



Manitoba Cattle Enhancement Council



2009 ANNUAL REPORT

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CHAIR'S MESSAGE

The economy of the province and its cattle industry went through large swings in 2009. The year began in the midst of the global financial crisis that led to plummeting commodity prices and unprecedented government-led stimulus spending. It ended with rising stock markets, recovering commodities and growing confidence that the worst of the recession may be over.

The Manitoba Cattle Enhancement Council continued its push to develop federally-inspected beef slaughtering and processing capacity for the province. We did this in a number of ways. First, we continued to work with Keystone Processors Ltd. to hone its business plan as it sought financing for vital plant upgrades and as it began marketing Manitoba-raised beef locally. Second, we carried on with our efforts to help other slaughter capacity projects move forward towards financing. Third, we reached out to provincial and federal governments as well as other industry stakeholders to discuss the pressing need to support the Manitoba cattle industry.

Council efforts were perhaps best exemplified by the effective outreach to the federal government following its creation of the Slaughter Improvement Program. The SIP was created to make strategic investments to help the country's beef packing industry cope with historically lean business conditions. Council argued strongly on behalf of Manitoba cattle producers that governments needed to address regional gaps in the beef packing industry. Redeveloping viable regional capacity is the best way to ensure the survival of the cattle producers while also diversifying and strengthening the beef packing industry as a whole.

Council met with Members of Parliament and with officials in the department of Agriculture and Agri-Food Canada. The provincial government was also apprised of our efforts and encouraged its ongoing support of the industry to complement any potential federal action. Ultimately, Council was very pleased that both the provincial and federal governments agreed with our arguments as we joined them in November to announce up to \$17.5 million in financial support for Keystone Processors Ltd.

Last year also saw a number of changes to the council as I joined the board as chair along with new members David Wiens and Charles Gall. We have a very strong, active and optimistic board that is always aware that our number one priority is to strengthen the cattle industry for the benefit of Manitoba's cattle producers.

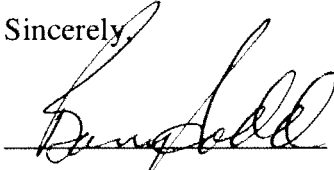
As such, we began a long-term strategic planning effort in 2009 to help us focus on the future. This effort included organizing and hosting our first ever Cattle Producers' Forum last fall. We invited producers and other industry representatives to meet with us in Brandon. Participants heard some new ideas from internationally respected industry authorities on how Manitoba's producers could thrive in the years to come, and ways MCEC could help make that happen were discussed.

Progress won't be easy. While our nation's economy seems to be climbing out of recession, our cattle industry has been struggling for many years in the face of rising costs, falling beef prices and a variety of other issues including trade irritants and bad weather. At the same time, we

remain optimistic that with good planning, superior management, cooperation and a lot of effort and good will, our industry can return to ongoing profitability.

I wish to thank the staff and board of MCEC for their hard work over the past year and for their dedication to make things better for our province's beef producers. More importantly, however, I want to thank Manitoba's beef producers for their support of the council. The MCEC investment fund is a unique tool for collectively advancing the Manitoba beef industry.

Sincerely,

A handwritten signature in cursive script, appearing to read "Barry Todd", written over a horizontal line.

Barry Todd, Chair

REPORT FROM EXECUTIVE DIRECTOR

Every year brings new challenges and new opportunities for the Manitoba Cattle Enhancement Council. Last year was no exception as we all had to cope with a global economic slowdown while we also moved closer to bringing new export-oriented beef packing capacity back to Manitoba.

The employees and board of MCEC were very busy last year on many fronts. While we worked with Keystone Processors Ltd. to develop its management team and refine its business plan, we also kept active on a number of other projects in the pipeline as potential investments for MCEC. That included research-oriented projects as well as other federally-inspected beef packing capacity.

Our motivation is simple. As challenging as these times are, the key missing ingredient for long term success remains having federally-inspected slaughtering and processing capacity in Manitoba. It's only then that our producers will have the security and control to weather the hard times better and achieve independent profitability by expanding marketing options available for their animals. Having new plant capacity operating here in Manitoba will provide much needed diversification and could form the foundation of a revitalized industry focused on exporting value-added finished goods at higher profit margins.

We're closer than ever. Here's where we are today: last year the federal government announced conditional loans of up to \$10 million for Keystone Processors, enabling MCEC to increase its conditional funding to \$7.5 million. The project still needs to raise additional funding, but we're most of the way there. Our efforts are partly about risk management for the industry and partly common sense. Though it's not easy to pull the pieces together to build a viable plan for generations to come, we're giving it all we've got.

We can't do it without the support of the producers. For that reason, we hosted our first ever Cattle Producers' Forum in Brandon in November which gave us the chance to engage farmers in an important discussion around the future of MCEC and its investments. One of the questions we had was whether producers who leave their levies in the fund deserve to be treated differently than producers who do not. Should there be special investor rights or privileges accorded to those producers whose levies have created the MCEC investment fund? The answers to those and other questions will help us develop our strategic plan for the next few years. We hope to host further producer forums in the future to continue these discussions.

Throughout the year, we were also actively meeting with various groups including the Manitoba Food Processors Association, Manitoba Cattle Producers Association, as well as individual producers. Our goal here is to build strong connections with the industry so we can work cooperatively together for the betterment of the entire industry. At the same time, our work has also brought us in contact with overseas companies and organizations with potential interest in Manitoba.

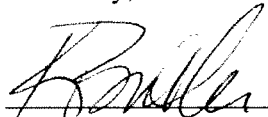
All told, we are hopeful that - like the recent recession - the worst of the crisis affecting cattle producers in this province may be behind us. And as we look forward anticipating growing global demand for high quality food products (especially in Asia), we believe that Manitoba is well-positioned to benefit. We will need to clear more hurdles and challenges first - and we will have to work together - but the future is most certainly looking brighter.

I want to take this time to thank the council for its dedication to Manitoba's cattle producers over the past year. And I also want to thank the employees of MCEC for their professionalism and service to our mission to strengthen the cattle industry in this province. It is no small challenge to take on this mandate in these economic times.

We have come so far and believe there is every reason for optimism that we will achieve our goals in the very near future and make producers proud.

We welcome your questions and invite you to visit MCEC.

Sincerely,



Kathleen Butler, LLB

ABOUT MCEC

MISSION STATEMENT

To make strategic investments in beef processing, supported by marketing and research to enhance opportunities in the Manitoba cattle industry for the benefit of our producers.

MANDATE

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.

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

Barry Todd	Chair
Gaylene Dutchyshen	Vice-Chair
Albert Todosichuk	Treasurer
David Wiens	Council Member
Charles Gall	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 2009

Total Levy Received	Total Levy Refunded	Refund Percentage
\$1,218,303.00*	\$447,240.00*	37%

*2009 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 & 2008 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, 2009

MANITOBA CATTLE ENHANCEMENT COUNCIL

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Year Ended December 31, 2009

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AUDITORS' REPORT

To the Directors of Manitoba Cattle Enhancement Council

We have audited the statement of financial position of Manitoba Cattle Enhancement Council as at December 31, 2009 and the statements of revenues and expenditures, changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the company'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 company as at December 31, 2009 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 10, 2010

CHARTERED ACCOUNTANTS

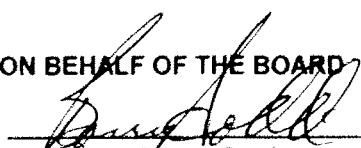
MANITOBA CATTLE ENHANCEMENT COUNCIL


Statement of Financial Position

December 31, 2009

	2009	2008
ASSETS		
CURRENT		
Cash	\$ 121,598	\$ 100,758
Accounts receivable	310,389	424,069
Prepaid expenses	4,425	-
Loans and notes receivable (Note 4)	3,138,789	1,555,191
Current portion of long term note receivable (Note 5)	-	32,034
	3,575,201	2,112,052
CAPITAL ASSETS (Note 7)	7,852	10,080
LONG TERM NOTE RECEIVABLE (Note 5)	-	6,146
LONG TERM INVESTMENTS	450,000	450,000
RESTRICTED CASH	1,150,000	1,450,000
	\$ 5,183,053	\$ 4,028,278
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable and accrued liabilities	\$ 38,820	\$ 45,566
NET ASSETS		
Unrestricted	3,986,381	2,522,632
Invested in capital assets	7,852	10,080
Internally restricted fund (Note 8)	1,150,000	1,450,000
	5,144,233	3,982,712
	\$ 5,183,053	\$ 4,028,278
LEASE COMMITMENTS (Note 12)		

ON BEHALF OF THE BOARD


 _____ Director


 _____ Director

MANITOBA CATTLE ENHANCEMENT COUNCIL

Statement of Revenues and Expenditures

Year Ended December 31, 2009

	Budget 2009	2009	2008
REVENUES			
Unconditional operating grant	\$ -	\$ -	\$ 250,000
Producer levies	1,320,000	1,218,303	1,422,423
Provincial levy match (Note 9)	1,000,000	771,063	1,039,349
Start up costs grant	149,042	149,042	-
Levy refunds	(315,000)	(447,240)	(383,074)
	2,154,042	1,691,168	2,328,698
EXPENSES			
Advertising and promotion	47,900	62,159	50,219
Amortization	-	2,517	1,596
Computer costs	3,600	3,742	5,409
Council remuneration - per diem (Note 14)	36,000	42,046	35,737
Equipment rentals	8,811	7,367	8,182
Grants to proponents	-	14,233	-
Insurance	2,920	2,814	2,809
Interest and bank charges	2,400	1,840	1,543
Investment advisory committee fees	9,000	11,764	16,440
Levy commissions	28,613	22,643	30,764
Meals and entertainment (Note 14)	6,000	8,048	5,961
Memberships	3,300	3,454	3,295
Office and miscellaneous	10,400	14,625	10,553
Producer forum	-	11,977	-
Professional fees	58,600	37,676	20,039
Rent	14,160	14,148	15,345
Repairs and maintenance	1,920	1,173	1,018
Sub-contracts	3,600	14,049	3,415
Telephone	6,960	5,822	6,798
Travel (Note 14)	21,600	35,459	21,079
Wages and employee benefits (Note 11)	235,996	234,028	206,853
	501,780	551,584	447,055
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS	1,652,262	1,139,584	1,881,643
OTHER INCOME			
Interest	41,800	21,937	46,231
EXCESS OF REVENUES OVER EXPENSES	\$ 1,694,062	\$ 1,161,521	\$ 1,927,874

MANITOBA CATTLE ENHANCEMENT COUNCIL

Statement of Changes in Net Assets

Year Ended December 31, 2009

	Unrestricted	Invested in capital assets	Internally restricted fund (Note 8)	2009	2008
NET ASSETS - BEGINNING OF YEAR	\$ 2,522,632	\$ 10,080	\$ 1,450,000	\$ 3,982,712	\$ 2,054,838
Excess (deficiency) of revenues over expenses	1,164,038	(2,517)	-	1,161,521	1,927,874
Transfer from internally restricted fund	300,000	-	(300,000)	-	-
Purchase of capital assets	(289)	289	-	-	-
NET ASSETS - END OF YEAR	\$ 3,986,381	\$ 7,852	\$ 1,150,000	\$ 5,144,233	\$ 3,982,712

MANITOBA CATTLE ENHANCEMENT COUNCIL

Statement of Cash Flow

Year Ended December 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 1,161,521	\$ 1,927,874
Item not affecting cash:		
Amortization	2,517	1,596
	1,164,038	1,929,470
Changes in non-cash working capital:		
Accounts receivable	113,680	275,664
Accounts payable and accrued liabilities	(6,746)	11,998
Prepaid expenses	(4,425)	-
Loans and notes receivable	(1,583,598)	(1,460,191)
	(1,481,089)	(1,172,529)
Cash flow from (used by) operating activities	(317,051)	756,941
INVESTING ACTIVITIES		
Purchase of capital assets	(289)	(7,072)
Long term note receivable	38,180	(38,180)
Purchase of investments	-	(350,000)
Cash flow from (used by) investing activities	37,891	(395,252)
INCREASE (DECREASE) IN CASH	(279,160)	361,689
Cash - beginning of year	1,550,758	1,189,069
CASH - END OF YEAR	\$ 1,271,598	\$ 1,550,758
CASH CONSISTS OF:		
Cash	\$ 121,598	\$ 100,758
Restricted cash	1,150,000	1,450,000
	\$ 1,271,598	\$ 1,550,758

MANITOBA CATTLE ENHANCEMENT COUNCIL

Notes to Financial Statements

Year Ended December 31, 2009

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 in Manitoba; and

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

The organization is a not for profit organization that is exempt from income taxes under Section 149 (1)(e) of the Income Tax Act.

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.

Net assets

Net assets are segregated based upon the purpose to which they relate, which include those internally restricted, invested in capital assets and unrestricted.

(continues)

MANITOBA CATTLE ENHANCEMENT COUNCIL

Notes to Financial Statements

Year Ended December 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

The organization follows the deferral method of accounting for contributions and grants. Restricted contributions and grants are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions and grants are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

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

Interest income is recognized as revenue when earned.

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

	2009	2008
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	200,000
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	2,893,789	1,310,191
	\$ 3,138,789	\$ 1,555,191

MANITOBA CATTLE ENHANCEMENT COUNCIL

Notes to Financial Statements

Year Ended December 31, 2009

5. LONG TERM NOTE RECEIVABLE

	2009	2008
B.J. Packers promissory note	\$ -	\$ 38,180
Amounts receivable within one year	-	(32,034)
	\$ -	\$ 6,146

6. LONG TERM INVESTMENTS

	2009	2008
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	\$ 350,000
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	100,000
	\$ 450,000	\$ 450,000

7. CAPITAL ASSETS

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Computer equipment	\$ 1,942	\$ 583	\$ 1,359	\$ 1,942
Computer software	1,314	1,169	145	203
Furniture and fixtures	8,222	3,148	5,074	6,342
Signs	2,563	1,382	1,181	1,476
Telephone equipment	203	110	93	117
	\$ 14,244	\$ 6,392	\$ 7,852	\$ 10,080

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. PROVINCIAL LEVY MATCH

Provincial levy match revenue represents Provincial funding equal to the amount of levies, net of refunds, retained by the organization.

There is no formal agreement in place defining the terms of this funding. The levy match funding is currently a significant factor in the organization's ability to continue investment in the cattle industry in the future.

MANITOBA CATTLE ENHANCEMENT COUNCIL

Notes to Financial Statements

Year Ended December 31, 2009

10. 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, 2009 this loan facility remained unused.

11. 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 2009 were \$12,044 (2008 - \$10,680).

12. LEASE COMMITMENTS

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

2010	\$	19,214
2011		18,739
2012		18,739
2013		5,482
2014		1,494
		<hr/>
	\$	<u>63,668</u>

13. SURPLUS REQUIREMENT

At year end, the Council estimates the portion of net assets that might be required to fund future commitments in the event of an organizational closure. The Council understands that these funds would come from unrestricted net assets and any proceeds on the realization of net assets invested in capital assets. For 2009, the Council set the estimate at \$931,000.

