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San Juan Bioenergy
ACRE Grant Final Report
January 14, 2009

San Juan Bioenergy would like to thank the Colorado Agricultural Value Added Development Board and Department of Agriculture for its support of our project. Please accept this letter as a final report and request for the remaining \$10,000 of the previously awarded grant.

Project Overview

San Juan Bioenergy has now completed construction of its integrated oil crush and bioenergy production facility. Two buildings were constructed in the Weber Industrial Park in Dolores County – one for the oil crush line, and one for the biodiesel production line. The oil crush line was constructed to include dehulling and collection systems for both hulls and dockage (stems and leaves delivered in with sunflower seed). Pelleting equipment for both meal and the waste biomass was installed, with the hulls/dockage pellets delivered into a gasification system. The syngas thus produced will be utilized in our boiler and generator.

As of this writing, we are now ramping up the main body of the production system, producing oil, meal, and hulls/dockage pellets. After overseeing initial installation of the gasification system, our gasifier vendor engineer was involved in a car accident in late December. He will return on January 26 with his team to finalize installation and begin operations of that system as well. As such, we have initiated operation of the facility using the natural gas backup.

Key Findings

Overall, the key challenge to date has been to meet the aggressive schedule we set for construction and initiation of operations of the facility. We initially anticipated operations beginning in late summer 2008, but had that pushed back to this month given various equipment delays (partly due to two hurricanes), and the time it took to install the full facility. The rapidly changing markets for transportation fuels also presented another challenge requiring flexibility in our product line. To this end, we are now initiating operations mainly producing sunflower oil for food markets, and have constructed a pilot biodiesel production line that will be expanded upon acquisition of cost-effective, non-food competing feedstocks (such as used fryer oil, off-spec canola seed, off-spec sunflower oil, and other oils available via backhauls of our food grade oil shipments).

In the end, we will have gone over-budget by approximately 20%. To compensate, we delayed construction of the full biodiesel production line, instead building a pilot to test the crude (unrefined) sunflower oil to biodiesel production process. Meanwhile, we made very cautious equipment purchasing decisions, such as starting with a smaller, refurbished electrical generator.

During the time it took us to construct the facility, we saw the incredible downturn in the economy, forcing commodity prices way down. The value of sunflower seed we have bought over the past four years, and the sunflower oil and biodiesel we will sell for instance, each dropped about 60% from their peak values in spring and summer of 2008. The meal we will sell as a livestock feed has held value better than other commodities, dropping only 30% since its peak in the summer of 2008, and we are finding tremendous local demand from livestock producers for that product.

Meanwhile, we have taken a cautious approach in setting offer prices for oil seeds, which comprises 80% of our cost of goods sold. If we had raised our sunflower seed offer prices this spring and summer up to that which was being offered in the midwest, we would be holding such a huge feedstock bill that our nascent balance sheet couldn't have handled it. Unhappy with our prices, a few farmers sold seed out of the area, but most understand the long term benefit that our facility will bring and stuck with us.

In the end, through cautious purchasing, prudent facility design, as well as access to additional equity and debt, we are withstanding this downturn and are now on track to begin generating revenue through operations this month. We have directly created 11 full time equivalent, hired dozens of contractors, and have approximately 40 farmers growing oil seeds for us each year.

Final Accounting

Please find attached a financial accounting detailing use of granted and concomitant matching funds. In short, the granted and matching funds (from member equity) were used to aid in the purchase of the oil crush production line from N. Hunt Moore, our main engineering and procurement contractor. I have attached a copy of the full contract with N. Hunt Moore, and demonstration of payment. Final funds granted will be used to cover part of the final payment to N. Hunt Moore.

Photos

Please find attached photos of the completed facility. In addition, I have attached three printouts of the control screen used to operate the facility. Photos showing the facility's progress throughout the construction process are available as well.

Next Steps

We are now running tests on sawmill shavings from area sawmills in our pelletizers, and believe we will be able to also produce wood stove pellets to supply the Four Corners area. This and other value added opportunities are now being explored. The additional ACRE R&D grant awarded to San Juan Bioenergy will be used shortly to design and install an on-line syngas monitoring system (the output from the gasifier). The monitoring is needed to optimize gasifier performance, evaluate feedstock and ensure safe operation.

We are now planning trials of dedicated biomass crops, such as switchgrass, and researching other agricultural waste such as molded hay and native grass detritus (produced at some area farms for remedial planting seed) for gasification, and potentially algae for use in the biodiesel production process. We are negotiating the purchase of a used fryer oil collection firm, which when coupled with off-spec canola seed and

sunflower oil, can potentially provide us with adequate biodiesel feedstock to produce over 500,000 gallons per year. We are also now reviewing the prospect to establish regional gasification facilities, potentially coupled with solar thermal preheating, for district and industrial heating and power needs.

San Juan Bioenergy's board and staff will be meeting for a strategic planning session in late February, at which time we will review and prioritize these various opportunities for further research, development, and implementation.

Conclusion

If members or staff of the CAVAD or Department of Agriculture plan to be in the Four Corners area at any time in the near future, we would of course welcome the opportunity to provide tours of our now operating facility.

If you have any questions, please don't hesitate to contact me at 970-422-2025. Thank you again for your support. It has been a critical component of our budding success toward improving opportunities for agriculture not only in the Four Corners area, but well beyond as we work to replicate our integrated bioenergy model.

Sincerely,

Jeffrey A. Berman

Jeffrey A. Berman
Chief Executive Officer

San Juan Bioenergy LLC
Balance Sheet
 As of January 14, 2009

	Jan 14, 09
ASSETS	
Current Assets	
Checking/Savings	
Community Banks of Colorado	
Money Market	8.48
Small Business Checking	18,882.15
Total Community Banks of Colorado	18,890.63
Total Checking/Savings	18,890.63
Other Current Assets	
Insurance - asset	
Directors and Officers Package	1,155.78
General Liability / Umbrella	1,604.24
Total Insurance - asset	2,760.02
Inventory	
Costs Benefiting Inventory	1,559.98
Finished Goods	
Meal	65.00
Oil tests	1,442.00
Total Finished Goods	1,507.00
Seed	
Conv Safflower	58,645.18
Conv Sunflower-Mid	1,034,426.31
Conv Sunflower - High	879.47
Org Sunflower-Mid	154,190.62
Org Sunflower - High	4,670.68
Seed Inspection	5,703.75
Storage fees	134,554.53
Total Seed	1,393,070.54
Seed Insurance	1,466.80
Shipping	6,366.01
Total Inventory	1,403,970.33
Undeposited Funds	2,000.00
Total Other Current Assets	1,408,730.35
Total Current Assets	1,427,620.98
Fixed Assets	
Accumulated Depreciation	-94.00
Buildings	
Biodiesel Building	241,342.95
Builder's Risk Insurance	5,880.00
Construction	
Plant Utilities	2,006.40
Construction - Other	57,999.32
Total Construction	60,005.72
Green House	1,479.71
Interest & Fees on Const. Loans	37,762.97
Landscaping	16.19
Oilcrush Building	545,701.60
Worker's Comp Insurance	14,935.00
Buildings - Other	40,611.00
Total Buildings	947,735.14
Equipment	
Anemometer	9.96
Augurs & Motors	14,387.31

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Biodiesel	
Engineering	14,854.18
Biodiesel - Other	5,316.75
Total Biodiesel	20,170.93
Boiler	49,105.02
Bulk Storage	120,761.65
Computers	5,622.76
Construction	307,832.07
Electrical	149,942.04
Freight	5,241.85
Gasifier	185,040.00
Lab	546.70
NMR Spectrometer	36,000.00
Office Equipment	1,591.09
Oil Press	867,351.77
Software	6,272.76
Tankage	40,454.85
Tools	1,860.55
Worker's Comp	1,298.00
Equipment - Other	5,962.03
Total Equipment	1,819,451.34
Rolling Equipment	
Tractor	12,000.00
Trailer	12,500.00
Total Rolling Equipment	24,500.00
Total Fixed Assets	2,791,592.48
Other Assets	
Accumulated Amortization	-7,559.98
Capitalized Business Org Costs	54,827.77
Deposits	11,900.00
Loan Fees	
Appraisal Fees	9,715.00
Loan Fees - Other	40,195.75
Total Loan Fees	49,910.75
Prepaid Labor	1,936.50
Startup Costs	
Accounting	8,460.16
Administrative Wages	4,043.94
Advertising	
Advertising - D Unit Buyout	5,725.00
Feedstock Marketing	1,327.95
Hiring	1,821.26
Local Oil Marketing	939.12
Website	1,362.50
Advertising - Other	9,182.97
Total Advertising	20,358.80
Assets Under \$250	921.32
Bank Fees	
Title Insurance	5,121.00
Bank Fees - Other	306.22
Total Bank Fees	5,427.22
Conferences/Seminars	2,454.08
Credit Card Fees	219.66
Dues & Subscriptions	7,674.85
Fees	39.00
Grand Opening	2,419.25

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Insurance	
D & O's	3,735.22
Gen Liab/Umbrella	4,459.76
Life Insurance	200.00
Total Insurance	8,394.98
Interest	
Bridge Loan	18,254.79
Business Loan	10,040.64
D Unit Buyout	1,619.17
Region 9 Loan	11,394.49
Total Interest	41,309.09
Internet	409.75
janitorial Exp	427.50
Lab Supplies	
Chemical Supplies	460.12
Lab Supplies - Other	506.56
Total Lab Supplies	966.68
Licenses & Permits	
Kosher Cert	395.00
Organic Cert	934.00
Vehicle Reg	1,994.86
Licenses & Permits - Other	3,886.00
Total Licenses & Permits	7,209.86
Miscellaneous	1,666.17
Office Supplies	7,239.42
Postage & Delivery	1,700.39
Printing & Reproduction	2,520.52
Professional Fees	
Accounting & Tax	18,187.24
Legal	39,179.12
Total Professional Fees	57,366.36
Rent	
Office Rent	3,997.00
Rent - Other	2,750.00
Total Rent	6,747.00
Seed Production Subsidy	26,258.03
Staff Training	
Seminar Fees	385.72
Staff Training - Other	298.00
Total Staff Training	683.72
Subcontractor	
D Unit Buyout	37,904.00
Lab Assistant	1,795.00
Subcontractor - Other	84,727.76
Total Subcontractor	124,426.76
Supplies	348.27
Supplies for Lab	294.65
Tax	11.00
Telephone	
Cell Phone	4,547.02
Telephone - Other	3,686.56
Total Telephone	8,233.58

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	Jan 14, 09
Tests	
Meal	1,229.61
Oil	180.00
Oilseed	551.10
Pellets	5.00
Total Tests	1,965.71
Travel & Ent	
Airfare	7,881.89
Entertainment	72.99
Lodging	5,311.85
Meals	8,568.70
Mileage	16,315.55
Miscellaneous	269.97
Parking	2.50
Travel & Ent - Other	866.07
Total Travel & Ent	39,289.52
Utilities - Gas	131.86
Utilities - Water	73.00
Startup Costs - Other	164,554.67
Total Startup Costs	554,246.77
Total Other Assets	665,261.81
TOTAL ASSETS	4,884,475.27
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	308,865.07
Total Accounts Payable	308,865.07
Credit Cards	
Capital One No Hassle Miles	
Nathan Morris-0895	1,718.98
Capital One No Hassle Miles - Other	3,170.61
Total Capital One No Hassle Miles	4,889.59
Total Credit Cards	4,889.59
Total Current Liabilities	313,754.66
Long Term Liabilities	
CBC Loans	
Business loan-Inventory LOC	821,000.00
Construction loan	2,053,600.00
Total CBC Loans	2,874,600.00
Region 9 loan	280,000.00
Total Long Term Liabilities	3,154,600.00
Total Liabilities	3,468,354.66
Equity	
Members - Capital Contributions	1,428,473.52
Retained Earnings	-5,828.10
Net Income	-6,524.81
Total Equity	1,416,120.61
TOTAL LIABILITIES & EQUITY	4,884,475.27