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Questioning Market Leaders For Long Term Investors

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COMPANY INTERVIEW

CHRISTOPHER D'ARNAUD-TAYLOR Xethanol Corporation

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Xethanol Corporation (XTHN)



CHRISTOPHER D'ARNAUD-TAYLOR, Chairman, President and Chief Executive Officer of Xethanol Corporation, has worked with the company since August 2000. He became its Chairman, President and Chief Executive Officer on February 2, 2005. He is an international merchant banker and entrepreneur who gained global senior corporate executive experience with multinationals including Unilever, Reed Elsevier, Northrop Grumman and TKM Trading. He has directed the strategy, operations and financial affairs of companies in

the United States, Europe, Africa, the Middle East and Asia and managed the development and execution of corporate turnarounds and entrepreneurial ventures worldwide. Mr. d'Arnaud-Taylor has been a Director and President of a private merchant banking firm, London Manhattan Securities, Inc., for more than the past five years. London Manhattan has worked with entrepreneurs and established companies in forging new enterprises and realizing the potential of established businesses through mergers and acquisitions, joint ventures and strategic alliances. London Manhattan has participated as managing co-venturer in special situations where its direct involvement led to improving the operating results and strategic focus of an underperforming company or new business venture. Mr. d'Arnaud-Taylor also presently serves as a Director of Metamorphix Global, Inc., a developer of advanced precast concrete technology that emulates the patterns of natural stone, and Xeminex, Inc., an early-stage producer of lead and zinc concentrates. Previously, Mr. d'Arnaud-Taylor served as CEO of several global trading companies operating primarily throughout the developing world, trading in forest products, precision equipment and building materials. He has consulted extensively with leading defense contractors in the USA and Europe on countertrade and defense offset performance. Mr. d'Arnaud-Taylor obtained his MBA from the London Business School, having completed additional graduate business studies as an exchange scholar in International Finance and Development Economics at the Ecole des Hautes Etudes Commerciales in Paris, France, and Corporate Finance at New York University's Stern School of Business. He previously studied Economics, Government and Law at the University of Exeter, England.

SECTOR: ENERGY

(ADM605) TWST: We would like to begin with a brief historical sketch of the company and a picture of the things you are doing at the present time.

Mr. d'Arnaud-Taylor: The company was formed about eight years ago to make ethanol. Our ultimate goal was to make ethanol out of waste products rather than out of corn. The company

started by acquisition of an existing plant in the Iowa corn belt, and that company actually had been processing candy waste and other discarded foodstuffs. We acquired a company that had a technology platform in alternative feedstocks. We later acquired a corn-based processing company that will ultimately become a waste processing company as well.

“We are at the beginning of a fuel cycle that is going to be one of continuous supply shortages of petroleum, continual disruption of supply and likely increases in the cost of traditional fossil fuels. Ethanol is a home produced product. We are going to utilize various wastes, which cost money to get rid of, and basically you have a distribution system in place nationally to integrate ethanol with gasoline. So we are at the right place in the right industry at the right time.”

TWST: Are you making ethanol with corn anymore?

Mr. d’Arnaud-Taylor: We are using corn right now for two reasons. First of all, we have several pieces of technology that will have applications within the corn as well as in the non-corn based ethanol business. Second, we are using our existing platform so that we can compare the productivity from corn and non-corn feedstocks. This is a real benefit of our additional technology.

TWST: How does that new technology that involves waste match up against corn?

Mr. d’Arnaud-Taylor: We have several different technologies that apply at various stages of the production cycle. The main reason why we are looking at other feedstocks than corn is that corn is an agricultural commodity. It is a feedstock that has, over time, got alternative applications (such as for feed). The likelihood is that the price of corn will go up. As it stands right now, corn is

the principal cost component of a gallon of ethanol. Let’s say that under present prices, maybe \$0.80 to \$.088 of a gallon of ethanol’s cost is feedstock cost in the form of corn. It is that \$0.85 cents that we are trying to attack by having lower cost feedstocks. Some of our prospective feedstocks are free, some of them we would have to pay a little bit for, and some we would in fact get paid for. So the main reason why we are looking at alternative feedstocks is the large amount of cash that goes out to pay for corn.

TWST: Are you also looking at other waste sources, both industrial and agricultural?

Mr. d’Arnaud-Taylor: We are exploring a multitude of waste products. Waste products in general, like the products that we have been processing, include industrial residues such as candy waste, waste cornstarch, marshmallows, Halloween candy and things like that. All those are products that are otherwise land-filled. Consequently, there is a cost attached to getting rid of them. Our business plan calls for us to try and capture the sugars that are in those wastes and ferment them into ethanol. Again, the benefit of that is that the actual processing cost should be less because the corn processing plant is a very expensive plant to run. Sugars are already refined and therefore available to process.

TWST: What stage are you in right now and what is your plan for the next couple of years?

Mr. d’Arnaud-Taylor: Currently we are producing over 6 million gallons a year from our Blairstown plant with current improvements slated to double that amount by year end. We also currently have our other plant being refurbished as we speak. Our plan for the next couple of years is to progressively introduce what is generally called biomass. Biomass is the waste streams that are

coming from agricultural products like the stalk of the corn or the stalk of the sugarcane or oat hulls or rice husks and things like that. These products are all what's called cellulosic matter, and they are not the starch that is used in corn to create the ethanol. These are the stalks and things. These are also such resources as municipal wastes, yard wastes, forestry residues and so on. All of these products are what's called cellulosic, and our medium to long-term strategy is to develop the technology platform to process the cellulosic matters into ethanol.

TWST: Is one of the advantages of using the cellulosic matter that you can apply it in an area pretty close to the source?

Mr. d'Arnaud-Taylor: Absolutely correct. In any given waste stream like a cellulosic waste stream — let's just take municipal waste, for example — the large amount of cost attached to getting rid of municipal waste is the transportation cost from where it is created to where it is dumped in a landfill. Now, our strategic plan is to have smaller footprint plants that are always located closer to where a waste stream is created, thereby escaping the basic cost of transportation and escaping the landfill. Landfills are becoming scarce and they are more and more expensive. In addition, the cost of transporting, because of the increased cost of fuel, is going up and up and up. If you have a relatively small plant that you can locate close to where the waste is created, you are basically going to be capturing the freight premium and the landfill premium. And that means that the tipping fees that would otherwise go to somebody else can be paid to us as well as the benefit of having a product that is in demand ie: ethanol being made.

TWST: I guess this means that partnerships and alliances will be very important to you.

Mr. d'Arnaud-Taylor: Critically important because the originators of a lot of these waste streams would like to participate to a certain extent in the monetary value that can be created by turning them into ethanol. Also, part of our strategy is what's called co-location. For example, paper mills are prolific and regular creators of this waste. So part of our program is to co-locate close to them so you are almost part of their production system. They create the waste, you take the waste, create the ethanol, and you save money, time and the investment in plant because they already have power supplies. They already have wastewater treatment and other necessary components. Therefore, all you are doing is adding on to the incremental plant that makes the ethanol.

TWST: Will there be certain situations where nobody really knows who is responsible for a given location with waste in it?

Mr. d'Arnaud-Taylor: I suspect you will find situations like that but I don't think that those situations would appeal to us. Primarily, we want to know who owns the waste stream because the moment that somebody owns a waste stream they have to get rid of it, and at the moment that they own that waste stream, then you can enter into a contract with them to acquire that waste stream. You need to have off-take agreements for waste because you need to support a plant.

TWST: When would you be able to do these things? What will the company look like in about three years?

Mr. d'Arnaud-Taylor: First of all, the most important thing you have to do to make money is make ethanol. You can't make money without making the product. So our whole business model is targeted at identifying plant locations and getting them up and running as quick as possible. One reason why we are not interested in

these very large greenfield plants is that they are unlikely to come on stream for several years. The reason we look at co-location with the people who are creating the waste stream is it accelerates our capacity accumulation and enables us to bring capacity on stream more rapidly than other people can. So, if you look in terms of what the company is going to look like in three year's time, hopefully you'll see about 300 million, 400 million gallons of capacity in the marketplace.

TWST: What problems or challenges might loom in front of you?

Mr. d'Arnaud-Taylor: The primary problem that we are going to encounter is the lack of skilled people because the industry is currently concentrated in the corn belt of the Midwest. We are going to be in the East Coast, and then maybe in the West Coast. We are going to be in locations where historically nobody has ever run an ethanol plant. We are going to have to train our own people, which is one reason why we like our plant in Iowa because we have got an excellent location in which we can train people both as operators and managers. So if I, as CEO of the company, have one primary issue here, I have to find good people and train them prior to each project opening.

TWST: Could you be a partial solution to the problem of the Rust Belt where so many people have lost factory jobs, etc., and are looking for work?

Mr. d'Arnaud-Taylor: Absolutely. That leads to the second platform of our corporate growth that is not so much co-location but it is to identify an industrial property that has outlived its prior use and is being closed down. For example, a pharmaceutical plant in Georgia, a sewage plant that was never opened in New Jersey, an old textile plant or any other existing industrial facility that has all the hook-ups and the power supplies. Such

places can be retrofitted more cheaply than going out and building new facilities and capacity.

TWST: Is there anything else you can tell us about your business plan?

Mr. d'Arnaud-Taylor: Our business plan is actually really very simple. It's about going out and accumulating capacity, and in doing that, as you already said, we have to rely on alliances. There are alliances with the people who create the feedstock and also regional alliances. Especially down in southeast Georgia, Florida and in the Carolinas we are developing a regional alliance platform with people who have local political access, local real estate knowledge and expertise, and who basically can access the local capital market. We see this business as a very local business. It's not a national business, it is local; for example, it is only people who live in Savannah who understand how to get things done in Savannah.

TWST: How many employees do you have?

Mr. d'Arnaud-Taylor: About 40.

TWST: Would you tell us about your own background and expertise and the same for one or two of your colleagues?

Mr. d'Arnaud-Taylor: I come from a trading company background. I have run world trading companies primarily in the area of forest products, pulp, paper and board, and also in precision printing machinery. I have developed small plants around the world, and I have been involved in paper conversion projects as well. Part of that background readies me for this particular activity because the forest products industry is a biomass processing industry, a large-scale biomass processing industry. So with experience in that industry, I am less intimidated by biomass conversion than the people who come from the agricultural industry. Our CFO is Larry Bellone. Larry has extensive

banking and accounting experience, including 15 years at JPMorgan Chase where he was responsible for structuring, originating and executing innovative financing and investment transactions for Fortune 100 companies. He spent five years with Price Waterhouse prior to that. Robin Buller, our Vice President of Operations, spent a number of years in China and other places working with a company called Ferrostaal, which is a very large German project development company. And Jim Stewart, who runs our plant in Iowa, is well known in the industry and has a lot of expertise in turning around underperforming ethanol plants and in establishing new plants. So we've put together a good team and we are very confident that we can roll out our plants and execute our business plan. David Kreitzer previously ran a 20 million gallon per year ethanol plant.

TWST: Do you intend to strengthen your balance sheet?

Mr. d'Arnaud-Taylor: We are always evaluating our future capital needs, as developing ethanol plants is a very capital intensive business. Because of the current increasing awareness and greater understanding of ethanol in the United States, it is easier to identify pockets of uninvested capital to bring into a project. However, it still requires a large amount of equity for the development of a project. So we have to accumulate more and more equity. This can be done at the mother-ship level, but alternatively we can also do it at the regional level.

TWST: What would be the two or three best reasons for a long-term investor to look very closely at Xethanol?

Mr. d'Arnaud-Taylor: There are three drivers that I believe bode well for Xethanol. If you consider what is likely to happen over the next 5 to 10 years to the price of corn, I think everybody

would generally believe that it is likely to go up. If we look at the second driver, which is, what is going to happen to the cost of getting rid of waste over the next 10 years, I think everybody will think it's likely to go up. So if we look at those two drivers and then we look at the profit line or the revenue line of a company like Xethanol that is capturing the cost associated with getting rid of waste as part of its profit stream, its revenues and profits are likely to go up. We are at the beginning of a fuel cycle that is going to be one of continuous supply shortages of petroleum, continual disruption of supply and likely increases in the cost of traditional fossil fuels. Ethanol is a home produced product. We are going to utilize various wastes, which cost money to get rid of, and basically you have a distribution system in place nationally to integrate ethanol with gasoline. So we are at the right place in the right industry at the right time, and I think we have put together the right management team to get the job done.

TWST: Is there anything you would like to add?

Mr. d'Arnaud-Taylor: In summary, I think that the most important challenge facing the energy industry is how to adjust for what I mentioned earlier, the likely supply problems associated with the standard petroleum supply source. Contrary to petroleum, we are a local business. Our feedstocks are going to be created locally and our product is going to be made locally. Our product is going to be improving the environment locally. So we are adding value where our plants are. We are adding employment and we are adding revenues. We are taking away pollution and we are creating a product that is going to be used. So we perceive ourselves as a company doing positive things for the community while simultaneously making a good profit for our shareholders.

TWST: Does management personally own a lot of shares?

Mr. d'Arnaud-Taylor: Yes, we do. In fact, management collectively owns approximately 3.85 million shares, making our goals very aligned with our shareholders. My family own just shy of 1.1 million shares so I have a vested interest along with the rest of our management team in continuing to work diligently on building long-term shareholder value.

TWST: Thank you. (MC)

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