



Manitoba Cattle Enhancement Council



2008 ANNUAL REPORT

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CHAIR'S MESSAGE

I look back on 2008 as a time where the Manitoba cattle industry had its first beacon of hope in a very long time: a new beef plant started to take shape with investment from our council. After years of terrible markets, closed borders, and awful weather conditions, the industry had become shrouded in clouds of despair. Ironically, it was soaring transportation and feed costs that dramatically reminded producers and industry stakeholders that we need a more robust beef packing industry in Manitoba.

The Manitoba Cattle Enhancement Council's investment in Keystone Processors Ltd. is helping to create the first new sizable beef slaughtering and processing plant in Manitoba in a generation. It was gratifying to see workers begin transforming the plant last summer and even better to watch as the first beef was put into boxes for sale early in 2009.

I'm also pleased to report that we have met with other serious proponents and reviewed their plans for potential projects that would add new federally-inspected slaughter and processing capacity to the industry. Over time, we envision the province could support a number of small to mid-sized plants, and MCEC is dedicated to help make that vision a reality.

We believe that increased local slaughter and processing capacity is an essential part of a healthy, independent cattle industry for Manitoba producers. We think it is an intelligent solution to long-term challenges. Economic forecasts from organizations such as the United Nations as well as from many of Canada's major trading partners are predicting that the surge in oil and other commodity prices in 2008 gave us a glimpse of the future. Producers are almost certainly going to face increased pressure on their input costs. Having local plants will go a long way to minimizing transportation costs, while also capturing more of the value chain within our province. And more competition among buyers should also lead to better pricing for producers too.

Thank You

I'm hopeful the steps we have taken over our first three years as a council will lead to great things for our cattle industry. I thank each and every member of the council as well as its employees for their dedication and hard work. We have worked together to create an innovative investment fund that is almost entirely unique in agriculture, investing in ventures that support the long term viability of the industry on behalf of producers themselves. Producers can proud of the council's determination to achieve measurable improvements to the industry.

It wasn't easy, but I look back on the work we've done with a sense of satisfaction. There is still much to do, but the time has come for me to step aside and let the council embark on its next phase under new leadership. I know I am leaving behind an extremely capable group of people with a singular vision of how they can continue to serve producers.

Sincerely,



Bill Uruski, Chair

REPORT FROM EXECUTIVE DIRECTOR

2008 was a very busy year for the Manitoba Cattle Enhancement Council. Our most significant project was to increase our investment in Keystone Processors Ltd. to allow it to purchase a former Maple Leaf pork plant on Marion Street in Winnipeg. We have now committed \$2.4 million to the operation and have been working with management to secure additional financing to ensure the company can complete its building upgrades. Once done, the plant is expected to handle up to 500 head of cattle a day, which can be sold into premium, niche markets across Canada and around the world.


In addition to our work with Keystone, the council has been active working with proponents of other projects to help them bring forward viable proposals for funding. I'm pleased to say that our council has earned a reputation for being very responsive. Once we receive an inquiry or proposal, we move quickly. The council appoints an executive committee of up to three people. They meet with the proponent to help move the project forward so that it has a complete business plan and is ready to be presented to our Investment Advisory Committee. The IAC's role is to review that plan and the application and to report its findings confidentially to council. It is only after this extensive due diligence that council makes its funding decision.

While we have been kept busy with both active and potential projects, we've also spent our time meeting with producers and industry groups. We have met both formally and informally with a wide variety of organizations such as the Manitoba Rural Adaptation Council, the Manitoba Food Processors Association, Manitoba Agriculture, Food and Rural Initiatives, the Winnipeg Chamber of Commerce, Keystone Agricultural Producers and the Manitoba Cattle Producers Association. Having strong connections with these organizations helps us better identify potential proponents and project partners. And these groups add to what we hear from producers first hand about the issues facing the industry.

The council has also been active in supporting the industry in other ways. We continued our sponsorship of the carcass class competition at the Royal Manitoba Winter Fair and began sponsoring MAFRI's Beef and Forage Days too, both of which give us great opportunities to discuss our work and to hear directly from producers. Additionally, we remain active on the steering committee for a Manitoba buy local initiative.

We are principally focused however on developing local access to federally-inspected slaughtering and processing capacity for Manitoba producers. We are on the forefront of an effort to transform Manitoba's cattle industry from being only a minor feeder into other jurisdictions to being a self-sustaining, viable industry proudly marketing its products to the world. To that end, we have been meeting regularly with potential investors from the private sector as well as with representatives from both the provincial and federal governments to ensure they understand the strong business case for expanding the Manitoba industry.

I want to take this opportunity to thank Chair Bill Uruski for his wise leadership since its inception. He has helped create an organization that is truly dedicated to acting on behalf of producers in this province, and helped us through the growing pains of starting up through our first investments. I also thank the rest of council and our employees for their support.



Kathleen Butler, LLB

ABOUT MCEC

MISSION STATEMENT

The Manitoba Cattle Enhancement Council (the "Council") has been established by the Province of Manitoba to implement a plan to:

1. initiate, promote, support conduct and manage research and programs, including research or programs relating to financing or processing, that enhance value-added marketing activities relating to cattle;
2. gather, compile and distribute information related to the cattle industry.

OBJECTIVES

The mandate of the Council is to expand the beef processing industry in the Province, with the involvement of producers. The Council will administer an investment fund capitalized through a cattle levy and matching government contributions, which will be used to finance new or expanding slaughter/processing facilities in the Province. The Council will also undertake such activities that will assist in the overall expansion of the beef processing industry.

MCEC COUNCIL Members & Staff

Bill Uruski	Chair
Neil Van Ryssel	Vice-Chair
Albert Todosichuk	Treasurer
Don Yanick	Council Member
R. Harvey Harland	Secretary
Gaylene Dutchyshen	Council Member
Kathleen (Kate) Butler	Executive Director
Rachel Wells	Executive Assistant
Barbara Bednarski	Office Manager/Administrative Assistant

INVESTMENT ADVISORY COMMITTEE MEMBERS

John E. MacDonald, FCA – Chair
Joe Mulligan, P. Ag.
Ken Ross

LEVY AMOUNTS RECEIVED AND REFUNDED IN 2008

Total Levy Received	Total Levy Refunded	Refund Percentage
\$1,422,423.00*	\$383,073.71*	27%

*2008 Year End Financial Statements

WEBSITE SUMMARY

1. Who We Are:

- Responding to Producer Demands
- Industry Focused, Producer Responsive
- How are Levies Collected?
- Levy Facts at a Glance
- What do you get for you \$2 per head?
- Board of Directors

2. Funding Opportunities:

- The Need for Self-Sufficiency
- An Invitation to Innovators

3. Refunds:

- Cattle Enhancement Fee Regulation Amendment No. 169/2007
- New Refund Application Deadline – Effective January 1, 2008
- Application for Refund of MCEC Fee

5. Applications, Forms & Resources:

- 2006 & 2007 Annual Report
- Application for Refund of MCEC Fee
- Cattle Enhancement Fee Regulation No. 172/2006
- Cattle Enhancement Fee Regulation Amendment No. 169/2007
- Cattle Enhancement Information Order No. 171/2006
- Cattle Enhancement Information Order Amendment No. 81/2007
- Monthly Cattle Fee Remittance Form
- Project Application Form

6. News & Industry Studies:

- News Releases
- News Coverage
- Newsletters
- Brochure
- Publications

7. Links:

- The Farm Products Marketing Act C.C.S.M. F47
- Manitoba Agriculture, Food and Rural Initiatives (“MAFRI”)

MANITOBA CATTLE ENHANCEMENT COUNCIL
Financial Statements
Year Ended December 31, 2008

MANITOBA CATTLE ENHANCEMENT COUNCIL

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Year Ended December 31, 2008

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AUDITORS' REPORT

To the Members of Manitoba Cattle Enhancement Council

We have audited the statement of financial position of Manitoba Cattle Enhancement Council as at December 31, 2008 and the statements of revenues and expenditures, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Note 2 describes the revenue and related refunds recognition policy with respect to the revenue derived from producer levies and the related refunds. The note indicates that the organization is reporting producer levy revenue and the related refunds on a cash basis. In this respect, the financial statements are not in accordance with Canadian generally accepted accounting principles. Due to their nature, producer levy revenue and related refunds are not susceptible to a reasonable estimate on an accrual basis. Therefore, the effects of this departure from Canadian generally accepted accounting principles have not been determined.

In our opinion, except for the effects of the inability to report producer levy revenue and the related refunds on an accrual basis as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the organization as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Lazer Grant LLP

Winnipeg, MB
February 4, 2009

CHARTERED ACCOUNTANTS

MANITOBA CATTLE ENHANCEMENT COUNCIL

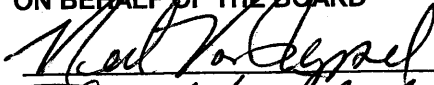
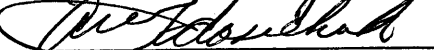
Statement of Financial Position

December 31, 2008

	2008	2007
ASSETS		
CURRENT		
Cash	\$ 100,758	\$ 139,069
Accounts receivable	424,069	699,733
Loans and notes receivable (Note 4)	1,555,191	95,000
Current portion of long term note receivable (Note 5)	32,034	-
	2,112,052	933,802
LONG TERM NOTE RECEIVABLE (Note 5)	6,146	-
LONG TERM INVESTMENTS (Note 6)	450,000	100,000
CAPITAL ASSETS (Note 7)	10,080	4,604
RESTRICTED CASH (Note 8)	1,450,000	1,050,000
	\$ 4,028,278	\$ 2,088,406
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable and accrued liabilities	\$ 45,566	\$ 33,568
NET ASSETS		
Unrestricted	2,522,632	1,000,234
Invested in capital assets	10,080	4,604
Internally restricted fund (Note 8)	1,450,000	1,050,000
	3,982,712	2,054,838
	\$ 4,028,278	\$ 2,088,406

LEASE COMMITMENTS (Note 11)

ON BEHALF OF THE BOARD

 Director
 Director

MANITOBA CATTLE ENHANCEMENT COUNCIL

Statement of Revenues and Expenditures

Year Ended December 31, 2008

	Budget (Unaudited)	2008	2007
REVENUES			
Unconditional operating grant	\$ 250,000	\$ 250,000	\$ 375,000
Producer levies	1,193,623	1,422,423	1,222,750
Provincial levy match	946,555	1,039,349	699,671
Levy refunds	(315,000)	(383,074)	(327,637)
	2,075,178	2,328,698	1,969,784
EXPENSES			
Advertising and promotion	31,000	50,219	30,385
Amortization	-	1,596	1,395
Computer costs	6,100	5,409	4,140
Council remuneration - per diem (Note 12)	36,000	35,737	31,572
Equipment rentals	8,811	8,182	8,389
Insurance	375	2,809	379
Interest and bank charges	4,000	1,543	2,490
Investment advisory committee fees	9,000	16,440	5,550
Levy commissions	28,613	30,764	23,665
Meals and entertainment (Note 12)	6,000	5,961	6,679
Memberships	2,000	3,295	1,965
Office and miscellaneous	6,792	10,553	8,232
Professional fees	20,300	20,039	39,182
Rent	13,200	15,345	13,200
Repairs and maintenance	600	1,018	159
Sub-contracts	3,600	3,415	5,116
Telephone	5,620	6,798	5,888
Travel (Note 12)	19,200	21,079	20,380
Wages and employee benefits (Note 10)	208,433	206,853	189,547
	409,644	447,055	398,313
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS	1,665,534	1,881,643	1,571,471
OTHER INCOME			
Interest income	41,800	46,231	43,138
EXCESS OF REVENUES OVER EXPENSES	\$ 1,707,334	\$ 1,927,874	\$ 1,614,609

MANITOBA CATTLE ENHANCEMENT COUNCIL

Statement of Changes in Net Assets

Year Ended December 31, 2008

	Unrestricted	Invested in capital assets	Internally restricted fund (Note 7)	2008	2007
NET ASSETS - BEGINNING OF YEAR	\$ 1,000,234	\$ 4,604	\$ 1,050,000	\$ 2,054,838	\$ 440,229
Excess of revenues over expenses	1,929,470	(1,596)	-	1,927,874	1,614,609
Transfer to internally restricted fund	(400,000)	-	400,000	-	-
Purchase of capital assets	(7,072)	7,072	-	-	-
NET ASSETS - END OF YEAR	\$ 2,522,632	\$ 10,080	\$ 1,450,000	\$ 3,982,712	\$ 2,054,838

MANITOBA CATTLE ENHANCEMENT COUNCIL

Statement of Cash Flow

Year Ended December 31, 2008

	2008	2007
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 1,927,874	\$ 1,614,609
Item not affecting cash:		
Amortization	1,596	1,395
	1,929,470	1,616,004
Changes in non-cash working capital:		
Accounts receivable	275,664	(571,510)
Accounts payable and accrued liabilities	11,998	(49,074)
Loans and notes receivable	(1,460,191)	(95,000)
Refunds payable	-	(169,433)
	(1,172,529)	(885,017)
Cash flow from operating activities	756,941	730,987
INVESTING ACTIVITIES		
Purchase of capital assets	(7,072)	(525)
Long term note receivable	(38,180)	-
Purchase of investments	(350,000)	(100,000)
Cash flow used by investing activities	(395,252)	(100,525)
INCREASE IN CASH	361,689	630,462
Cash - beginning of year	1,189,069	558,607
CASH - END OF YEAR	\$ 1,550,758	\$ 1,189,069
CASH CONSISTS OF:		
Cash	\$ 100,758	\$ 139,069
Restricted cash	1,450,000	1,050,000
	\$ 1,550,758	\$ 1,189,069

1. DESCRIPTION OF BUSINESS

The Manitoba Cattle Enhancement Council was established by Regulation 83/2006 under the Farm Products Marketing Act, Manitoba Cattle Enhancement Marketing Plan Regulation dated March 30, 2006.

The purposes of this plan are to

(a) initiate, promote, support conduct and manage research and programs, including research or programs relating to financing or processing, that enhance value-added marketing activities relating to cattle; and

(b) gather, compile and distribute information related to the cattle industry.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Capital assets

Capital assets are stated at cost less accumulated amortization. Capital assets are amortized over their estimated useful lives at the following rates and methods:

Computer equipment	30%	declining balance method
Computer software	100%	declining balance method
Furniture and fixtures	20%	declining balance method
Signs	20%	declining balance method
Telephone equipment	20%	declining balance method

One-half the normal rate of amortization is recorded in the year of acquisition.

Long term investments

Investments are recorded at cost.

Revenue recognition

Producer levies are reported on a cash basis upon receipt of funds.

All other revenues are recognized using the accrual basis of accounting.

(continues)

MANITOBA CATTLE ENHANCEMENT COUNCIL

Notes to Financial Statements

Year Ended December 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

Long term investments

The organization has classified long term investments as available for sale financial assets. They are recorded at cost as there is no recognized market value for these investments at year-end.

Loans and notes receivable

The organization has loans and notes receivable that are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in the transaction between the parties.

Loans and notes receivable are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in net income upon impairment.

3. FINANCIAL INSTRUMENTS

The organization's financial instruments consist of cash, accounts receivable, promissory notes receivable, long-term investments and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the organization is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

4. LOANS AND NOTES RECEIVABLE

	2008	2007
Natural Prairie Beef Inc. promissory note, due February 6, 2008, bearing interest at Prime plus 2% calculated from the date of demand, which shall not occur prior to the due date	\$ 45,000	\$ 45,000
Natural Prairie Beef Inc. promissory notes, due on demand, bearing interest at Prime plus 2% calculated from the date of demand and convertible to Class C Preferred shares	200,000	50,000
Keystone Processors Ltd. mortgage, due on demand, bearing interest at Prime plus 2% calculated from the date of demand. The mortgage has a maximum of \$5.5 million	1,310,191	-
	\$ 1,555,191	\$ 95,000

MANITOBA CATTLE ENHANCEMENT COUNCIL

Notes to Financial Statements

Year Ended December 31, 2008

5. LONG TERM NOTE RECEIVABLE

	2008	2007
B.J. Packers promissory note, bearing interest of 6% calculated from the date of advance, repayable in equal quarterly instalments of principal and interest, due January 1, 2011, secured by assignment of funding proceeds	\$ 38,180	\$ -
Amounts receivable within one year	(32,034)	-
	\$ 6,146	\$ -

Principal repayment terms are approximately:

2009	\$ 32,034
2010	4,899
2011	1,247
	<u>\$ 38,180</u>

6. LONG TERM INVESTMENTS

	2008	2007
Natural Prairie Beef Inc. 350,000 Class C voting preferred shares entitled to non-cumulative dividends of not less than 1% and not more than 12% of the issue price per annum	\$ 350,000	\$ 100,000
Keystone Processors Ltd. 100,000 Class C voting preferred shares entitled to non-cumulative dividends of not less than 1% and not more than 12% of the issue price per annum	100,000	-
	\$ 450,000	\$ 100,000

7. CAPITAL ASSETS

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Computer equipment	\$ 1,942	\$ -	\$ 1,942	\$ -
Computer software	1,025	822	203	-
Furniture and fixtures	8,222	1,880	6,342	2,613
Signs	2,563	1,087	1,476	1,845
Telephone equipment	203	86	117	146
	\$ 13,955	\$ 3,875	\$ 10,080	\$ 4,604

MANITOBA CATTLE ENHANCEMENT COUNCIL

Notes to Financial Statements

Year Ended December 31, 2008

8. INTERNALLY RESTRICTED FUND

The board of directors have decided to establish a capital reserve fund for the further investment in approved MCEC projects.

9. LOAN FACILITY

The organization has a loan facility available in the amount of \$10,000,000 with the Manitoba Agricultural Services Corporation. As at December 31, 2008 this loan facility remained unused.

10. PENSION PLAN

The organization participates in the Civil Service Superannuation Plan. The plan is a defined contribution plan. Total payments for future employee benefits for 2008 were \$10,680 (2007 - \$8,576).

11. LEASE COMMITMENTS

The organization has long term leases with respect to its premises and office equipment. Future minimum lease payments as at year end are as follows:

2009	\$	12,061
2010		787
2011		787
2012		787
		<hr/>
	\$	<u>14,422</u>

