone selling any type of product, I guess, you can't ignore the dynamics of China. For us, China is really a two-fold opportunity. One is, it is a consumption market and from a consumption perspective, it isn't traditional pulse consumption, as we think of it in India and North Africa, Middle East.

They're utilizing Canadian and US and Australian pulse foods, in particular peas, for starch extraction for vermicelli noodle production. And so peas go in, they extract the starch and Canadian peas, in particular, get a very positive result on the elasticity of the vermicelli noodle. So from that perspective, we see it as a large opportunity to grow our bulk product program, to complement our branded bagged capacity. So it's one of the markets that could help us drive capacity utilization on the bulk side.

So that's one side of the overall consumption and so vermicelli noodles is one. And then for those who are familiar with Chinese traditions, moon cakes, during the Moon Festival, are also utilizing peas as a major component to produce moon cakes. And that, when we go to China, they talk about how it's such a niche market but in a niche market, in China, is still in the range of 70,000 to 80,000 tons of consumption of split yellow peas per annum. So any growth in consumption becomes something significant in terms of it being a market.

So we like the consumption side, but then on the other side, it's an origin at the same time. So we look at the northern regions and we actually look at the area around Dalian, China, it's a major bean producer, where they're producing white beans, they're producing red kidney beans, they're producing navy beans and also small green lentils. So we look at that and we say, another origin of production, we need to be there. We can kill it as a consumption market and origin at the same time. It's something that we



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have to look at and we're going to continue to look at the opportunities there.

ROBERT WINSLOW: Thank you.

OPERATOR: There are no more questions at this time. I will turn the call back over to Mr. Al-Katib. Please go ahead, sir.

OMER AL-KATIB: Thank you, everybody. And I'd just like to remind everyone that an audio archive of this call will be posted on our website on November 18th. And if you do need to replay the call, please refer to the instructions in our news release, with all of the call-in numbers. Or you can visit our website at alliancegraintraders.com for that information as well.

If you have any further questions later on today, please don't hesitate to give us a call at the office in Regina. And we'd like to thank you all for attending and have a great day.

MURAD AL-KATIB: And I just wanted to add one thing, everyone is aware that the actual SEDAR filing may lag up to 24 hours. So if anyone is looking for it, I think Omer had mentioned, it is on our website. And that information should be readily available to any investor that requires it.

So if there's any trouble, give a call to Omer and he can facilitate getting copies of the information. Thanks to everybody.

OPERATOR: Ladies and gentlemen, this concludes today's conference call. You may disconnect your lines. Thank you for participating. Have a pleasant day.