

NORPAC FOODS, INC.

CROP REPORT

February, 2008

As many are well aware, the competitive pressures on agricultural land continue to make life very interesting for vegetable and fruit production. Wheat, soybeans and field corn are setting the standards for pricing on all commodity crops. Growers across the USA have made clear their expectation to be compensated for their crops at a level which would give them a return equivalent to what they can attain for wheat, in particular. At this still fairly early stage in contracting for product, raw product prices per crop nationwide are showing increases of 10% to 40% and more. Processors who are unwilling to contract at competitive levels will simply not have acreage available for processing. Growers throughout the Northwest, but particularly in the Columbia Basin, are difficult to pin down as they weigh their crop options. For many growers who raise crops on rented ground, which is a significant portion of Northwest vegetable production, the decision has been taken out of their hands as landlords turn to more profitable options.

From the grower's standpoint, the increases are a necessity to offset their input costs. The pressures on farm costs include the following:

- The price of fertilizer (nitrogen, phosphorous, potassium) has doubled in the last three years. About one third of domestic fertilizer is exported, and other countries, particularly China, are paying a premium to maintain supply. Energy prices have a direct correlation to fertilizer cost.
- Fuel prices for farm use have skyrocketed. In five years, diesel has increased from \$0.70/gallon to \$3.50/gallon.
- Farm labor costs continue to increase. The Northwest states are among the highest in the U.S. for minimum wage, which includes agricultural labor. Growers pay a premium above minimum to maintain a workforce.
- Rental costs for land have increased steeply, doubling in some instances.
- Seed costs for planting are up 15% this year. Because seed is grown a year in advance, next year's seed costs should reflect the 30-40% increase other crops are seeing this year.

Grower's have options they have never had before.

- Global food consumption is surging as third-world countries develop a middle class with an improved diet, which includes increased protein. The demand to feed livestock has dramatically increased the worldwide need for grain and corn.
- The growing demand for feed and corn has tightened grain stock inventories. Poor wheat crops worldwide have left wheat supplies at a 60 year low. Dramatic price increases result from a fear that supply will not keep up with demand.
- U.S. agricultural exports for 2008 will be up nearly 50% from 2005. It is anticipated that it will take two consecutive strong global wheat crops to correct the market, but that prices will not return to historical levels.
- Ethanol is still a factor. Grain corn acreage for ethanol is still increasing, competing with wheat and other grains and vegetable production. 2008 grain corn production is predicted to be more than 25% higher than 2007.
- Food safety concerns regarding Chinese vegetable products have increased the demand for domestically produced vegetables.

- Ground which has been converted to organic vegetable production is moving to organic feed production (primarily for organic dairy) or converted back to conventional growing of wheat.

Some of the key NORPAC crops are highlighted as follows:

PEAS: Inventories are relatively in balance at this point. Raw product prices in the Northwest are up 40% versus last year. Projected raw product price is approximately 85% more than 2006 prices.

GREEN/ITALIAN/YELLOW WAX BEANS: Inventories are well balanced on these products also. Raw product prices will increase a minimum of 23% compared to 2007.

CORN: Inventories on cob and cut corn range from tight to very tight to short. At this point, it would appear that corn will see the biggest jump in raw product pricing this year; contracted raw product price in the Northwest has increased approximately 45% versus 2007. Corn raw product prices, which historically were very stable year to year, have increased approximately 72% as compared to 2006.

LIMA BEANS: Inventories currently are tight to adequate. Pricing for raw product has increased by approximately 40% versus last year.

SUGAR SNAP PEAS: Inventories are short of what is required to get to new pack. NORPAC anticipates maximizing plantings for 2008, but the industry as a whole is limited by the availability of seed for planting. Raw product pricing is up about 40% compared to last year.

CARROTS: Inventories appear to be adequate. Raw product pricing is anticipated to increase by approximately 15% as compared to 2007.

ALL OTHER CROPS including broccoli, zucchini and yellow squash, cauliflower, winter squash, asparagus, etc.: As with the other major crops, processors will be paying a very competitive price; all will increase over 2007 raw product levels.

NORPAC does not anticipate large carryovers of inventory on any crop this year. As mentioned, several will be short going into the new crop year. Where inventories are noted to be in balance, it is for existing or forecast needs, not for new business.

Along with the precipitous rise in raw product costs, NORPAC and all processors will attempt to recover higher operating costs associated with increases in energy, freight, packaging, procured ingredient costs, labor and healthcare. It promises to be another interesting year for all involved.