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**Business Template**  
for the  
**Value Based Beef Processing Enterprise**

**Final Report**

**Submitted by**

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## **Executive Summary**

### **Introduction**

The purpose of the Business Template is to provide a solution to the major strategic priority identified by the Beef Industry Alliance (BIA) Roundtable, namely:

- The need to facilitate processor solutions dedicated to the development of a differentiated product strategy.

To this end, the BIA Roundtable committed to the following objective:

Develop a Business Template that defines the necessary marketing, financial, operational and organizational conditions required for the successful establishment of a differentiated product enterprise by producers in the beef industry.

The Business Template serves three purposes:

1. Define the conditions that will determine whether or not a product differentiation strategy within the beef industry is financially viable.
2. Function as a template for perspective individual investors to develop and fine tune actual business plans.
3. Function as a template for public and private financial agencies to evaluate financing proposals and financing structures that can be establish to support these enterprises.

This project would not have taken place without the funding support provided by ALMA - the Alberta Livestock and Meat Agency Ltd. With respect to the receipt of this funding, the BIA Roundtable wishes to express its gratitude and appreciation.

In addition, the BIA Roundtable wishes to thank Alberta Agriculture and Rural Development and the Alberta Financial Services Corporation for their direction and input to this study.

Finally, the BIA Roundtable expresses it appreciation for the support it has received from several industry organizations including the Alberta Cattle Feeders Associaton, the Western Stock Growers Association, Border Beef and the Canadian Legacy Partners. Without their support, the project would not have been possible.

## Market Opportunities

Our review of the market opportunities for value added beef products is summarized as follows:

- The total demand for beef (all in) in Canada approximates to 7,200 carcasses<sup>1</sup> per day. The City of Toronto, Canada's largest metropolitan area requires approximately 1,200 carcasses per day to meet consumer demand. By comparison, the demand in Calgary approximates to 244 carcasses per day. Carcass calculations are based on per capita consumption and not balanced on a cut basis. The calculation estimates the total weight of beef consumed on a per carcass basis.
- Currently no holes exist in terms of supply. The market is well served by existing suppliers including major suppliers from western Canada, eastern Canada, USA and imported beef from several countries.
- There is a clear and growing demand for value based products – products that are differentiated with a 'brand promise' in several different ways: by the way it is raised (natural, organic, grass fed, ethically raised) or by way of processing or handling attributes to meet Kosher or Halal religious requirements. In terms of market size, we estimate the market to be in the range of 15 to 20% of the total market. This means 180 carcasses per day in Toronto, 37 carcasses per day in Calgary and 1,080 carcasses per day across Canada.
- Much of the growing demand for value based products remains unmet or under-realized. In large part, the market gets what is delivered to it – not surprising given the overwhelming commodity nature of the current supply chain.
- Growing the demand for value based products will require targeted relationship driven and distinct brand attributes. The very nature of success in value based meat markets is a function of in-depth personal knowledge and direct customer relationships. Thus, each value based marketer must develop his or her own specific market research, market channel and customer contact strategy. Without this direct approach, success as a value based meat marketer is highly unlikely.
- Finally, value based marketers cannot go head to head with the major suppliers. This will lead to inevitable failure. The market must be developed around the mainstream channels and developed in an incremental and staged manner.

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<sup>1</sup> Assumes a carcass weight of 356 kg.

Overall, a successful marketing strategy requires a three-pronged approach:

- **The Brand Strategy** – differentiation that is based on unique ‘grow’ attributes such as natural, organic, grass fed, environmental sustainability, etc. Further the marketing strategy must be relationship based between the marketer and the channel to market.
- **The Balance Strategy** – balancing the carcass is critical. While the middle meats and high quality cuts lend themselves to the brand strategy, the remaining parts of the carcass must also be successfully marketed. This is an opportunity for supplying the Kosher market (fronts) and/or the Halal market (best suited for cows). Again the marketing strategy must be driven by direct relationships.
- **Commodity** – finally, any brand or balance strategy no matter how successful will have products (trim, offal, and hides) that will need to be sold into the commodity market. The key here is to be connected to brokers and purveyors that will offer competitive prices.

### **Conditions Precedent**

The establishment of a value based beef processing enterprise requires two conditions precedent:

1. The clear presence of a marketing and customer strategy that is distinct from a commodity strategy. This condition is absolutely critical to the success of the enterprise.
2. A business structure that shares both benefits and risks between the processor and producers.

*Both these conditions are essential in order to fulfill the vision of the Beef Industry Alliance. If these conditions are not met and clearly evident, the probability of success is very limited.*

### **The Business Template**

The Business Template for the successful establishment of a value based beef processing strategy is built on the following assumptions:

1. Separate the strategy into two distinct enterprises:
  - The **Processor Enterprise** to be established as a stand alone entity that serves as a ‘utility.’
  - The **‘Users’** who require processing services. Users are also referred to as stand alone Marketing Companies with a supply of cattle, a marketing and/or brand strategy and a set of customers. Potential Users include

existing and/or emerging companies such as Canadian Legacy Partners, Canada Gold; Spring Creek and Prairie Heritage.

2. Focus the Processor Enterprise on two core functions:

- **Kill and Chill** – namely the killing and processing of cattle to the hanging carcass stage.
- **Cutting to Specifications** – taking chilled carcasses and cutting, wrapping and packing to specifications as detailed by the User.

Under these assumptions, the Processing Enterprise's single objective is to provide cost efficient and fair access to processing to a number of Users. In turn we are assuming the existence of three levels of Users defined by daily kill requirements:

- Level 1 – 50 head per day or less.
- Level 2 – between 51 and 300 head per day.
- Level 3 – over 300 head per day.

Total daily kill capacity is 800 head per day – which is the maximum total from any combination of Users from the differing Levels. This could vary between several Level 1 Users plus one or two Level 2 or 3 Users. Or it could be two or even one Level 3 User.

The assumptions underlying the Business Template call for distinctly different core competencies. For example:

- The Processing Enterprise must focus on cost efficient killing, chilling and cutting.
- The Users must focus on marketing and security of supply.

One other point must be made very clear: the Processing Enterprise will only succeed if it has successful Users; Users will only be successful if they have access to efficient processing.

### **Conditions for Success**

The Business Template identifies and addresses four sets of conditions that need to be evaluated toward the successful establishment of a value based beef processing strategy. These are:

- Necessary Marketing Conditions
- Necessary Financial Conditions
- Necessary Management Conditions
- Necessary Organization and Governance Conditions.

## A: Necessary Marketing Conditions

The responsibility of marketing lies with the User. In this regard, the User must have and be able to demonstrate the following (also see Appendix 4 – Report Card):

- A Successful Business History.
- A Well Defined Brand and Product Differentiation Strategy.
- A Focused Marketing and Sales Strategy.
- Security of Supply including contractual arrangements with beef producers and/or ownership of defined volumes of cattle.
- An Experienced Marketing and Sales Management Team.

## B: Necessary Financial Conditions

### a) Processing Enterprise

The Processing Enterprise is designed to process 800 head of cattle per day (4,000 per week). We present two financial scenarios<sup>2</sup> as follows:

<b>Cost Factor</b>	<b>New Facility – 100% of Current Costs</b>	<b>Discounted Option – 40% of Current Costs</b>
Total Facility Costs	\$75 million	\$31 million
Total Investment Requirements <sup>3</sup>	\$80 million	\$36 million
Total Equity Requirement	\$50 million	\$23.6 million
Total Debt Requirement	\$30 million	\$12.4 million
Total Production Start Up Costs including Training <sup>4</sup>	\$19.7million	\$19.7 million
Working Capital Requirements	\$3.2 million	\$1.3 million

**Note:** The Processing Enterprise does not take ownership of the cattle or product inventory.

<sup>2</sup> More detail is provided in the Attachment 2 – Financial Pro Forma Statements.

<sup>3</sup> Assumes an additional \$5 million for equity related start up costs.

<sup>4</sup> Production Start up costs are for the first 5 years of operation due to efficiency losses, product yield losses and sales capacity losses. These are highest in Years 1 & 2.

The cost of processing per head in year #1 of operations is estimated as follows:

<b>Kill and Chill</b>	<b>Weight kg</b>	<b>Kg \$</b>	<b>Carcass \$</b>
Level #1	354.30	\$ 0.314	\$ 111.16
Level #2	354.30	\$ 0.305	\$ 108.03
Level #3	354.30	\$ 0.294	\$ 104.27
<b>Average Kill and Chill</b>	<b>354.30</b>	<b>\$ 0.301</b>	<b>\$ 106.58</b>
<b>Fabrication</b>	<b>Weight kg</b>	<b>Kg \$</b>	<b>Carcass \$</b>
Level #1	265.72	\$ 0.457	\$ 121.53
Level #2	265.72	\$ 0.444	\$ 118.11
Level #3	265.72	\$ 0.429	\$ 114.00
<b>Average Fabrication</b>	<b>265.72</b>	<b>\$ 0.439</b>	<b>\$ 116.52</b>
<b>Total Charge</b>			<b>Carcass \$</b>
Level #1			\$ 232.69
Level #2			\$ 226.14
Level #3			\$ 218.28
<b>Total</b>			<b>\$ 223.10</b>

#### b) The User

The User either owns the cattle or must take provision to pay beef producers in a timely manner. Further, the User owns product inventory and must finance this inventory until it is paid by its customers (usually within a 30 day period).

In general the User must have the following operating capital in place:

- For every 50 head per day slaughtered, the User requires approximately \$2.4 million of operating capital (\$1,600 per head for 30 days).

Thus a 100 head per day User would require \$4.8 million of operating capital and the 300 head per day User would require \$14.4 million of operating capital. Further the User would be required to post a Bond with the Processing Enterprise equivalent to 1 years processing charge<sup>5</sup>. Our preliminary estimates are as follows:

- 50 head per day User – Bond of \$2.8 million.
- 100 head per day User – Bond of \$5.6 million
- 300 head per day User – Bond of \$16.9 million.

The Bond would serve as assurance to the Processing Enterprise of payment and would be drawn upon every month in accordance to actual slaughter. The User will be expected to top up the Bond at the end of each month.

<sup>5</sup> Based on \$225 per head.

## **C: Necessary Management Conditions**

### **a) The Processing Enterprise**

The new Plant Manager reporting to the Board of Directors must have a keen understanding of the meat processing business with a direct focus on production and cost management.

The new General Manager will require an ability to address needs in the following areas of management:

#### **General Management**

- Assemble the management and employee team that is capable of executing the long term goals of the Processing Enterprise as outlined in the vision.
- Establish goals & action plans with the key personnel in the enterprise for presentation to the Board which is consistent with the long term goals of the organization.
- Design and execute the operating plan as agreed to by the Board.
- Hire and manage both management and line employees.
- Establish long term relationships and understanding with key toll processing customers.

#### **Financial Management**

- Design weekly, monthly and yearly financial reports that reflect key financial indicators for the Enterprise board of directors, key customers and related financial institutions.
- Ensure weekly financial and production reports are accurate and timely.
- Ensure the monthly and yearly financial reporting are acceptable to enterprise auditors.
- Make sure the Information Technology system in the facility is compatible with the needs of the organization and board.

#### **Quality Assurance Management**

- Work with Quality Assurance to ensure HACCP, CFIA and GMP standards are achieved.
- Ensure all regulatory requirements are adhered to with regards to the CFIA, HAACP and Good Manufacturing Processes (GMP's).

#### **Plant Management**

- Manage all processing activities to ensure all product services are provided on time and on specification as directed by the toll processing customers.
- Manage the processing program for yield and productivity measurements in the facility in conjunction with the production team.
- Liaise with the finance department to manage the reporting mechanism which is consistent with the needs of the business and board.

## **Sales & Marketing**

- Work with the sales and marketing management team to optimize the value of the services provided to toll processing customers.

### **b) Marketing Companies (Users)**

See Previous Section entitled Necessary Marketing Conditions and reference to the Report Card (Appendix 4).

## **D: Organizational and Governance Conditions**

The implications and directions specific to governance and organization are based on the following assumption:

- A successful value added beef strategy in Western Canada will be the result of a consortium of producer groups and/or associated investors.

The corollary to this premise is that no one entity or investment group within western Canada has sufficient resources to be the majority player in the establishment of a successful enterprise. By majority player, we define this in terms of the ability to deliver three essential components to a value added processing solution:

1. The majority of investment and operating capital.
2. The majority of secured cattle supply to be processed.
3. The majority of processed product to be marketed.

Should a body with such a majority position emerge, then the governance and organizational presented here has little or no relevance. Instead, such a body will have its own established governance structure and organizational strategy.

We identified the following success factors further to a review of successful value added businesses. These are:

1. Clear Differentiation and Customer Relations Strategy
2. Focused Leadership and Experienced Management Team
3. Separate Ownership from Operations
4. Right Producer Partners and Committed Supply
5. A Plan in Place to Respond to Competition and Competitive Threats
6. Adequate Financing
7. Trust and Transparency
8. A Shared Vision.

These are discussed in detailed in Chapter 9 including a discussion of factors contributing to failure.

We offer the following implications based on the assumption that a consortium of interested parties will converge to implement this template:

1. Distinguish between three types of organizations that will be at play in the establishment of a value added beef strategy. These are:
  - **The Processing Enterprise** – focused on cost efficient processing and the provision of processing services to Users – namely the conversion of live animals to saleable meat products.
  - **The Marketing Company (User)** – focused on identifying and development specific markets, building a unique brand and sales strategy; and securing a supply of cattle.
  - **Investment Structures** – focused on attracting investment from producers and/or other interested parties to enable the Processing Enterprise (the identified industry bottleneck) to be properly capitalized for success.
2. Given the three different organizations defined above, it may be possible or even desirable for individual Marketing Companies to be investors in the Processing Enterprise. However, we are assuming that no one single investor will be a majority investor.
3. Assuming the absence of a single majority investor, the Processing Enterprise will be structured and governed by a Board of Directors that is arms length from the Marketing Companies (the Users). The sole purpose of the Processing Enterprise will be to offer fair access to cost efficient processing to qualified Users.
4. The Processing Enterprise will be established as a separate not for profit corporate entity with directors (at least the majority of directors) that are arms length from users. We propose that a small Board of Directors (5-7) be structured as follows:
  - 1-2 Directors representing the Marketing Companies or Users (requires the establishment of a User Advisory Council).
  - 1-2 Directors representing Class A shareholders (see recommendation below).
  - 1 Director representing the major financier.
  - 2 Directors representing required skill sets: processing technology; and marketing.
5. With respect to industry investment and specifically beef producers, we suggest the establishment of a new generation co-op that acts as a beef industry investment company that invests in the Processing Enterprise. To this end, we following could be considered:

- Establish a beef industry investment company as a new generation co-op. Note: A new generation co-op<sup>6</sup> allows producers to invest as an ‘extension’ of their business – thus invest pre-tax dollars.
- Recruit members (producers) to pledge an on going commitment based on a per head charge for every animal marketed.
- The investment company undertakes to borrow capital<sup>7</sup> and place this borrowed capital as required equity for the establishment of the Processing Enterprise.
- The investment company holds Class A shares in proportion to the equity held and holds these shares on behalf of its investors.

Such an investment structure permits cattle producers to pool their investment and as a cooperative hold shares in the Processing Enterprise.

6. Agree on a detailed template to evaluate qualified Marketing Companies or Users (see Appendix 4). We recognize that Marketing Companies will comprise a range of differing organizational structures ranging from private corporations (such as Prairie Heritage and Spring Creek) to member driven initiatives (such as Canada Legacy Partners and Canada Gold). Critical to this template, is the evaluation of four factors: a) the business and specifically the marketing strategy; b) the management team; c) the forecasted volumes in terms of the number of cattle to be processed on a weekly basis; d) ability to finance cattle purchases and product sales.

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<sup>6</sup> Legal counsel and tax expertise will be required to detail this recommendation further. Considerable work on this approach has been undertaken by Merle Good with AFSC.

<sup>7</sup> Currently, it is difficult if not impossible to borrow capital based on a future stream of contributions (such as a per head levy). Financial institutions are extremely reluctant since they are not able to secure their investment by traditional means. Consequently, financial institutions will seek letters of guarantee from individual investors that in total equals the amount of capital borrowed by the beef industry investment company, as security.

## Funding Requirements and Gaps

### a) Processing Enterprise

Our estimate of the financial requirements to establish and operate a value added beef processing enterprise is presented in Table A. The actual estimates are based on the cost analysis presented in Chapter 4 – namely a full cost option (100%) and a discounted cost option (40%).

In summary, the most significant requirements and gaps are as follows:

- **Equity financing for facilities and equipment** – assuming the need for 60% equity, requires that anywhere from \$24 to \$50 million will need to be raised from beef producers. This is a formidable challenge to the extent that many producers may have insufficient equity (and security) to finance a loan for this purpose or will be reluctant to commit equity toward such an investment. Further the ability to capitalize a revenue stream of future contributions such as a per head levy is difficult if not impossible under current security requirements.
- **Debt Capital for facilities and equipment** – several potential sources of financing are available. The key challenges will be to provide a sound business plan, provide the necessary security for debt financing and criteria for eligibility specific to such programs as the Slaughter Improvement Program.
- **Operating Capital for Short Term Losses** – we project that total inefficiency losses over the first three years of operation will approach \$20 million. This will need to be financed with equity and does not vary by size of capital investment.
- **Working Capital to Finance Day to Day Operations** – we project that this will vary between \$1.3 million and \$3.2 million. Again this will need to be financed with equity. In other words, this level of operating capital is required whether a processing is acquired at full price or at a substantially discounted price.

### b) Marketing Companies (Users)

The major gap facing Marketing Companies will be operating capital to finance:

- Cattle purchases
- Cost of processing
- Receivables that will range from 30 to 45 days.

We estimate that the minimum operating capital of \$1,600 per head marketed will be required. Thus a Marketing Company with a customer base of 100 head per day will require a minimum of \$3.2 million assuming receivables of 30 days. This will increase another 50% if receivables extend to 45 days.

Currently it is difficult if not impossible to finance operating capital. Thus the Marketing Company will have two choices: (1) provide equity to the levels required; or (2) require cattle producers to retain ownership of the cattle/meat until payment is received.

**Table A: Overview of Funding Requirements, Sources and Gaps**

Type of Funding	Requirement	Available Sources	Gaps
Equity Investment to fund Facilities and Equipment	Assume that 60% equity is required. The requirement ranges between \$24 to \$50 million depending on whether a new facility is built or an existing facility purchased at a discount is available.	Must come from individual investors	History of investment in processing plants has been poor  Producer balance sheets may already be stressed.  Will require regulation change to capitalize 'per head' levy committed over time.
Debt Capital to fund Buildings and Equipment	\$12.4 to \$30 million	AFSC – VAAP (limit to \$25 million)  SIP  Agri-Flexibility	Requires security at producer level  Must meet regional objectives and criteria. Repayable.  Must meet criteria with 20% grant on eligible equipment
Operating Capital to finance projected losses due to inefficiencies	\$19.7 million	Must be provided as equity	Usually not available or in insufficient amounts
Working Capital to finance day to day operations	\$1.3 to \$3.2 million	Must be provided as equity	Usually not available or in insufficient amounts

## **Moving the Business Template Forward**

The Business Template provides details with respect to a number of key questions facing a value added beef processor. Specifically we have identified sets of conditions that need to be met on several fronts including financial, marketing, management and supply.

It is sometimes assumed that the limiting factor is always sufficient capital. We would caution against this singular conclusion. Even if all the capital was ready available and financing is not a problem, there are three other areas that are equally important. These are:

- The quality and soundness of the marketing plan.
- The experience and the record of performance of the management team.
- The security and the quality of the supply of cattle to be brought forward over the next 5 year period.

These are all critical factors. Should any one of these break down, the entire enterprise is subject to failure.

With respect to a beef industry group moving forward, the following steps are presented for consideration:

1. Identify an investment group to lead the development process for the Processing Enterprise. This group clearly must be industry based and have the vision and the leadership to move the recommendations contained within the Business Template forward.
2. Establish a clear and agreed upon Vision for the investment group. It must be very clear what is to be accomplished. Does the group seek to establish a third bidder for cattle in western Canada? Or does the group wish to establish a value based strategy for western Canada? Both of these possibilities require a processing facility. However the objectives and the ensuing strategies are very different.
3. The next step for the investment group is to assess its ability to attract or raise the necessary capital for this project. Three areas will be need to be addressed:
  - Equity requirements.
  - Long term debt and the ability to satisfy a potential lender.
  - Operating capital requirements – perhaps the most critical and the most difficult to raise.
4. Next, it will be necessary to ascertain and qualify the need and support from potential Users. This will be in terms of potential volumes and the Users ability to qualify (report card) in term of marketing, management, supply and financial requirements. The key is striking a critical balance: the Processing Enterprise will only be successful if there are successful Users and vice versa.

5. If the previous steps are positive, proceed to assemble a Steering Group comprised of the investment group, potential users and a potential financier such as AFSC.
6. Finally apply the Business Template to a specific business opportunity and build a detailed Business Case complete with an investment and financing plan.

In summary, a great deal of work needs to be done. It will not be easy. Nor will a successful plan complete with financing, the marketing strategy, the management team and an assured supply of cattle emerge without considerable effort and detailed discussions, assessments, repeated refinements and adjustments.

On behalf of the Consulting Team

Jerry Bouma  
Project Manager

## 1.0 Conditions Precedent

The establishment of a value based beef processing enterprise to meet the stated objectives of the BIA Roundtable requires two conditions precedent:

1. The clear presence of a marketing and customer strategy that is distinct from a commodity strategy. This condition is absolutely critical to the success of the enterprise.
2. A business structure that shares both benefits and risks between the processor and producers.

***Both these conditions are essential in order to fulfill the vision of the Beef Industry Alliance. If these conditions are not met and clearly evident, the probability of success is very limited.***

### 1.1 The Clear Presence of a Marketing and Customer Strategy

The fulfillment of the marketing condition requires that any proposed business plan have a clear market strategy complete with a committed customer base that recognizes and values the unique supply of product to be offered.

The product supply may be differentiated by a range of factors such as actual producers or farm/ranch of origin; by breed or breeding program; a unique production attribute such as anti-biotic or hormone free; a unique processing attribute such as kosher or halal; or a branded program that offers a distinct brand promise that is valued by the customer. This needs to be defined, qualified and verified by the brand strategy intrinsic to the marketing strategy.

Failure to develop and define this level of marketing detail at the planning level and marketing capability at the management level, will ensure business failure. The record to date among attempted and failed processing operations confirms this outcome.

The lack of clarity and uncertainty with respect to a clear focused market strategy will inevitably cause the proposed business to gravitate to the commodity market. Once this occurs, multiple problems arise including:

1. The need to compete directly against major commodity players in the actual wholesale and retail market. Thus the new business enterprise becomes a ***price taker*** and is vulnerable to the pricing practices of the major players (both retail and processing).
2. The need to compete against the major commodity players in the procurement of cattle. Thus, the business enterprise becomes a ***price chaser*** and is vulnerable to the buying practices of the major players who will either disrupt supply

arrangements and/or force up the purchase price of cattle beyond the economic capability of the small enterprise.

3. The inability to match economies of scale within the processing operation. By sheer virtue of scale, processing costs of a small enterprise in comparison to large commodity processors are higher.

The above factors converge to challenge the financial viability of any small processing operation. Thus the success of any value based beef processing enterprise hangs on two key factors:

- A business strategy that does not go head to head with commodity players either in terms of customers at the market level or the supply of cattle at the producer level.
- A marketing strategy capable of generating additional revenues to offset added costs and generate improve returns.

## **1.2 Business Structures that Shares Benefits and Risks**

A successful marketing strategy without change in the relationship between processors and producers will limit the material change required to establish a truly sustainable and profitable industry over the long term.

New business ventures need to be structured in such a manner that producers have a direct ownership in the processing business either in the form of shares or limited partnership units. The following mutual relationship needs to be in place:

- Committed Supply – secure contracts that commit producers to supply specified numbers of cattle over a defined time period.
- Market related price discovery mechanisms – formulae that directly reward suppliers for product quality.

Currently the transactional relationship between producers and processors limits the need and the incentive to distribute greater market returns back to producers in a sustainable manner. This needs to be changed to a more direct, responsive business structures and both shares benefits as well as risks.

## **2.0 Market Overview**

### **2.1 Introduction**

The proponents of a value beef processing enterprise face one central and overriding question:

#### **Are the opportunities for value based beef products real?**

In other words, do actual customers, market segments and/or channels to these markets exist? Furthermore and equally important, can specific opportunities be identified, accessed and developed to provide for a long term and sustainable business?

The purpose of this chapter is to provide a general response to the central question. Six specific markets or market segments are identified as opportunity areas. In order of potential opportunity, these are:

1. The Kosher Market;
2. The Natural Beef Market;
3. The Branded Products Market; and
4. The Halal Market.

In addition two geographic markets outside of North America are identified. These are:

1. Japan; and
2. The European Union.

Two other comments bear noting by the reader. First the overviews by market segment provided in this chapter are based on secondary studies and public data. In addition, knowledge and insights into certain market segments are supplemented by first hand knowledge of the consulting team.

Secondly, the very nature of success in value based meat markets is a function of in-depth personal knowledge and direct customer relationships. Thus, each proponent must develop his or her own specific market research, market channel and customer contact strategy. Without this direct approach, success as a value based meat marketer is highly unlikely.

## 2.2 Overview of the Market for Value Added Beef Products

Our review of the market opportunities for value added beef products is summarized as follows:

- The total demand for beef (all in) in Canada approximates to 7,200 carcasses<sup>8</sup> per day. The City of Toronto, Canada's largest metropolitan area requires approximately 1,200 carcasses per day to meet consumer demand. By comparison, the demand in Calgary approximates to 244 carcasses per day. Carcass calculations are based on per capita consumption and not balanced on a cut basis. Note: the calculation determines the total weight of beef consumed to a per carcass basis.
- Currently no holes exist in terms of supply. The market is well served by existing suppliers including major suppliers from western Canada, eastern Canada, USA and imported beef from several countries.
- There is a clear and growing demand for value based products – products that are differentiated with a 'brand promise' in several different ways: by the way it is raised (natural, organic, grass fed, ethically raised) or by way of processing or handling attributes such as Kosher or Halal religious requirements. In terms of market size, we estimate the market to be in the range of 15 to 20% of the total market. This means 180 carcasses per day in Toronto, 37 carcasses per day in Calgary and 1,080 carcasses per day across Canada.
- Much of the growing demand for value based products remains unmet or under-realized. In large part, the market gets what is delivered to it – not surprising given the overwhelming commodity nature of the current supply chain.
- Growing the demand for value based products requires targeted relationship driven and distinct brand attributes. The very nature of success in value based meat markets is a function of in-depth personal knowledge and direct customer relationships.
- Finally, value based marketers cannot go head to head with the major suppliers. This will lead to inevitable failure. The market must be developed around the mainstream channels and developed in an incremental and staged manner.

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<sup>8</sup> Assumes a carcass weight of 356 kg.

In summary, a successful marketing strategy should consider a three-pronged approach:

- **The Brand Strategy** – based on differentiation that is based on unique ‘grow’ attributes such as natural, organic, grass fed, environmental sustainability, etc. Further the marketing strategy must be relationship based between the marketer and the channel to market.
- **The Balance Strategy** – balancing the whole carcass is critical. While the middle meats and high quality cuts lend themselves to the brand strategy, the remaining parts of the carcass must also be successfully marketed. This is an opportunity for supplying the kosher market (fronts) and/or the Halal (best suited in the use of cows). Again the marketing strategy must be driven by direct relationships.
- **Commodity** – finally, any brand or balance strategy no matter how successful will have products (trim, offal, and hides) that will need to be sold into the commodity market. The key here is to be connected to brokers and purveyors that will offer competitive prices.

### 2.3 The Kosher Market

The Kosher market is identified as one of the highest opportunity if not the highest opportunity market for value based beef products produced in Canada (4).

Kosher foods, although based on one of the world's oldest dietary laws, are among the fastest growing current trends in food processing. Kosher foods represent a niche market that can be associated with any cuisine. Although much of the demand for kosher foods comes from the Jewish world, United States Department of Agriculture (USDA) research suggests that the market for kosher food products extends well beyond that group. For example, kosher foods find favor with consumers interested in upscale foods, and potentially with Muslims who follow similar but not identical food preparation laws. A recent article in the Vancouver Sun<sup>9</sup> is quoted as follows:

“ Jews are only a fraction of the kosher market. Muslims buy kosher, other religions such as Seventh Day Adventists buy kosher.”

According the Sun article, Kosher is the fast growing claim of quality sought for food products in the U.S. and sales of kosher foods by some accounts are rising by up to 20% per year. Market research conducted in 2009 by Mintel<sup>10</sup>, reported that kosher foods are up over 65% since 2003 and only 15% of kosher food sales are for religious reasons. The primary purchasing driver pertains to concerns with food safety.

In addition to the adherent Jewish population, kosher consumers can be classified by the following categories:

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<sup>9</sup> “Meet the world’s toughest food inspectors” Vancouver Sun, March 6, 2010

<sup>10</sup> Mintel is an international market research firm with offices in London, New York, Chicago, Sydney and Shanghai

- a. **Non-Jewish religiously-observant consumers such as Muslims and 7th Day Adventists.** There are at least 8 million Muslims in North America and roughly 1 million Adventists. Muslims and Seventh-Day Adventists are considered cross-over kosher consumers because their religious dietary practices are similar to kosher laws. Muslims purchase kosher products due to the relative lack of availability and variety of halal food products and because kosher laws meet the requirements of halal, particularly concerning the slaughter and preparation of meat. Muslims represent a particularly important consumer segment as the birthrate for the American Muslim population is well above the national average. Adventists purchase kosher products based on their adherence to religious dietary laws, similar to those in the Jewish tradition. In order to conform to their specific dietary prescriptions, Adventists look to kosher-certified products, as they do not have their own formal certification process.
  
- b. **Consumers with specific dietary restrictions and preferences.** Consumers with specific dietary restrictions and/or preferences seek kosher products not only for their clearly identifiable labels, but also because they perceive kosher products to be healthier and safer as they are produced under strict inspection. The notion of kosher foods focusing on quality was supported in the 1970's by the Hebrew National Company, with its landmark hot dog advertising campaign under the tagline: "*We answer to a higher authority*<sup>11</sup>".
  
- c. **Health and safety-conscious consumers.** This group accounts for more than 75% of non-Jewish kosher-seeking consumers. As the sacred teachings of Judaism are seen as emphasizing respect for the earth and for living things, kosher foods also address the concerns of ethically conscious consumers. For example, the kosher methods for animal slaughter are intended to minimize suffering, so kosher meat products are increasingly appealing to customers concerned about animal welfare. While sales of "all natural" and "organic" products continue to grow, so is the awareness of kosher products, as the certification guarantees the product to be free of contaminants and certain allergens. According to Mintel, kosher was the most frequently used claim on food and drink products launched in 2008. This demonstrates a constant growth in popularity for kosher products, particularly by consumers who perceive kosher products to be healthier and cleaner. Since kosher foods are increasingly linked to organic and natural food products, many distributors and retailers carry kosher foods to "complete the offering" and appeal to a growing and loyal kosher consumer segment.

Significantly kosher-food customers are marked by two key characteristics:

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<sup>11</sup> <http://www.hebrewnational.com/kosher-difference/what-is-kosher.jsp>

- Higher than average spending power.
- Willingness to spend more for products that they deem superior in quality and intrinsic value.

The research demonstrates that kosher-food customers spend close to 50% more per year on food products than the average consumer. More importantly, kosher foods sales have been demonstrated to sustain momentum even during an economic downturn (1, 7, 11).

## **Requirements**

Kosher foods must meet the complex and strict requirements of Jewish law. A rabbi supervises production and packaging operations, and certifies that the products meet all of the requirements. Production and packaging requirements go beyond the contents. For example, the products must neither have been made from nor come in contact with non-kosher ingredients. Meat and milk products may not be mixed in the same product, or produced using the same utensils.

The strict labeling and product control requirements necessary to certify a food product as kosher typically exceed local production and sanitary requirements in many areas of the world. This attention to food safety is the reason why kosher market appeal extends beyond a religious or cultural group.

In the labeling, packaging, and advertising of a food, Canada's Food and Drug Regulations allow the use of the word "kosher" if the food meets Kashruth requirements. The laws of Kashruth (Jewish dietary law) govern two main aspects of dietary regulations: 1) permissible foods, and 2) food preparations. In terms of permissible foods, regulations exist that govern meat, fish, and dairy products. In the meat category, only mammals that chew their cud (ruminants) and are cloven-hoofed, are permissible for consumption. This means that the meat of swine and hares (among others) is forbidden. Chicken, turkey, duck, goose, and fish with fins and scales, can be consumed; all shellfish are prohibited.

If the food does not meet the Kashruth requirements, Canada's Food and Drug Regulations prohibit the use of the word "kosher," or any letter of the Hebrew alphabet, or any other word, expression, depiction, sign, symbol, mark, device or other representation that shows or that is likely to create an impression that the food is kosher,

Besides retail sales of fresh and packaged kosher foods, there is a trend toward more kosher foods in the food service sector. Jewish communities in most major cities offer consumers a wide variety of combination bakery/restaurants or delicatessen-style restaurants aimed at kosher food diners. In the Toronto area, several major hotels offer separate kosher kitchens for banquets and meetings. Other hotels, through special arrangement, will permit facilities to be used for kosher functions by a kosher caterer certified by the local rabbinical council.

## Measures of Market Size

The following observations provide a measure of the size of the kosher market:

- There are more than six million followers of Judaism in North America, more than in any other region of the world. Similarly, there are eight million Muslim consumers in North America, and this group is expected to double in the next 10 years.
- The United States (U.S.) is an epicenter for kosher foods because it is home to 40% of the world's Jewish population. Over 13% of Americans have specifically purchased a kosher product and, among these, 77% were motivated by the perception that kosher-certified foods are safer and of superior quality than their non-kosher counterparts.
- The U.S. cities with the largest Jewish communities are New York City (2,051,000), Los Angeles (668,000), Miami (498,000), Philadelphia (285,000), Chicago (265,000), and Boston (254,000). Populations of Jewish residents are so region-based that nearly one quarter of the world's Jews lives in New York City, Los Angeles and Miami, making it easy for manufacturers to market to large groups of Jewish consumers. Outside of these core centres, the Jewish population is highest in New Jersey, the District of Columbia, Maryland, and Connecticut.
- The Canadian Jewish population is upwards of 330,000 and the Muslim population of 580,000 with the highest concentration of both religions in Ontario and Quebec, respectively (see table below).

Province	Jewish	Muslim	Jehovah's Witnesses	Seventh Day Adventist
Ontario	190,800	352,525	54,935	30,870
Quebec	89,915	108,620	29,040	6,690
British Columbia	21,230	56,215	31,960	11,070
Manitoba	13,040	5,095	4,240	1,415
Alberta	11,090	49,045	18,830	8,140
Nova Scotia	2,120	3,550	4,495	1,420
Saskatchewan	865	2,230	6,565	1,540
New Brunswick	670	1,275	2,430	975
Newfoundland and Labrador	140	630	1,520	580
Prince Edward Island	55	195	475	35
Yukon Territories	35	60	130	55
Northwest Territories	30	180	135	90
Nunavut	10	25	10	-
<b>Canada</b>	<b>330,000</b>	<b>579,645</b>	<b>154,765</b>	<b>62,880</b>

- In 2008, the value of the U.S. kosher market was US\$12.5 billion. Kosher foods have sustained a growth rate of 15% annually<sup>12</sup>, and are the fastest growing ethnic

<sup>12</sup> [Hhttp://kosherfood.about.com/od/kosherbasics/p/kosherstats.htm](http://kosherfood.about.com/od/kosherbasics/p/kosherstats.htm)

cuisine over the past five years. In total, more than 13% of Americans have reported specifically purchasing kosher-certified foods.

- Observant Jews typically fit within a younger demographic range, with more than 70% between the ages of 18-35. This is extremely beneficial to manufacturers as it demonstrates the long-term purchasing potential of kosher products.
- The category of consumer who are not Jewish but who purchase kosher products for religious reasons is rapidly increasing in size and market importance. Among these, Muslims and Seventh-day Adventists comprise the core consumer group. In addition to the Muslim population there are roughly 1 million Adventists. Muslims and Seventh-Day Adventists.
- A 2009 Mintel consumer survey shows that the primary reason people buy kosher is for food quality (62%), followed by "general healthfulness" (51%). The third reason is for food safety (34%), which contrasts sharply to the 14% of respondents who claim they buy kosher food because they follow kosher religious rules.
- Kosher beef cuts in the retail market run \$5 to \$10/lb. higher than non-kosher beef.

### **Implications for a Value Based Meat Marketer**

Canadian companies are well-positioned to enter the kosher market and to meet the demand for high-quality, kosher-certified variations of popular food items. Overall it appears that this market is undersupplied, and there is interest and capacity for investment from purveyors of kosher meat products.

To be successful, a long term strategy that engages a marketer as an investor in the supply chain could be the single most important contributor to long term success. There is an appetite for this to occur. We are aware of one such marketer who is looking for 750 fronts per week to service the New York City market alone. This is just one company of several in this market.

Another consideration for success is the need to have a market for the remainder of the animal, as it is only the "fronts" that are kosher. Generally speaking the kosher market is ignored by larger processors since the slaughter process slows down the line so much, it is intensive, and very messy. Their success lies in volume per hour, not premiums on product. In summary, success will require:

- A very clear geographic and city focus (Toronto, Montreal, New York, Los Angeles, Miami etc.); and
- The need to identify specific channels to market and/or investors serving this market.

## 2.4 Natural Beef Market

A recent Branded Beef Market study<sup>13</sup> (6) concluded that the natural beef category continues to see strong growth driven by consumer demand. Increasingly more and more consumers are concerned with the origin of beef available for purchase and how it is produced. The use of hormones and antibiotics are the two overriding concerns.

The market for natural beef began almost three decades ago when a Colorado cattleman went with an “innate feeling” and launched a company to give consumers variety, innovation and choice in beef. The firm, Coleman Natural Meats, became the first natural-beef label.

Over the past 20 years, several specialized beef marketers emerged to develop the ‘natural beef’ opportunity, including Nolan Ryan Guaranteed Tender Meats, B3R Country Meats, Laura's Lean Beef, Harris Ranch and Maverick Ranch. More recently major players such as National Beef launched a natural beef product in 2006; Tyson Foods also introduced two lines of natural beef - one in cooperation with Certified Angus Beef in 2008.

In response to the growing competition, natural and organic labels have gone a step further by bundling convenience and taste characteristics with information on production practices and animal-welfare claims. This bundle provides a discrete segment of consumers with the complete shopping experience they seek.

The Coleman model is an example of this bundle. Variety comes from offering the entire product line in a single location in the meat case, so consumers save time by shopping for beef, pork and poultry in one aisle. Innovation is focused on expanding the company's fresh-beef product line with value-added, natural-beef products and deli meats. Choice comes from providing consumers with a natural label detailing the production information they require.

This desire for more information which commodity beef simply does not provide, stands out as the most important driver of new customer interest to the natural and organic category. A May 2006 natural-meats survey by Whole Foods, the global leader in retailing natural and organic food, showed:

- 65% of Americans want a guarantee that all meat and poultry products are free of added growth hormones and antibiotics, and animals are humanely raised.
- 61% say it's important to read labels stating meat and poultry products comply with these standards; and
- 59% say they'd buy more natural beef if guaranteed it's from a trusted source and is raised naturally without growth hormones or antibiotics.

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<sup>13</sup> Branded Beef Market Study, conducted by Market Research.com, March 2008 for the Alberta International, Intergovernmental and Aboriginal Relations.

The question is whether those tendencies will drive increased natural and organic beef purchases. The National Cattlemen’s Beef Association (NCBA ) check off program's data from the third quarter of 2005 demonstrate natural and organic beef dollar and volume sales grew at a much faster rate than total retail beef sales, and at prices 45% higher than commodity beef.

However, Randy Irion, director of retail marketing for the NCBA, the checkoff's primary contractor, puts this growth in perspective by pointing to Freshlook Data research. It indicates the category's share is only 1.6% of total beef sales and 1.1% of total beef volume.

“ Natural and organic products are getting more attention than their sales level alone indicates,” Irion says. “They're looked at as new and different. Because of that publicity, supermarkets believe they should take advantage of what has the potential to be a growth trend.”

Irion explains that the meat case is a destination category that draws consumers into the store. Meat-market managers eye natural and organic products because they comprise a rapidly growing category. Managers also understand natural and organic products have production requirements that may restrict them from reshaping the meat case. Irion singles out organic as a product line with particularly high barriers to growth.

Consumers of natural beef generally fall into two categories:

1. The **‘natural-lifestyle’** segment who are characterized as follows:
  - Is better educated both scholastically and in food knowledge.
  - Wants to know what they are eating and where it came from.
  - Concerned with environmental issues: thinks globally and tries to live a sustainable lifestyle.
  
2. The **‘wellness-driven’** or health driven segment who:
  - Are largely made up of Baby Boomers.
  - Are looking for a better quality of life.
  - Have the goal to live a long, healthy life.
  - Believe that the health benefits of a natural lifestyle override the costs.
  - Are willing and able to pay the higher prices for natural beef.

## Requirements

The Canadian situation is different than the United States as the term natural is much more restricted in its use. CFIA has a ‘grown under’ certification whereby they will certify a process or number of protocols so long as the audit requirements are met and the process is verified.

Top Meadow Farms is an example of a CFIA certified process (see. [www.topmeadowfarms.com](http://www.topmeadowfarms.com)).

By comparison, USDA defines “natural,” as it pertains to beef, as minimally processed with no additives (artificial flavorings and colorings, chemical preservatives or other synthetic ingredients).

“Naturally raised” is not legally defined, but is generally accepted by the industry to be more stringent than the term natural. The USDA Agricultural Marketing Service (USDA-AMS) is working to make a standard for naturally raised meat. Use would be voluntary on the part of producers, processors and consumers.

In November 2007 the USDA-AMS proposed the following:

- Naturally Raised Livestock used for the production of meat and meat products have been raised entirely without growth promotants, antibiotics and have never been fed mammalian or avian by-products. This information shall be contained on any label claim that an animal has beef naturally raised.
- This proposed label claim makes no reference to animal welfare or housing conditions and is entirely based on the feeding practices.
- The standard will allow producers and processors to more clearly differentiate their products in the marketplace and allow consumers to obtain the quality of product they desire.
- The standard will not address or imply requirements related to food safety.
- Products imported into the United States will receive “no less favorable treatment” than U.S. products.

Use of the phrase “naturally raised” comes from many years of meat marketers, broadening the definition of natural to include raising claims and altruistic beliefs (3, 8, 9)

### Measures of Market Size

Datamonitor, the world's leading provider of online data, analytic and forecasting platforms, estimates the natural and organic meat market (beef, pork and poultry) will expand from \$2.3 billion in 2004 to \$5.5 billion in 2009. This represents a 19% compounded annual growth rate (CAGR). The 2007 National Meat Case Study found similar results, with beef out-pacing other meats in terms of growth rates (see below):

**Table. Natural/Organic Beef Retail Dollar Sales Trend, 2005-2007**

	2004	2005	2006	2007
M\$ US	193.5	226.8	291.4	387.5
% Change		17.2	28.5	33

Source: Packaged Facts; FreshLook Marketing; *2007 National Meat Case Study*

The market for natural products is growing in Canada, and while the Canadian market is somewhat behind the US in terms of per capita consumption, it is now a market that is being driven by consumer demand. Canadian statistics for natural and organic product sales are difficult to obtain. The best estimate is about \$33 million in organic/natural meat sales in 2006, with no solid estimate of beef's market share.

The following snapshot<sup>14</sup> of Natural/Organic Food Market in North America provides a useful overview of market size in the U.S and Canada:

### **U.S. market overview**

- 2006 retail sales: \$24 billion
- 2006 growth: 20%
- By 2010: demand will double
- 20% of consumers buy organic & natural products weekly
- Driven by health and wellness demand and regulation recognition
- A few large natural food retailers developing private labels for organic foods
- Meats: 3% of organic/natural foods sales; 1% of total U.S. beef sales
- 3 fastest growing categories: meats, sauces and condiments, and dairy
- Opportunities: meats, foods targeted at children, value added products
- Marketing claims for livestock under review (grass fed and naturally raised).

### **Canadian market overview**

- 2006 retail sales: \$1.1 billion
- 2006 growth: 25%
- 5-7% of consumers buy organics weekly
- Meats: 3% of organic/natural foods sales (\$33 M)
- Mandatory organic regulation under way
- Consumers of organic beef are mainly searching for meat that is hormone and antibiotic free.

### **Organic/Natural beef in North America**

- Retail sales: \$1.2 billion in 2005 (including fish and poultry)
- Market growth in 2006: 51%
- Estimate market size in 2010: \$2.1 billion Consumer demand for organic beef surged after the first cases of BSE
- Size of the market is small in both the U.S. and Canada
- Consumers are searching for meat that is hormone and antibiotic free
- Natural beef has gained the advantage over organic beef in the U.S. market
- Branded natural beef is dominated by large operations that have secured the retail sector

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<sup>14</sup> Prepared by: Claire Citeau, Trade Development Officer, U.S. Agriculture and Food Branch. International Offices and Trade Division (IIAR), Government of Alberta

- Organic beef is more recognized in Canada where consumers appear to be confused about the concept of “natural”
- Availability will remain an issue
- High demand is stimulating production in Latin America and Australia
- More competition between organic and natural beef is expected.

In 2006 when Natural Valley Farms (NVF) was developing markets for Natural Products, it was very much a supply driven process that met with limited success. At that time, there were small niche markets available. NVF found at that time that success in the marketplace was driven more by the ‘story’ and the association with ‘family farms’ was the most appealing market advantage. Currently, contacts are being received by previous customers and contacts made in 2006, who now find a greater interest on the part of their customers who are requesting ‘natural’ beef. These customers are high end retailers and the high end HRI clientele.

Customers are willing to pay a premium (12). Current recent market research and subsequent sales indicate that a \$200 premium per animal for the marketing group can be achieved. In turn, marketers will be able to pay the producer an approximate 15% premium over commodity prices. These premiums will change as commodity prices fluctuate, but the market partners have indicated a willingness to enter into long term marketing contracts.

Another key development in the marketplace is the evolving ‘ethical’ consumer. These consumers are looking for products that are considered regional, produced with environmentally sound production protocols and benefit the primary producer. There is a significant groundswell within the population of this consumer segment.

### **Implications for a Value Based Meat Marketer**

Natural beef is clearly a growing market. Premiums are suggested to be in the 40% range at the retail meat case, but this does not translate into substantial increases in returns at the ranch due to the increased costs of natural beef production. It would take a well developed and efficient supply chain to give increased returns at all value chain segments. Further as competition and supply increase, the premium will diminish over time.

Branding and marketing are critical (see the following section for a brief on trends in branded meats) However there are exceptions. Whole Foods for example sells unbranded natural beef, preferring to use their own company name as the brand. Their claims are quite simple: No antibiotics — ever, no supplemental growth hormones no animal byproducts in feed, range raised for at least 2/3 of the animal's life.

Verified natural beef is a more versatile product than conventional beef in that it could be exported to the EU and other markets that prohibit the use of antibiotics and other growth promotants.

## 2.5 Branded Products Markets

The introduction of branded beef began in 1978 with the launch of two products – Certified Angus Beef which has grown to be the worlds largest branded beef company<sup>15</sup> and Coleman Natural Beef which has become the leading natural products in the market. Since that time, numerous brands have been developed. The US marketplace is now supplied by more than one hundred brands including 59 USDA certified brands (as of February 24, 2010) plus numerous ‘non-certified’ industry branded programs comprising a full range of conventional, natural, grass fed and organic beef. Note: Coleman’s natural/organic beef business was purchased by Meyer Natural Beef in 2008. Meyer also purchased Laura’s Lean Beef in 2008. Meyer is a major supplier to Whole Foods Market.

Dr. Gary Smith<sup>16</sup>, University of Colorado and a leading beef industry analyst offered this observation:

“ Brands link the consumer to the retailer (supermarket or restaurant) but also to the supplier (producer/packer/purveyor). Brands shift responsibilities to the retailer and also the supplier for safety, wholesomeness, quality, palatability, consistency and how the animal was raised.”

Beef brands can be classified into the following categories:

- **Brands defined by production protocols or breed** - these are brands that are defined by specific production or growing feature such as natural, organic, grass fed. It also includes such breed specific attributes as Angus, Hereford or Highland cattle. Specific regimes such as ‘corn fed’ – a branding feature used by Nebraska and Ontario also fall into this category.
- **Brands defined by specific origin such as the producer or ranch** - these are brands defined by a specific origin such as Niman Ranch, Maverick Ranch Natural Beef or Spring Creek. These brands typically begin as local niche brands with very specialized markets and grow from there.
- **Brands defined by specifications at processing** – specifications are typically based on grade, yield and/or animal characteristic such as hair colour. Most large processor brands fall into this category. Generally, segregation of animals is not required upon entry to the processing facility and the processor is able to select the desired carcasses that meet specifications from the large volumes that pass through the operation. Sterling Silver and Certified Angus Beef are examples of brands that fall into this category as well as kosher or halal.

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<sup>15</sup> Prime Value Beef Resource Centre. Beef producers must set stage for Asian beef trade boom. December 28, 2009.

<sup>16</sup> Smith, G. C. 2003. The Branding of Beef. Report presented at the HEB/Swift Palatability Seminar, Greeley Co.

A recent study (5) of market trends and retail data entitled *Branded Beef Market*<sup>17</sup> conducted in 2008, made the following conclusions:

- All data indicate that the global beef market is growing.
- The branded beef product category presents a financial growth opportunity for all players in the supply chain.
- Branding provides an additional sense of security to consumers who are growing increasingly leery of the safety of foods, particularly fresh foods.
- Many retailers are engaging in a strategy that differentiates them from their competition by offering private label or in-store brands of beef with unique selling points and value-added qualities.
- Consumers heightened interest in health and wellness is having a positive impact on the meat category and the choice of meat- such as meats that are extra lean or grass fed beef that has a higher lever of omega-3 fattening acids.
- Branded case-ready chicken programs have been prevalent for years. Retailers are now realizing that improving and upgrading the image of beef and the provision of branded beef products are able to command higher prices and increased margin opportunities.
- Profit margins correlate to the degree of branding including the extent of premium and value added propositions as well as the type of supply chain. With regards to the latter point, vertically integrated supply chains typically pay premiums directly to the producer. Supply chains that are less connected to the beef marketer will pay premiums through a process of negotiation or by means of an established pricing grid.

U.S. Premium Beef LLC is a producer owned beef enterprise that has pursued a strategy of both natural and commodity beef brands. In 2009, the company announced a record cash distribution of \$44.25 per linked unit (assigned on per head basis to original investors). In addition, US Premium producers earned additional value-based grid premiums of \$26.89 per head delivered.

Overall, brands provide a sense of security to consumers. Branding tells a story and many retailers are distinguishing themselves from the competition by offering private label or in-store brands with unique selling points or value added qualities. According to the 2007 US National Meat Case Study, between 2004 and 2007, house brand ground beef had gone from a 7% to an 18% market share, almost all at the expense of unbranded ground beef.

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<sup>17</sup> *Branded Beef Market*, Market Research.com, 2008. Conducted for Alberta International, Intergovernmental and Aboriginal Relations (IIAR)

According to “The Power of Meat” (American Meat Institute 2008), there is a significant shift toward more branded case-ready packaged beef cuts and ground beef. Case-ready meats had a 49% market share in 2002 which had grown to a 64% share in 2007. Case-ready beef products (compared to unpackaged beef) currently have the lowest market share, compared to all other meats – namely poultry as the leading example.

The majority of shoppers feel that the quality of prepackaged meat is equal to that cut and packaged in the store. However, a growing 9% think case-ready meat is of better quality. About 70% of meat is purchased at the meat case. Roughly one-quarter of shoppers select all meat there, compared with only 3.1% who never purchase prepackaged meat. The full-service counter has become the source for specialty cuts and special occasions.

The same study found that supermarkets are still the preferred source for meat purchases. While there is a shift in grocery spending to supercenters, shoppers prefer to purchase meat from supermarkets rather than warehouse clubs or supercenters.

### **Implications for a Value Based Meat Marketer**

Branding is increasingly common as a strategy to promote and maximize the value of quality attributes which branded beef is able to promote. Branded beef is a growing category, primarily as a case-ready product and selected food service outlets.

Supermarkets continue to maintain their market share in North America in terms of meat products and will continue to be the primary channel for larger volumes of branded, case ready product. However, supermarkets prefer to deal with the established processors, largely due to long term business relationships and the need for volume. A new value based meat marketer may be restricted to marketing through independent and/or smaller retailers. On the other hand, supermarkets are always looking for ways to differentiate themselves in their hyper-competitive retail environment.

Most importantly, the value based meat marketer must have a truly differentiated product that is valued by a clearly defined market (customer) base. There are several ways to do this whether it is grower based, relationship based or processed based. Not only must the product strategy be clearly differentiated, it must be validated by the customer. If this is not done, the value based marketer is subject to substitution and will soon be replaced by a more competitive offering.

## 2.6 The Halal Market

Alberta Agriculture, Food & Rural Development (AAFRD) and Farming for the Future FarmDemo Project (FFF) recently funded a study titled *The Canadian Halal Meat Market: An Alternative Market for Alberta's Meat Industry*<sup>18</sup>. The objective of the project was to qualify and quantify the market opportunities for Alberta meat producers and processors to supply halal meat within Canada.

The Canadian domestic halal meat market value is estimated to be \$214 million with an average annual household expenditure of \$1,623 spent on meat purchases. Muslims are ardent consumers of meat and meat products, with feast days and celebrations that often include several different meat dishes. On average, Muslim households spend \$31 per week on halal meat products. This is almost double the Canadian household meat expenditure of \$17 per week. (Statistics Canada, 2003). This difference in weekly household expenditures may partially be explained by the difference in average household size. The survey respondents' average household size was 4.4 people per household where as the Canadian Food Expenditure study's average household size is 2.5 people per household (CMHC, 2004 Canadian Housing Observer).

In response to the growing Muslim population in Canada, the demand for halal meat is predicted to grow. According to the 2001 Canadian census, there are approximately 600,000 Muslims in Canada and an estimated 8 to 11 million in the United States with a purchasing power of \$US 12 billion (AJR Consulting Inc., 2004) The Canadian Muslim population is expected to double by the end of this decade (Statistics Canada) and by the year 2025, 30% of the world's population is expected to be Muslim. (CIA World FactBook, 2000)

The average Canadian Muslim household consumes 5.6 meat servings per day. Halal beef and chicken are the most widely consumed followed closely by lamb and goat. Out of all consumed meat cuts, ground beef ranks first at 16% followed by chicken legs (15%) then bone-in beef and whole chicken (14%). Boneless beef stands in fifth place (12%), followed closely by chicken breast (11%), then beef steak and chicken drums at 10%. Consumers purchasing decisions are primarily influenced by their confidence that the meat is halal. Price was the third ranked attribute to influence purchasing decisions. The majority of Canadian Muslims (74%) would pay a premium of at least \$0.50 per pound over "regular" meat. Thirteen percent seem to be willing to pay at least a premium of \$1.50 per pound for quality halal meat.

Overall the concept of a market for certified halal foods is a fairly new phenomenon, Muslims compose a very small share of the U.S. population, and many of the countries that are home to large Muslim populations have just begun to monitor and quantify sales and hard data are virtually nonexistent.

There are a number of organizations that can be engaged to certify Halal production facilities. Halal certifiers include the Islamic Food and Nutrition Council of America

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<sup>18</sup> Canadian Halal Meat Market Study. Alberta Agriculture, Food & Rural Development. 2005.

(IFANCA), ISNA Halal Certification Agency (Canada) and Halal Monitoring Authority (Canada).

Salient differences between kosher and halal are described as follows:

- Islam prohibits all alcohols, liquors, wines and drugs. Kashrut has no such prohibition. Hence kosher food items and drinks containing alcohol are not halal.
- Gelatin is generally considered kosher. If the gelatin is prepared from non-zabiha, Muslims consider it prohibited. Hence kosher foods items such as marshmallows, yogurt, etc. are not always halal.
- Enzymes (irrespective of their sources even from non-kosher animals) in cheese making are generally considered to be kosher. Muslims look for the source of the enzyme in cheese making. If it is coming from the swine, it is considered to be forbidden. Hence cheeses may not be halal.
- Jews do not pronounce the name of God on each animal while slaughtering. Muslims on the other hand pronounce the name of Allah on all animals while slaughtering.
- Kosher beef must come from the forequarter. It is believed that it is impossible to assure that all of the blood is removed from the hindquarter. Halal has no such proscription, notwithstanding that blood is also prohibited in halal foods.

### Measures of Market Size

The following table presents a breakdown of the Muslim Population in Canada:

Total Canadian Population	29,639,035
<b>Canada</b>	<b>579,640</b>
Ontario	352,530
Quebec	108,620
British Columbia	56,220
Alberta	49,040
Manitoba	5,095
Nova Scotia	3,545
Saskatchewan	2,230
New Brunswick	1,275
Newfoundland and Labrador	630
Prince Edward Island	195
North West Territories	180
Yukon Territory	60
Nunavut	30

There are an estimated 8 million Muslims in the US with a purchasing power for food of US\$12 billion.

### **Implications for a Value Based Meat Marketer**

Overall, the Halal beef is a market that cannot be ignored due to its enormous size. Domestically, it is small but growing quickly. It may be particularly beneficial as a market that is suited to products derived from mature (OTM) animals.

The halal market is served in some measure by the existing segments of the industry. Better Beef (Cargill) offers primals, sub-primals, regular cuts, custom cuts and offals as certified Halal products. Better Beef is certified by IFANCA. Boxes are marked "Zabiha Halal". There are product niches that could be investigated and subsequently developed. Overall, this market is very price sensitive.

Muslim consumers in North America purchase a range of beef products that are similar to those available to the general population. Beef from OTM animals is marketable, as are offals. Furthermore, Muslim consumers in Canada prefer to buy unpackaged meats in a halal store, because of the risk of contamination from non-halal products.

Generally speaking the halal market is ignored by larger processors since the slaughter process is more costly, particularly if production lines have to be changed from conventional to halal. However, kosher and halal are similar enough that a facility could easily be designed to process beef under either protocol.

## SIGNIFICANT MUSLIM POPULATIONS BY REGION AND COUNTRY

Region	Country	Total Population	Muslim Percentage	Number Of Muslims
Asia & Pacif.	Afghanistan	33,609,937	99.0%	33,273,838
Eur	Albania	3,639,453	70.0%	2,547,617
N.Af. & M.E.	Algeria	34,178,188	99.0%	33,836,406
Asia & Pacif.	Azerbaijan	8,238,672	93.4%	7,694,920
N.Af. & M.E.	Bahrain	727,785	81.2%	590,961
Asia & Pacif.	Bangladesh	156,050,883	83.0%	129,522,233
Africa	Benin	8,791,832	24.4%	2,145,207
Eur	Bosnia-Herzegovina	4,613,414	40.0%	1,845,366
Asia & Pacif.	Brunei	388,190	67.0%	260,087
Africa	Burkina-Faso	15,746,232	50.0%	7,873,116
Africa	Cameroon	18,879,301	20.0%	3,775,860
N. Amer.	Canada	33,487,208	1.9%	636,257
N.Af. & M.E.	Chad	10,329,208	53.1%	5,484,809
Asia & Pacif.	Comoros	752,438	98.0%	737,389
Africa	Cote d'Ivoire	20,617,068	38.6%	7,958,188
Eur	Cyprus	796,740	18.0%	143,413
Eur	Czech Republic	10,211,904	2.0%	204,238
Eur	Denmark	5,500,510	2.0%	110,010
Africa	Djibouti	516,055	94.0%	485,092
N.Af. & M.E.	Egypt	83,082,869	90.0%	74,774,582
Asia & Pacif.	Equatorial Guinea	633,441	25.0%	158,360
Africa	Eritrea	5,647,168	80.0%	4,517,734
Africa	Ethiopia	85,237,338	32.8%	27,957,847
Eur	France	64,057,792	10.0%	6,405,779
Africa	Gambia	1,782,893	90.0%	1,604,604
N.Af. & M.E.	Gaza Strip	1,551,859	99.3%	1,540,996
Eur	Germany	82,329,758	3.7%	3,046,201
Africa	Guinea	10,057,975	85.0%	8,549,279
Africa	Guinea Bissau	1,533,964	50.0%	766,982
Asia & Pacif.	India	1,166,079,217	13.4%	156,254,615
Asia & Pacif.	Indonesia	240,271,522	86.1%	206,873,780
N.Af. & M.E.	Iran	66,429,284	99.0%	65,764,991
N.Af. & M.E.	Iraq	28,945,657	97.0%	28,077,287
N.Af. & M.E.	Israel	7,233,701	16.0%	1,157,392
Eur	Italy	58,126,212	3.0%	1,743,786
Asia & Pacif.	Japan	127,078,679	1.0%	1,270,787
N.Af. & M.E.	Jordan	6,342,948	95.0%	6,025,801
Asia & Pacif.	Kazakstan	15,399,437	47.0%	7,237,735
Africa	Kenya	39,002,772	10.0%	3,900,277
N.Af. & M.E.	Kuwait	2,691,158	85.0%	2,287,484
Asia & Pacif.	Kyrgyzstan	5,431,747	75.0%	4,073,810
N.Af. & M.E.	Lebanon	4,017,095	60.0%	2,410,257
Africa	Liberia	3,441,790	30.0%	1,032,537

N.Af. & M.E.	Libya	6,310,434	100.0%	6,310,434
Eur	Macedonia	2,066,718	30.0%	620,015
Africa	Madagascar	20,653,556	20.0%	4,130,711
Africa	Malawi	14,268,711	35.0%	4,994,049
Asia & Pacif.	Malaysia	25,715,819	52.0%	13,372,226
Africa	Maldives	396,334	100.0%	396,334
Africa	Mali	12,666,987	90.0%	11,400,288
Africa	Mauritania	3,129,486	100.0%	3,129,486
Africa	Mauritius	1,284,264	16.7%	213,958
Africa	Mayotte	223,765	97.0%	217,052
N.Af. & M.E.	Morocco	34,859,364	98.7%	34,406,192
Africa	Mozambique	21,669,278	29.0%	6,284,091
Africa	Niger	15,306,252	80.0%	12,245,002
Africa	Nigeria	149,229,090	75.0%	111,921,818
N.Af. & M.E.	Oman	3,418,085	100.0%	3,418,085
Asia & Pacif.	Pakistan	176,242,949	97.0%	170,955,661
Asia & Pacif.	Philippines	97,976,603	14.0%	13,716,724
N.Af. & M.E.	Qatar	833,285	100.0%	833,285
Russian states	Russia	140,041,247	14.0%	19,605,775
N.Af. & M.E.	Saudi Arabia	28,686,633	100.0%	28,686,633
Africa	Senegal	13,711,597	95.0%	13,026,017
Africa	Sierra Leone	6,440,053	60.0%	3,864,032
Asia & Pacif.	Singapore	4,657,542	17.0%	791,782
Africa	Somalia	9,832,017	100.0%	9,832,017
Africa	Sudan	41,087,825	70.0%	28,761,478
Asia & Pacif.	Suriname	481,267	19.6%	94,328
N.Af. & M.E.	Syria	20,178,485	74.0%	14,932,079
Asia & Pacif.	Tajikistan	7,349,145	90.0%	6,614,231
Africa	Tanzania	41,048,532	65.0%	26,681,546
Asia & Pacif.	Thailand	65,905,410	14.0%	9,226,757
Africa	Togo	6,019,877	55.0%	3,310,932
N.Af. & M.E.	Tunisia	10,486,339	98.0%	10,276,612
Eur	Turkey	76,805,524	99.6%	76,529,024
Asia & Pacif.	Turkmenistan	4,149,283	89.0%	3,692,862
N.Af. & M.E.	United Arab Emirates	4,798,491	96.0%	4,606,551
Eur	United Kingdom	61,113,205	2.7%	1,650,057
N. Amer.	United States	307,212,123	0.6%	1,843,273
Asia & Pacif.	Uzbekistan	27,606,007	88.0%	24,293,286
N.Af. & M.E.	West Bank	2,461,267	75.0%	1,845,950
N.Af. & M.E.	Western Sahara	405,210	100.0%	405,210
N.Af. & M.E.	Yemen	23,822,783	99.0%	23,584,555
Africa	Zambia	11,862,740	15.0%	1,779,411
Africa	Zimbabwe	11,392,629	15.0%	1,708,894

Pop. Data - 2009 CIA World Factbook

## 2.7 Japan

Japan is a unique market with distinct requirements for successful brand building. Extensive time and effort must be devoted to building relationships, often requiring the hiring of local Japanese to develop the market.

Most importantly, Japan has very strict import requirements. Beef must come from animals that are age verified and under 21 months of age.

Canadian 2009 beef exports to Japan are just over 10,000 tonnes. This represents an increase of over 80 per cent above 2008. The Canadian Beef Export Federation (CBEF) has been active in re-establishing a Canadian presence. In 2009, access to a supermarket chain and another chain with 38 stores was achieved. CBEF has been able to use the Vancouver Olympics as an opportunity to hold Canadian beef promotions targeting Japanese customers.

From 2004 to 2007, Japanese beef consumption was relatively stable, yet much lower than late 1990's. In 2007, domestic beef supplies 43% and imported beef supplies 57% of total Japanese market consumption.

The drop in imported beef consumption was a result of an outbreak of BSE. Food safety has become a very important consideration for Japanese consumers, especially in the wake of the BSE outbreaks in Europe and Canada. The onset of BSE resulted in a sudden fall in sales of beef, which hurt the Japanese beef industry as well as major beef exporters to Japan.

Australia was the main beneficiary of the BSE crisis that affected both Canada and the U.S. In response, Australian beef substantially replaced U.S. beef in the Japanese market since 2003. In 2003, Aussie beef had 32% share of the Japanese marketplace. In 2007, this figure increased 15 percentage points to a 47% share. In 2007, U.S. beef exports to Japan had dropped substantially, from 29% share in 2003 to a 4% share in 2007. Aussie beef in 2007 had approximately an 88% share of the imported beef market. Since then, the US has gradually rebuilt its market share at the expense of the Australians, but prices have dropped.

In Japan, cattle breeds are divided into two kinds: the first is dairy cattle, primarily Holsteins and Jerseys; the second type of cattle is known as Wagyu, - a Japanese indigenous breed. The famous, very well-marbled, tender, high-premium products such as Matsusaka and Kobe beef come from these breeds. Ordinary generic Japanese beef comes from dairy cattle, or crossbreds of dairy breeds and domestic breeds. Imported beef competes with ordinary Japanese beef.

Imported beef tends to be offered at a lower price than local beef. Most Japanese consumers prefer to buy local beef because it is considered to be much safer. For example, a side by side comparison of common meat cuts (marketresearch.com 2008) illustrated that imported beef was discounted by 46% on average compared to local beef.

Significantly the Japanese population is aging and in decline. There are opportunities for prepared and value-added foods, new products and adaptation of existing products. Japanese consumers are conservative when it comes to using some types of technology in food production. Attitudes against using genetically modified organisms as food ingredients are well documented, and consumers prefer natural products. Food products labeled as natural or organic are widely available at supermarkets and convenience stores.

### **Examples of Branded Beef in Japan**

- **Aussie Beef** - Aussie Beef is highly regarded and is generally recognizable brand of Australian beef in Japan. “Aussie Beef” brand is recognized as safe (notably BSE free). Meat and Livestock Australia, Ltd. (MLA) provides a range of information, marketing, and research and development programs designed specifically to benefit Australian meat and livestock producers, processors, exporters and retailers. Australia has a reputation as a supplier of quality beef and has an excellent food safety record. Aussie Beef is minimally processed and contains no artificial additives. Products offered range from 100% free range grass-fed beef through to grain-fed beef.
- **Motherland Farm** - MotherLand Farm is the largest domestic producer in Japan. Their beef meat products are carefully monitored throughout the entire production process. They have a “beef resume” for their beef products, which contains information such as birth dates and venue, feeding material, age, genetic and other biological information. Customers can trace back the product information by checking the special code printed on the price tag in an online system.

MotherLand also has farms in Mexico and Australia. Their high-quality product targets high-income, health-conscious consumers as a premium natural beef. It uses a three word approach: *Natural, Tasty, and Traceable*.

- **Meyer** - Meyer Natural Angus of Colorado offers high-quality natural beef products. The cattle that go into the company’s products are touted as being treated humanely, fed a strict all vegetarian diet and never administered antibiotics or growth hormones.
- **Nature’s SunGrown Foods** - Nature’s SunGrown Foods of California ships products throughout the Pacific Rim with customers in Japan, Korea, Taiwan, Malaysia and Australia. Nature’s SunGrown cattle raising attributes include:
  - No growth promoting hormones.
  - No growth promoting antibiotics.
  - Cattle are never exposed to chemical based fertilizers or pesticides.
  - No animal by-products.
  - Calves do grow up naturally with their mothers.

- Cattle are raised on healthy vegetarian diets with corn being a key ingredient.

### **Implications for a Value Based Meat Marketer**

There are very established trading relationships in beef products with Japan. Australia, New Zealand and U.S. exporters are all firmly established beef suppliers to this market. By comparison Canadian beef is not well known. However the positive impressions held toward Canadian pork plus the positive impressions of Canada work in this country's favour as a supplier.

Japan is among the most discerning markets in the world. Protocols and procedures must be especially stringent to meet Japanese requirements. Opportunities will emerge but concerted efforts will be required to develop relationships with importers and distributors who in supply smaller retailers and food service companies. The development of a successful strategy in Japan will take considerable time and effort.

Success demands a long-term commitment, typically three to five years before business gains a presence in the market and becomes profitable.

## **2.8 The European Union**

### **Overview**

Specific to Europe, a study (6) conducted on behalf of CBEF by GIRA Consulting in 2005<sup>19</sup>, concluded that the EU25 (and Russian beef markets) are attractive target markets for Canada and should be part of a long term global strategy. The EU markets in particular offer potential for several reasons:

1. The consumption of beef is on the increase despite two major BSE related setbacks (UK in 1996; France in 2000). Current consumption is now back to pre-BSE levels. More importantly, the image of beef in the minds of consumers appears to be positive.
2. The production of beef in Europe is on the decline – due in large part of the declining dairy herd as well as a reduction in price supports to producers.
3. EU Beef Intervention stock (inventory) is empty and will not rebuild.
4. Prices are relatively strong and comparable to prices in North America. Prices are expected to increase in the short-term but medium and long-term prices are uncertain depending upon the market access given to imports.
5. The presence of a diverse and highly segmented marketplace that has within it a

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<sup>19</sup> EU25 Market: Opportunities and Constraints for Canadian Beef Exporters, Gira Consulting, 2005.

growing demand for high quality beef products that is being supplied for the restaurant and hotel trade. (Of course this varies from country to country). At the same time, 'hard discounters' such as ALDI have aggressively priced beef to attract customers. This development has contributed to increased consumption and increased competition.

With respect to trade barriers, it is significant to note that 11,500 tonnes of North American high quality beef import quota is not being used. Three reasons are given:

1. The prevailing use of hormones in North American production – hormones in meat is banned by the EU. Hence the supply of eligible product and accredited packing houses in North America is limited.
2. The 2003 BSE outbreak in Canada and the USA.
3. Pricing issues – the strong US dollar viz the euro has diminished the competitiveness of North American product. However within the past 6 months, the dramatic surge of the euro has changed this dynamic. (Note: currency fluctuations are a constant risk factor. Currently the Canadian dollar is very strong against the euro).

Further, it anticipated that quota limits will be relaxed in view of the growing disparity between demand and supply. Indeed the study makes the following strong statement:

“ ... it is clear to everyone that there is an increasing need for beef imports. It is inevitable that the European Commission will make some further market access concessions during the current WTO process.”

The biggest 'out of EU' suppliers of what is termed as "Hilton Beef" - a high quality product, are Argentina, Australia, Uruguay and Brazil with the latter being forecasted as having the greatest potential to become the export market leader. Botswana is the largest 'lower quality' beef supplier.

Specific to the UK, the study provides a number of key facts and observations:

1. Imports have more than doubled since 1998 (528,850 metric tonnes in 2006 vs. 258,000 metric tonnes in 1998).
2. Ireland is the major out of country supplier but with growing South American penetration.
3. The retail/catering split is 70:30 with the major retailers being Tesco, Asda, Sainsbury, Morrison, Somerfield and Waitrose.
4. Chilled boneless beef dominates the imports.

Finally the study comments while perceptions of Canada and its food system are generally positive, there is little knowledge of, or experience with Canadian beef. To quote:

“ The retailers and caterers had no experience of either US or Canadian beef – whereas most of the traders/importers were personally familiar with US beef, they had no commercial experience because the volumes imported are virtually nil.”

The study presents the following conclusions:

1. The EU25 is a high price and growing beef market.
2. There is some scope to differentiate marbled beef in the market.
3. The meat market is interested in something new.
4. The beef needs to be hormone free.
5. The best opportunities are likely to be in Italy, NW Europe (including the UK) and possibly France.

Overall, the study conclusions and directions strongly encourage the development of markets in the EU. Nevertheless, this will not be easy in view of the lack of awareness on the part of the Europeans and the lack of commercial experience by Canadian exporters in this market.

A more specific review of the UK Market in 2006 conducted by the Alberta Cattle Feeders on behalf of Ranchers Beef concluded the following:

1. The domestic supply of beef within the U.K. is declining and likely to decline further. The economics of beef production in combination with the two major disease outbreaks (BSE crisis in 1996 and FMD in 2001) have hit the industry hard. Although the industry has recovered somewhat, a new EU policy which provides a single farm payment to producers, is expected to cause many small producers to exit the industry and continue as ‘stewards’ of the land instead of being food producers. Hence cow numbers are expected to decline.
2. The U.K. imports beef from a variety of countries. The largest suppliers in order of volume are: Ireland; Brazil; Netherlands; Argentina; Germany; followed by other countries which includes Australia and Africa (Namibia).
3. In terms of ‘quality,’ the market order in terms of best to least appears to be as follows:
  - Scotch – considered to be the market leader
  - English Beef – considered high quality but not quite as good as the Scotch. Note there is strong emphasis on regional programs (West Country, Yorkshire etc.)
  - Ireland – considered good quality
  - Australian – has a good quality image
  - Argentinean – has a reasonable to good quality image
  - Brazil – has a low quality image

- Africa – low quality.
4. Canadian beef has little to no profile. However, it is presumed to be similar to American beef which generally has a high quality, tasty image albeit subject to inconsistencies in fat content.
  5. The U.K. consumer is oriented to purchase a lean, bright red product. This product is predominately displayed in retail counters and would probably compare to the Canadian A product.
  6. Further to the previous point, marbled products such as Canadian Prime AAA or U.S. Prime or Choice, will not be well received at the retail counter. It would be considered too fat.
  7. It is significant to note that over 40% of the beef consumed in the U.K. is by means of the food service, hotel, restaurant and institutional trade.
  8. Overall, companies in the meat distribution business are actively seeking and assessing new sources of supply for their beef. Clearly they are concerned about supply in the future and expect that this will be an increasing concern over the next number of years.
  9. The impending supply shortage suggests that there are opportunities to supply the UK market. However, the first reaction to a Canadian source of supply is to establish a source of supply as a replacement for current lower quality imports such as Argentina or Brazil.
  10. Generally speaking the market is segmented as follows:
    - a. Branded Products: Food Service – several suppliers have introduced and continue to develop branded programs.
    - b. Branded Products: Retail - the major retailers brand fresh meat as their house brand; focus on lean, bright red, consistency and competitive pricing. Most noted brands are: Tesco's Finest; Sainsbury 'Taste the Difference.' There is also considerable focus on a regional or UK focus in support of the British beef industry
    - c. Commodity Beef – largely for the 'lower' end restaurant (pub) and institutional trade
  11. A cursory review of retail prices suggest that beef supplied from Canada cannot compete in the lower valued cuts (from the front quarter). However with in the high end cuts (strip loins, rib eyes, fillets and rumps) there are selected opportunities.

In 2006, the Alberta identified four major prospects each operating in different market segments. All have interest in securing new sources of supply for beef and would seriously consider Alberta as a source of supply.

In summary:

1. There are no regulatory or phytosanitary conditions that restrict Alberta's position or ability to enter the EU market. However a supplier of beef in the EU market must operate a processing facility that is EU approved and source cattle from operations that are segregated and certified by the CFIA to have a hormone production free status.
2. Entry to the EU takes place within the framework of quotas and tariffs. Currently a Hilton Quota for 11,500 tonnes for beef and bison products is available to North America. This has never been filled. In quota tariffs are 20%. Over quota tariffs are 12.8% plus 1,414 to 3,034 Euros per metric tonne. The actual application of these over-quota tariffs varies however depending upon market conditions.
3. Access to Quota and associated import permits is obtained by dealing with licensed EU importers. These are issued monthly and are valid for three months.
4. Opportunities do exist for Alberta beef in the United Kingdom. It will require a very focused development strategy that is targeted to importers/distributors who supply the high-end HRI market. Successful entry to this market will be key to creating a position in the market that can be extended to selected retailers who are marketing high quality fresh beef.
5. Actual market returns (margins) will be very dependent on the market position, product mix and pricing strategies of both the supplier and the importer/distributor. These cannot be determined until both parties enter into detailed supply-price negotiations.

### **Implications for the Value Based Marketer**

EU holds opportunity over the long term as cow herds continue to decline. It is a difficult market to enter however. It requires a focused market strategy, the establishment of a hormone free supply chain in advance of the birth of the first calves to enter that chain; verification of participating producers by CFIA veterinarians; an EU approved processing facility; and a marketing strategy that recognizes the need for considerable support and intervention to firmly establish the product.

## **3.0 Processing Model Assumptions**

### **3.1 Key Parameters and Rationale**

The Conditions Precedent (see Section 1.0) requires that a successful value based enterprise be driven by a marketing strategy that commands more revenue on a per carcass than does the commodity based strategy. This requires the following parameters:

1. Unique Selling Point (USP) – a marketing strategy defined by any one or more key differentiators. The range of potential differentiators include:
  - Grow Based (production factors such as hormone free, grass fed, ethically raised, etc.)
  - Relationship Based (supply or system based features such as farm, ranch, region, defined supply chain)
  - Processed Based (specification by cut; kosher, halal etc.)
2. Sales Mix – retail vs. food service vs. institution vs. brokers (trade).
3. Distribution – Direct Supply Delivery (DSD) vs. warehouse vs. other vs. export.
4. Supply Requirements – security of supply/level of contracting with producers.
5. Sales Services – level of additional sales assistance required as well as the proportion of the carcass (and cuts) that will require additional sales support.
6. Other Factors.

### **3.2 Processor Model**

We have built a processor model using the following assumptions:

- Plant with capacity for up to 800 head per day. While this assumption has been used as a basis for the model development we are suggesting that consideration for a much smaller facility may be warranted. Note: while a facility capable of processing 800 head per day in the Canadian marketplace will provide some production efficiencies if it can operate at capacity, the inefficiencies of not achieving capacity will prove insurmountable.
- All processing activities and costs will be set up as a separate enterprise that will be costed and operated as a utility (toll processor). This will be a cost plus enterprise. Note: This does not necessarily mean that a separate toll business will be set up. A major ‘User’ may play this role. Nevertheless the cost recovery objectives for processing remain the same regardless of the ownership structure.

- Facility is designed to accommodate three levels of users:
  - **Level 1:** 1 to 50 head per day (small scale local player) from 2 to 5 players.
  - **Level 2:** 51-300 head per day (mid-sized regional or national player) from 1 to 3 players.
  - **Level 3:** Over 300 head per day (larger sized national player) from 1 to 3 players.

The breakdown of the customer base for each Level will depend on capacity, complexity of the product offerings and the long term sustainability of the customers' brands.

### **Start up requirements:**

Year 1 - 3:

- The initial Year 1 start up plan is to achieve a minimum targeted capacity of 70%.
- The assumed Year 1 customer breakdown will be concentrated on customers with marketing mixes that support Levels 1 and 2.
- As the customers volumes grow in Year 2 and 3 of operations the facility will have capacity to address these requirements.

Year 3 – 5:

- The target capacity is plus 90%.
- The target capacity will be achieved through organic growth of the startup customer base and or new toll processing customers.

### 3.3 Level 1 Assumptions

Characteristic	Detail
Scale: 1-50 head per day (up to 250 head per week)	This is a small typically start up operation. Nevertheless this generates approximately a total of 18,000 kg of meat to be processed and marketed each day.
1. Unique Selling Point	Offer will need to be based on some unique production or growing feature such as a Specific Grower Group (or Farmer), organic, natural, local breed etc. Note: Not a sufficient scale to consider the kosher market
2. Sales Mix	Direct retail or food service focus at a local level <ul style="list-style-type: none"> <li>▪ Independent markets</li> <li>▪ Regional retail and F/S chains</li> <li>▪ Regional institutions etc.</li> </ul>
3. Distribution	Direct Sales – 80% Warehouse – 20%
4. Supply Requirements	100% committed on contract – either by a single producer or a committed set of producers who are bound by contracts to deliver an agreed supply of animals by weight and date.
5. Sales Service Requirements	20% of processing product will need to be ‘sold’ by external brokers
6. Revenue Implications	Assume the toll customer: <ul style="list-style-type: none"> <li>▪ Has the ability to achieve a minimum of 20% premium over AAA/AA Alberta boxed meat cut out.</li> <li>▪ Has the ability to balance sales for all carcass.</li> </ul>
7. Cost Implications	<ul style="list-style-type: none"> <li>▪ A premium for cost of kill, fabrication and distribution over the average forecast cost for the proposed facility.</li> <li>▪ Costs for Level 1 will be broken down on a KG basis for receiving, kill, chill, fabrication and distribution.</li> <li>▪ A detailed analysis will be provided on a weekly basis to the marketer for evaluation and production control.</li> </ul>
8. Other	<ul style="list-style-type: none"> <li>▪ Commodity marketing services for underutilized cuts will be provided to Level 1 and Level 2 customers. This Broker service will allow for efficient marketing of products such as trim and flat cuts etc.</li> <li>▪ Additional charges for added value products and specific customer packaging and distribution needs will be calculated on a per customer basis.</li> </ul>

### 3.4 Level 2 Assumptions

Characteristic	Detail
Scale: 51-300 head per day Between 250 and 1200 hd. per wk	This is a midsized operation that has a considerable volume of meat to market every day – upwards to 100,000 kg (50 metric tons) per day.
1. Unique Selling Point	Offer will need to be based on some unique production or growing feature such as a Specific Grower Group (or Farmer), organic, natural, local breed etc.
2. Sales Mix	Retail focus at a regional and possibly national level: <ul style="list-style-type: none"> <li>▪ 60 % of sales for Retail and F/S</li> <li>▪ Other – 30%</li> <li>▪ Export – 10%</li> </ul>
3. Distribution	Direct Sales – 20%; Warehouse – 60% Container – 20%
4. Supply Requirements	100% committed on contract – by a committed set of producers who are bound by contract.
5. Sales Service Requirements	40% of processing product will need to be ‘sold’ by external Brokers.
6. Revenue Implications	Assume the toll customer: <ul style="list-style-type: none"> <li>▪ Has the ability to achieve a minimum of 10% premium over AAA/AA Alberta boxed meat cut out.</li> <li>▪ Has the ability to balance sales for all carcass to 60-70% with a defined sales plan for the remainder of the non branded product offerings.</li> </ul>
6. Cost Implications	<ul style="list-style-type: none"> <li>▪ Competitive average cost of kill, fabrication and distribution for the average forecasted cost for the proposed facility.</li> <li>▪ Costs for Level 2 will be broken down on a KG basis for receiving, kill, chill, fabrication and distribution.</li> <li>▪ A detailed analysis will be provided on a weekly basis to the marketer for evaluation and production control.</li> </ul>
8. Other	<ul style="list-style-type: none"> <li>▪ Commodity marketing services for underutilized cuts will be provided to Level 1 and Level 2 customers. This Broker service will allow for efficient marketing of products such as trim and flat cuts etc.</li> </ul> <p>Additional charges for added value products and specific customer packaging and distribution needs will be calculated on a per customer basis.</p>

### 3.5 Level 3 Assumptions

Characteristic	Detail
Scale: Over 300 hd. per day Btwn 1200 and 1500 hd. per week	This level of processing generates a significant daily volume of meat to be marketed every day. Note: This level of processing is most vulnerable to commodity competition and is most easily drawn into playing the commodity strategy.
1. Unique Selling Point	Requires a well defined brand strategy that is national in scope.
2. Sales Mix	Retail and F/S – 30% Other – 30% Export – 40%
3. Distribution	Direct Sales – 10% Warehouse – 60% Container – 30%
4. Supply Requirements	100% committed on contract – by a committed set of producers who are bound by contract.
5. Sales Service Requirements	30% of processing product will need to be ‘sold’ by external brokers.
6. Revenue Implications	Assume the toll customer: <ul style="list-style-type: none"> <li>▪ Has the ability to achieve a AAA/AA Alberta boxed meat cut out.</li> <li>▪ Has the ability to balance sales for all carcass to 55-70% with a defined sales plan for the remainder of the non branded product offerings.</li> </ul>
7. Cost Implications	<ul style="list-style-type: none"> <li>▪ A charge below the average cost of kill, fabrication and distribution for the average forecasted cost for the proposed facility.</li> <li>▪ Costs for Level 3 will be broken down on a KG basis for receiving, kill, chill, fabrication and distribution.</li> <li>▪ A detailed analysis will be provided on a weekly basis to the marketer for evaluation and production control.</li> </ul>
8. Other	<ul style="list-style-type: none"> <li>▪ Commodity marketing services for underutilized cuts will be provided if needed but it is assumed the customer will have the ability to market all product offerings.</li> <li>▪ Additional charges for added value products and specific customer packaging and distribution needs will be calculated on a per customer basis</li> <li>▪ Additional services will be provided for detailed export product and program opportunities</li> </ul>

## 4.0 Cost Analysis

### 4.1 Base Case

The cost analysis for the new facility has been completed to establish a defined ‘plant within a plant’ cost centre understanding for the proposed new base facility. The objective of the analysis is to determine a “Top Line” cost estimate for the proposed use of the base toll processing facility. This will allow both the facilities management and the proposed toll processing customer to fully understand the movement of costs throughout the proposed operation.

For this primary or “base” analysis, a set of assumptions have been developed to establish an operating norm for the proposed facility for the first 5 years of operation. The operating forecasts will serve to develop a set of category cost assumptions. The base analysis has been established around a proposed Greenfield facility with the ability to kill and fabricate 800 beef animals per day or 4,000 per week as directed by the project steering team or thus the “**Base**”.

This base cost forecast has resulted in the development of a detailed set of financials for the proposed new facility and toll process operation. The base financial forecasts have been included in **Appendix 1, BIA “Base” Financial Forecasts** and will be discussed throughout the cost and revenue analysis sections of this report.

To establish the financial forecasts a clear set of operational assumptions or norms were established. These assumptions were established by utilizing existing industry and expected operational norms within the defined operational model.

Some operating assumptions or forecasts include:

1. An assumed animal volume for Year 1 to 5 has been established to allow for the creation of a 5 year base case financial forecast. **Figure 1** outlines the forecasted weekly and yearly animal kill numbers according to the proposed customer sales at each sales category level. A planned capacity of 99% by Year 3 of operations has been calculated to allow for capacity costing within the five year forecast.

**Figure 1 – Forecasted Weekly and Yearly Kill Numbers – Customer Level**

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Proposed Plant Weekly Capacity / Week</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>
<b>Level #1</b>	700	770	847	847	847
<b>Level #2</b>	726	799	878	878	878
<b>Level #3</b>	1,850	2,035	2,239	2,239	2,239
<b>Average Weekly Kill</b>	<b>3,276</b>	<b>3,604</b>	<b>3,964</b>	<b>3,964</b>	<b>3,964</b>
<b>Level #1</b>	36,400	40,040	44,044	44,044	44,044
<b>Level #2</b>	37,752	41,527	45,680	45,680	45,680
<b>Level #3</b>	96,200	105,820	116,402	116,402	116,402
<b>Total Kill Per Year</b>	<b>170,352</b>	<b>187,387</b>	<b>206,126</b>	<b>206,126</b>	<b>206,126</b>
<b>% of Capacity</b>	81.9%	90.1%	99.1%	99.1%	99.1%

- An assumed breakdown and sales plan for customer Levels 1, 2 and 3 has been outlined in Section 3.2. From this information, a “base” customer sales plan has been created. The sales plan allows for the development of the expected pricing and production efficiencies as they relate to the 3 targeted production levels or sales categories by customer. The sales plan has been created in response to an expected customer base in the Alberta region. **Figure 1** outlines the customer breakdown and sales plan for the first 5 years of operations. This base sales plan has been created to establish an initial understanding of the cost movement within the proposed facility. The key assumption for sales is that the facility will have the ability to process at 81.9% of capacity in year 1 and 99.1% capacity by year 3 of operations. Any reduction of sales goals will result in significant pressure on the financial forecasts and thus the pricing of the service. A breakdown of the BIA “Base” Sales plan has been included in **Appendix 1, BIA “Base” Financial Forecasts - Section 2.2 BIA Sales Plan**
- The expected weight and yield of animals in the facility has been estimated to allow for the calculation of the expected production volumes in kilograms of chilled carcasses in the kill and chill category as well as kilograms of boxed meat generated in the fabrication and distribution category. **Figure 2** outlines the expected weights and yield of hot carcasses, chilled carcasses and boxed meat generated on a carcass basis. The hot and fabrication shrink has been calculated based on production averages and would need to be further investigated if a decision to proceed further with the study is made.

**Figure 2 - Weight and Yield of Animals in Kilograms**

		Year #1	Year #2	Year #3	Year #4	Year #5
<b>Hot Carcass Weight</b>		356.08	356.08	356.08	356.08	356.08
<b>Carcass Shrink</b>	<b>0.5%</b>	354.30	354.30	354.30	354.30	354.30
<b>Boxed Meat</b>	<b>25%</b>	265.72	265.72	265.72	265.72	265.72

- The forecasted carcass fabrication package has been based on the published Canadian boxed meat yield package. The forecast model does not assume any specialty fabrication or packaging. Any specialty programs will be priced over and above the forecasted rates outlined in **Figure 8 Customer KG Pricing Estimate**.
- A start up loss forecast has been completed to help plan for the losses incurred over the initial start up years of operation. The toll processing nature of the facility forecast assumes that sales and marketing related inefficiencies will be the responsibility of the facility customers but the **production related inefficiencies** or start up losses associated

with production and yield related losses will be the responsibility of the facility and its management. These losses have been estimated in **Figure 3** and represent expected operational funding requirements for the new facility over the initial start up years. Thus, these forecasted losses are not reflected in the toll processing charge to the customers. The expected losses have been reflected in 3 areas of focus being:

- Production efficiency or the ability for production to operate at the budgeted capacity. A variance to this planned capacity will result in missed sales and thus revenues against plan.
- Product Yield Efficiency or the ability of the operation to fabricate their customer’s product offerings based on industry standards. Any loss associated with poor fabrication techniques will be reflected in a loss of product value and rebated to the customer involved.
- Sales Capacity Efficiency or the ability of the operation to sell services up to 100% of capacity. Any sales less than the planned capacity will result in lost sales.

**Figure 3 - Start- up Efficiency losses**

	Year #1	Year #2	Year #3	Year #4	Year #5	Total
Production Efficiency	95.00%	98.00%	99.00%	100.00%	100.00%	
Production Efficiency Loss Dollars	\$618,456	\$276,203	\$154,190	\$0	\$0	\$ 1,048,849
Product Yield efficiency	96.00%	97.00%	98.00%	99.00%	100.00%	
Product Yield Loss Dollars	\$ 6,035,567	\$ 4,979,342	\$ 3,651,518	\$ 1,825,759	\$ -	\$ 16,492,186
Sales Capacity Efficiency Loss	17.2%	9.01%	0.0%	0.0%	0.0%	
Sales Capacity Loss Dollars	\$ 490,241	\$ 293,864	\$ -	\$ -	\$ -	\$ 784,105
<b>Grand Total</b>	<b>\$ 7,144,264</b>	<b>\$ 5,549,409</b>	<b>\$ 3,805,708</b>	<b>\$ 1,825,759</b>	<b>\$ -</b>	<b>\$ 18,325,140</b>

6. A rendering and or composting charge has been forecasted to be approximately **\$12.50** per animal. If a decision to proceed with a more detailed analysis is made, a clear understanding of the facility’s location and rendering or composting options will need to be established.
7. A fabrication yield package has assumed a targeted packaging budget of **\$15.62** per animal. Any specialty requirements will be addressed on a customer basis.
8. A base warehousing package has been applied to the costing model. This package assumes a general package format breakdown and does not assume any charges associated with distributing aging or storage of the product. For this top level analysis, additional distribution costs are assumed to be addressed by the toll processing customer. If a decision to proceed with a more detailed analysis is made, a completed distribution plan can be addressed.
9. A “**Top Line**” facility budget including site, facility, equipment, mechanical, electrical and other support structures has been established to allow for the creation of a financial plan and cost package. The facility budget has been calculated using historical data and records of similar cattle kill and fabrication facilities in the western region. **Figure 4** outlines the Top Line Facility Budget used to establish a base financial plan and cost forecast for the proposed toll process facility. An estimate of engineering/project

management, contingency of 10% and start up costs has been included to allow for the funds needed to bring the facility to a point of start up. The estimated \$75,104,191 serves as a basis for analysis and will need to be reassessed if a decision to proceed to a further evaluation is made. A detailed facility estimate has been included in **Appendix 1, Section 4 Facility**.

**Figure 4 – Top Line “Base” Facility Budget**

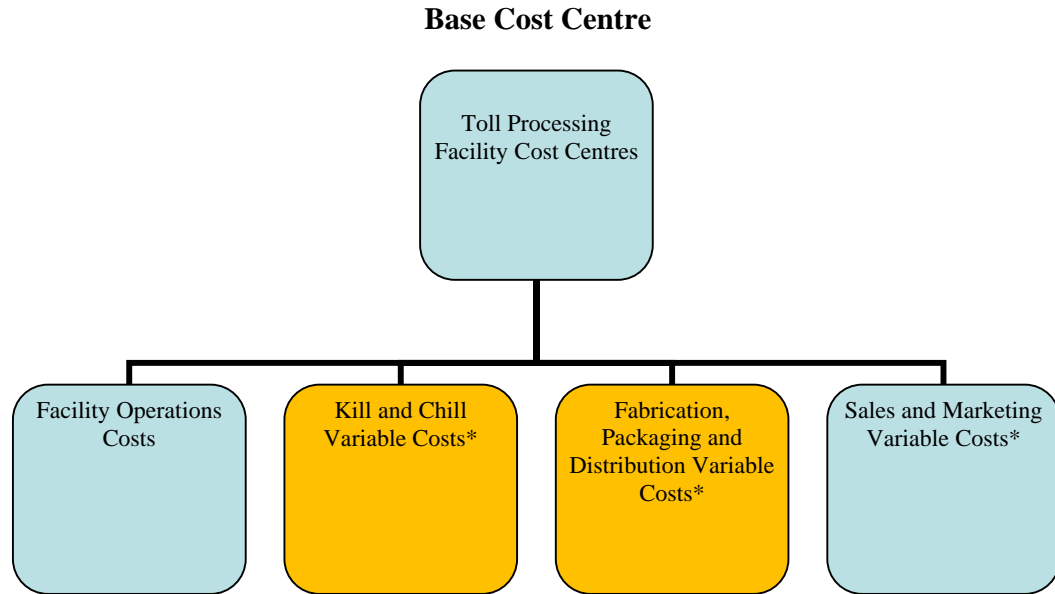
<b>Beef Toll Processing Facility 800 per day Capacity</b>		
<b>1</b>	<b>Kill and Chill Process Estimate</b>	<b>\$ 34,959,328</b>
<b>2</b>	<b>Fabrication and Distribution Facility Estimate</b>	<b>\$ 23,290,000</b>
<b>3</b>	<b>Section 4.2 - Grey Water Development</b>	<b>\$ 6,380,000</b>
<b>Total</b>		<b>\$ 64,629,328</b>
<b>5</b>	<b>Engineering/ Project Management/ Start-up</b>	<b>\$ 3,203,713</b>
<b>6</b>	<b>Contingencies @ 10% TBS</b>	<b>\$ 5,824,933</b>
<b>7</b>	<b>Start up Costs Management and Fixed</b>	<b>\$ 1,446,218</b>

10. The assumed debt to equity ratios utilized in the financial forecast is 38% debt and 62% equity. The ratios assume a debt of \$30,041,767 and equity of \$50,062,515. The initial assumption is that non supported start up capital will require equity investment and won't have the ability to be supported through current debt vehicles thus the variance from a standard 40% debt to 60% equity equation does not stand. The assumed debt to equity ratios are based on standard funding requirements for the industry and will represent a starting point for further financial analysis. The startup budget includes a planned **\$5,000,000** start up fund in Year 1 of operations. **Appendix 1, Section 1.7 Source and Use of Funds** outlines the expected needs for start up of operations.

The above are some of the many assumptions utilized to create a base case cost flow analysis and pricing forecast for the proposed Greenfield facility with a processing capacity of 800 beef carcasses per day.

The initial **“Base” Cost Centre’s** represented in the model include:

1. Facility Operations Costs - Appendix 1, Section 3.4
2. Kill and Chill Variable Costs - Appendix 1, Section 3.5
3. Fabrication, Packaging and Distribution Variable Costs - Appendix 1, Section 3.6
4. Sales and Marketing Variable Costs - Appendix 1, Section 3.3



**\*Sales and Marketing Variable Cost included in Facility Operational Costs**

**Facility Operations Costs**

A forecast for the operational component of the cost structure has been completed for the proposed base facility, utilizing the above assumptions and historical data for similar beef operations in the western region. **Appendix 1, Section 3.4 - BIA Operational Costs Forecasts** outlines the expected operational costs for the proposed base toll facility on a dollar and carcass basis over the first 5 years of operation.

**Kill and Chill Variable Costs**

A forecast of the expected variable costs associated with the Kill and Chill of the animals has been completed and included in **Appendix 1, Section 3.5 Variable Chill and Kill Cost Forecasts**

**Fabrication, Packaging and Distribution Variable Costs**

A forecast of the expected variable costs associated with the fabrication, packaging and distribution has been completed and included in **Appendix 1, Section 3.6 - Fabrication, Packaging and Distribution Variable Cost Forecasts**. The cost estimates have been based on a common boxed meat format and internal distribution cost estimate. As stated above, additional distribution costs, aging and warehousing are assumed to be the responsibility of the toll processing customers. If a decision to proceed with a more detailed evaluation is made a much more detailed calculation of both the fabrication and distribution cost package is required.

## **Sales and Marketing Variable Costs**

A **Sales and Marketing Variable Cost Budget** has been completed to help the reader understand the monies required to sell and market products generated by the toll processing customers that do not apply to their specific branded product sales plans. A service will be provided by the facility to sell the underutilized products in the commodity market. The facility costs associated with these sales activities will be applied to the total operational costs of the facility and applied to the toll processing charge on a per customer basis. **Appendix 1, Section 3.3 Sales and Marketing Budget** outlines the initial cost forecasts.

From these above assumptions a product flow has been established and costs allocated to each cost centre on a kilogram and per animal basis by our defined process section based on the forecasted annual production of the facility outlined in Figure 1.

Each of the above cost centres have been applied to a production category **Kill and Chill** and **Fabrication and Distribution** to allow for the creation of a Toll Processing Pricing structure for the proposed customer base. The model assumes that the toll processing customers will utilize both production categories.

**The 2 toll processing operational centres or Pricing Categories are:**

- 1. Kill and Chill**
- 2. Fabrication and Distribution**

The direct costs discussed above were applied directly to the pricing categories and the operational costs were applied on an equal basis across both categories. The total category cost estimates were then applied on a per animal and kilogram basis as directed by the sales forecast outlined in **Figure 1**.

**Figure 5** outlines the expected per animal pricing category costs for Year 1 through 5 of operations of the forecasted toll processing facility. Note: a 7% facility margin per carcass has been included in the costs forecasts but facility starts up losses have not been applied to the cost calculation. The costs associated with startup are assumed to be the responsibility of the facility and thus reflected in the financial forecasts outlined in **Appendix 1, Section 1 Financial Pro Forma Statements**. If a decision to proceed with a further analysis, a detailed plan to address start up related losses will need to be developed and funding options investigated. It is felt at this stage of the analysis that losses related to start up would be the responsibility of the toll processing facility and losses related to sales and marketing of the customer's brands would be the responsibility of the customer. The expected sales and marketing losses associated with startup branded marketing programs have not been included in any of the calculations thus far.

**Figure 5 - Category Costs Forecasts /Carcass**

Cost Categories	Year #1	Year #2	Year #4	Year #5	Year #6
Kill and Chill	\$ 106.58	\$ 111.80	\$ 109.91	\$ 110.71	\$ 111.53
Fabrication and Distribution	\$ 116.52	\$ 120.30	\$ 118.54	\$ 119.47	\$ 120.42
<b>Total Cost per Animal</b>	<b>\$ 223.10</b>	<b>\$ 232.10</b>	<b>\$ 228.45</b>	<b>\$ 230.18</b>	<b>\$ 231.94</b>

Once a **General Facility** category cost breakdown was completed, a cost breakdown by Customer Level was attempted to reflect both the efficiencies and inefficiencies expected for each level. The efficiency ratios reflected are intended to represent an estimated initial ability and will need to be further investigated if a decision to proceed with a more detailed analysis is made.

*Please note that for this primary analysis the cost breakdown has been completed using known industry averages and past Mallot Creek experience. If a decision to proceed is made, a more detailed analysis for each Cost Centre and Customer Level will need to be completed.*

**Chart 1 - Cost Flow Category Breakdown** outlines the initial proposed cost analysis flow throughout the proposed base facility.

The Kill and Chill pricing category has been created to allow the reader the ability to reflect the costs and thus pricing associated with the kill and chill of the beef carcasses.

The Fabrication and Distribution pricing category has been created to allow the reader the ability to reflect the estimated costs associated with the fabrication and distribution of products generated from the kill and chill of the customers beef animals. As noted above, the fabrication estimations have been based on a standard boxed meat format and any additional product needs will be addressed between the facility and its customer. The distribution costs assume that the boxed meat products generated from the kill, chill and fabrication of the customer's products will be picked up by the customer by a maximum of 3 days after kill.

**Chart 1 - Cost Flow Category Breakdown**

Cost Flow Centre Breakdown / Animal	Facility	Level 1	Level 2	Level 3
Pricing Category		104%	101%	98%
<b>1. Kill and Chill Cost Category</b>	<b>\$ 106.58</b>	<b>\$ 111.16</b>	<b>\$ 108.03</b>	<b>\$ 104.27</b>
<b>Receiving</b>				
Segregation	\$ 4.50	\$ 4.69	\$ 4.56	\$ 4.40
Receiving	\$ 19.50	\$ 20.34	\$ 19.77	\$ 19.08
<b>Raw Material &amp; Dry Receiving</b>				
Storage General Supplies	\$ 1.80	\$ 1.88	\$ 1.82	\$ 1.76
Customer Specification Packaging	\$ 0.75	\$ 0.78	\$ 0.76	\$ 0.73
General Packaging	\$ 8.89	\$ 9.27	\$ 9.01	\$ 8.70
<b>Kill</b>				
Stunning / Kill	\$ 53.00	\$ 55.28	\$ 53.72	\$ 51.85
Rail	\$ 1.15	\$ 1.20	\$ 1.17	\$ 1.13
Hide Offal and Other	\$ 12.50	\$ 13.04	\$ 12.67	\$ 12.23
<b>Chill</b>				
General Program	\$ 3.40	\$ 3.55	\$ 3.45	\$ 3.33
Carcass Shipping	\$ 1.09	\$ 1.14	\$ 1.10	\$ 1.07
<b>1. Kill and Chill Cost Category</b>	<b>\$ 106.58</b>	<b>\$ 111.16</b>	<b>\$ 108.03</b>	<b>\$ 104.28</b>
<b>2. Fabrication, Packaging and Distribution</b>				
<b>2. Fabrication, Packaging and Distribution</b>	<b>\$ 116.52</b>	<b>\$ 121.53</b>	<b>\$ 118.11</b>	<b>\$ 114.00</b>
<b>Fabrication</b>				
Primal Break	\$59.29	\$61.84	\$60.10	\$58.01
Product Segregation	\$0.95	\$0.99	\$0.96	\$0.93
Customer Further Converting Cuts Segregation	\$0.80	\$0.83	\$0.81	\$0.78
<b>Packaging</b>				
Boxed Meat Format	\$23.10	\$24.10	\$23.42	\$22.60
Customer Special Packaging				
<b>Storage</b>				
Carcass	\$2.31	\$2.41	\$2.34	\$2.26
Product #	\$5.19	\$5.41	\$5.26	\$5.08
Carcass and Product Aging	\$3.74	\$3.90	\$3.79	\$3.66
<b>Distribution</b>				
General Distribution	\$5.96	\$6.22	\$6.05	\$5.83
Customer Program	\$2.38	\$2.48	\$2.41	\$2.32
Warehouse program	\$4.48	\$4.68	\$4.54	\$4.39
Export Program	\$2.38	\$2.48	\$2.41	\$2.32
Facility and outside storage	\$5.94	\$6.19	\$6.02	\$5.81
<b>2. Fabrication, Packaging and Distribution</b>	<b>\$116.52</b>	<b>\$121.53</b>	<b>\$118.11</b>	<b>\$114.00</b>
<b>Total Process Costs *</b>	<b>\$223.10</b>	<b>\$232.69</b>	<b>\$226.14</b>	<b>\$218.28</b>
* Costs do not include start up related losses and Customer Sales and Marketing costs and losses				

The above cost review for a base case Greenfield facility with the ability to kill and fabricate 800 beef animals per day has resulted in the creation of a set of financials outlined in Appendix 1 BIA Base Case Financial Forecasts. **Chart 2 Base Cost Forecast Scenario** summarizes some of the key assumptions and forecasts associated with the building and start up of such an operation.

**Chart 2 - Base Cost Forecast**

<b>1.0 Facility Build Estimate</b>	
Kill and Chill Facility Estimate	\$ 34,959,328
Fabrication and Distribution Facility Estimate	\$ 23,290,000
<b>Total Building</b>	<b>\$ 58,249,328</b>
Grey Water	\$ 6,380,000
Engineering	\$ 3,203,713
Contingency	\$ 5,824,933
Start up Costs Management and Fixed	\$ 1,446,218
<b>1.0 Total Facility Costs</b>	<b>\$ 75,104,191</b>
<b>2.0 Investment Requirements</b>	
Total Cost	\$ 75,104,191
Start Up Equity	\$ 5,000,000
<b>2.0 Total Investment Requirements</b>	<b>\$ 80,104,191</b>
<b>3.0 Equity Investment Requirements</b>	
Class A Voting Shares	\$ 40,050,012
Class B Shares	\$ 5,006,251
Other Investment	\$ 5,006,251
<b>3.0 Total Equity Requirement</b>	<b>\$ 50,062,515</b>
<b>4.0 Debt Requirements</b>	
<b>4.0 Debt based on 40% of Facility Estimate</b>	<b>\$ 30,041,676</b>
<b>5.0 Start up and Training Fixed Cost Estimate</b>	
<b>5.0 Start up Month 1-12 pre opening</b>	<b>\$ 1,446,218</b>
<b>6.0 Production Start up Costs Year 1-5</b>	
Production Efficiency Loss Dollars	\$ 1,048,849
Product Yield Loss Dollars	\$ 16,492,186
Sales Capacity Loss Dollars	\$ 784,105
<b>6.0 Total Production Start up Costs Year 1-5</b>	<b>\$ 18,325,140</b>
<b>7.0 Working Capital Requirements</b>	
Additional ability to secure working capital	\$3,213,273
<b>7.0 Working Capital Requirements</b>	<b>\$3,213,273</b>

## 4.2 Scenario 2 – 40% of Facility Costs

On completion of the above base forecast for a Greenfield facility (with a capacity of 800 beef animals per day) it was suggested by the steering team to forecast a scenario where the facility would have similar capacity and ability but might be available to purchase at a reduced cost from the base estimation of \$75,104,191.

This set of cost scenarios was completed by analyzing the facility cost reductions ranging from 80% of base to 40% of base. The scenario that was selected to compare against the base was a reduction in facility cost to approximately 40% of the base or a cost of \$30,909,407.

This Scenario 2 - 40% of Facility Costs was then applied to the above stated set of assumptions and a full set of financials was generated for the lower facility costs. The team felt that the lower facility cost estimate was one that should be further analyzed as it represented a more realistic financial package given the base cases need for significant funds to build and startup. While Scenario 2's financial needs are still significant they require a further look.

Scenario 2's cost forecast has resulted in the development of a detailed set of financials for the proposed reduced facility and toll process operation. Scenario 2's financial forecasts have been included in **Appendix 2, BIA Facility Scenario 40% Financial Forecasts**. All other operational assumptions associated with the start up and operation of the proposed facility, with a capacity to process 800 beef carcasses per day, have remained constant between both the base case and Scenario 2.

As stated, a set of cost scenarios analyzing the effects of facility cost reductions ranging from 80% of base to 40% of base facility forecast was completed. **Figure 6** outlines the affect of reducing the facility costs on the forecasted customer's toll processing share. The reduced cost of money and depreciation reflects heavily on the processing costs as the forecasted shares range from base of \$223.10 per animal to \$205.20 for 40% of base.

**Figure 6 - Facility Cost Variance vs. Processing Charge per Animal**

Facility Cost vs Base	100%	80%	60%	40%
Level #1	\$ 232.69	\$ 226.47	\$ 220.25	\$ 214.03
Level #2	\$ 226.14	\$ 220.09	\$ 214.05	\$ 208.00
Level #3	\$ 218.28	\$ 212.44	\$ 206.60	\$ 200.77
<b>Average</b>	<b>\$ 223.10</b>	<b>\$ 217.13</b>	<b>\$ 211.17</b>	<b>\$ 205.20</b>

**Chart 3 - BIA Facility Scenario 40% Cost Forecasts** summarizes some of the key assumptions and forecasts associated with the building and start up of such an operation with a facility cost of \$30,909,407. **Chart 3** shows a significant reduction in both the equity and debt needs of the venture.

**Chart 3 - BIA Facility Scenario 40% Cost Forecasts**

<b>1.0 Facility Build Estimate</b>		
Kill and Chill Facility Estimate	\$	13,983,731
Fabrication and Distribution Facility Estimate	\$	9,316,000
<b>Total Building</b>	<b>\$</b>	<b>23,299,731</b>
Grey Water	\$	2,552,000
Engineering	\$	1,281,485
Contingency	\$	2,329,973
Start up Costs Management and Fixed	\$	1,446,218
<b>1.0 Total Facility Costs</b>	<b>\$</b>	<b>30,909,407</b>
<b>2.0 Investment Requirements</b>		
Total Cost	\$	30,909,407
Start Up Equity	\$	5,000,000
<b>2.0 Total Investment Requirements</b>	<b>\$</b>	<b>35,909,407</b>
<b>3.0 Equity Investment Requirements</b>		
Class A Voting Shares	\$	18,836,515
Class B Shares	\$	2,354,564
Other Investment	\$	2,354,564
<b>3.0 Total Equity Requirement</b>	<b>\$</b>	<b>23,545,644</b>
<b>4.0 Debt Requirements</b>		
<b>4.0 Debt based on 40% of Facility Estimate</b>	<b>\$</b>	<b>12,363,763</b>
<b>5.0 Start up and Training Fixed Cost Estimate</b>		
<b>5.0 Start up Month 1-12 pre opening</b>	<b>\$</b>	<b>1,446,218</b>
<b>6.0 Production Start up Costs Year 1-5</b>		
Production Efficiency Loss Dollars	\$	1,048,849
Product Yield Loss Dollars	\$	16,492,186
Sales Capacity Loss Dollars	\$	714,585
<b>6.0 Total Production Start up Costs Year 1-5</b>	<b>\$</b>	<b>18,255,620</b>
<b>7.0 Working Capital Requirements</b>		
Additional ability to secure working capital		\$1,284,077
<b>7.0 Working Capital Requirements</b>		<b>\$1,284,077</b>

## 5.0 Revenue Analysis

### 5.1 Base Case

The revenue for the new facility has been based on forecasted sales to the planned customers within the levels outlined in the initial sales plan. The sales numbers in **Appendix 1, BIA “Base” Financial Forecasts, Section 2.2 BIA Sales Plan** are also outlined in **Chart 4 - Proposed Customer Group**. It should be noted that the base case cost calculations and allocations have been based on the utilization of the facilities capacity alone as outlined in **Figure 1**. The allocation of costs throughout the levels has been based on the proposed client customer groups as outlined in **Chart 4**.

**Chart 4 - Proposed Customer Group (Weekly Throughput)**

	Average	Clients
<b>Brand Growth</b>		
Level 1	100 to 250	175
Level 2	250 to 1200	363
Level 3	1200 to 2500	1850

The Sales Analysis was completed and is represented by the following points:

- Customer volumes by category and process were estimated and included in a sales plan outlined in **Figure 7 - BIA Customer Sales Plan**. For the initial Top Level analysis it was assumed that all customers in all levels would utilize the facility for both sales categories. (Kill and Chill and Fabrication and Distribution) **Figure 7 - BIA Customer Sales Plan** shows the expected volumes of animals and resulting kg’s as estimated in **Figure 2 - Weight and Yield of animals in kgs.** and applied against the pricing calculations outlined in **Figure 8 Toll Processing Pricing Calculations**.

**Figure 7 - BIA Customer Sales Plan**

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Level #1</b>					
Animals	36,400	40,040	44,044	44,044	44,044
Weight KG	12,896,510	14,186,161	15,604,777	15,604,777	15,604,777
Boxed Meat	9,672,382	10,639,621	11,703,583	11,703,583	11,703,583
Dollars	\$ 9,124,647	\$ 9,810,133	\$ 10,661,750	\$ 10,772,894	\$ 10,886,025
<b>Level #2</b>					
Animals	37,752	41,527	45,680	45,680	45,680
Weight KG	13,375,523	14,713,076	16,184,383	16,184,383	16,184,383
Boxed Meat	10,031,642	11,034,807	12,138,287	12,138,287	12,138,287
Dollars	\$ 9,197,076	\$ 9,888,004	\$ 10,746,381	\$ 10,858,407	\$ 10,972,436
<b>Level #3</b>					
Animals	96,200	105,820	116,402	116,402	116,402
Weight KG	34,083,633	37,491,997	41,241,196	41,241,196	41,241,196
Boxed Meat	25,562,725	28,118,998	30,930,897	30,930,897	30,930,897
Dollars	\$ 22,621,063	\$ 24,320,464	\$ 26,431,722	\$ 26,707,261	\$ 26,987,724
<b>Grand Total</b>					
Animals	170,352	187,387	206,126	206,126	206,126
Weight KG	60,355,667	66,391,233	73,030,357	73,030,357	73,030,357
Boxed Meat	45,266,750	49,793,425	54,772,767	54,772,767	54,772,767
Dollars	\$ 40,942,786	\$ 44,018,601	\$ 47,839,854	\$ 48,338,562	\$ 48,846,184

- For the Top Line base financial forecasts a total category sales plan was established with volumes, product assumptions and key customer outline in a general sense. A more detailed analysis will need to be determined if a decision to proceed is made. The initial assumption is that the customers of the toll processing facility would be provided with a basic boxed meat product format. It is realized that the customers will need more specific product offerings and an additional price will be added to their fabrication charge.
- General Facility** category costs were determined as outlined above in **Section 4.0 Cost Analysis**. The forecasted cost package for the base facility as outlined above was allocated to 2 cost categories Kill and Chill and Fabrication and Distribution.
- Category processing pricing was generated using the category processing cost estimates and a 7% margin on costs to allow the facility to operate. **Figure 8 – Toll Processing Pricing Calculations** outlines the pricing expectations for the first 5 years of operations. A margin expectation of 7% has been used representing the risk of investment involved over prime. As noted, the margin expectations do not address the start up losses outlined above in Figure 3 Start up Efficiency Losses.

**Figure 8 - Toll Processing Pricing Calculations**

Cost Categories/ Carcass	Year #1	Year #2	Year #3	Year #4	Year #5
1. Kill and Chill	\$ 99.28	\$ 104.21	\$ 102.44	\$ 103.18	\$ 103.94
2. Fabrication and Distribution	\$ 109.23	\$ 112.71	\$ 111.06	\$ 111.94	\$ 112.83
<b>Total / Carcass</b>	<b>\$ 208.50</b>	<b>\$ 216.91</b>	<b>\$ 213.50</b>	<b>\$ 215.12</b>	<b>\$ 216.77</b>
<b>Margin / Carcass</b>	<b>7% \$ 14.60</b>	<b>\$ 15.18</b>	<b>\$ 14.95</b>	<b>\$ 15.06</b>	<b>\$ 15.17</b>
<b>Total Charge / Carcass</b>	<b>\$ 223.10</b>	<b>\$ 232.10</b>	<b>\$ 228.45</b>	<b>\$ 230.18</b>	<b>\$ 231.94</b>

- A customer per kilogram pricing estimate has been completed to reflect the expected charges by sales category and customer level. **Figure 9 - Customer Kilogram Pricing Calculation** outlines the expected charges for the toll processing facility. These calculations are top line in nature and represent the above cost assumptions and sales plan.

**Figure 9 - Customer Kilogram Pricing Calculation**

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>1. Kill and Chill</b> 354.30 Kgs					
Level #1	104% \$ 0.314	\$ 0.329	\$ 0.324	\$ 0.326	\$ 0.328
Level #2	101% \$ 0.305	\$ 0.320	\$ 0.314	\$ 0.317	\$ 0.319
Level #3	98% \$ 0.294	\$ 0.309	\$ 0.304	\$ 0.306	\$ 0.308
<b>2. Fabrication and Distribution</b> 265.72 Kgs					
Level #1	104% \$ 0.457	\$ 0.472	\$ 0.465	\$ 0.469	\$ 0.473
Level #2	101% \$ 0.444	\$ 0.459	\$ 0.452	\$ 0.456	\$ 0.459
Level #3	98% \$ 0.429	\$ 0.443	\$ 0.436	\$ 0.440	\$ 0.443
<b>Total Package</b>					
Level #1	\$ 0.771	\$ 0.801	\$ 0.789	\$ 0.795	\$ 0.801
Level #2	\$ 0.749	\$ 0.779	\$ 0.767	\$ 0.772	\$ 0.778
Level #3	\$ 0.723	\$ 0.752	\$ 0.740	\$ 0.746	\$ 0.751

The customer charge per carcass is calculated based on an average cold carcass weight of 354.3 kg and a boxed meat yield weight of 265.7kgs.

An example for year 1 customer level 1 would be:

- Kill and chill charge of \$.314/kg at 354.3 kg chilled carcass \$111.25.
- Fabrication and Distribution charge of \$.457/kg at 265.7 kg boxed meat yield for \$121.42.
- Total Kill and Fabrication charge of \$232.67 or 104% of the average processing charge calculation.

6. The revenues gained from the sales and marketing of offal and hides have not been included in this analysis to allow for a level analysis. It is expected that the revenues gained from these sales would be credited to the facility to allow for the establishment of a positive cash flow earlier in the facilities start up but if a decision to proceed is made these revenues will need to be addressed and allocated. If a decision to proceed is made, a detailed sales analysis will be completed and the revenues reflected in the financial forecasts for the facility. These revenues should be utilized to help offset the startup losses in the initial start up years.

The customer sales revenue analysis has been based on the cost forecast plus a defined 7% margin on toll processing sales for the facility. These toll processing costs reflect facility operational costs and are not related to the price of either live animal's or the boxed meat cut out. It is expected that the customer branded marketers will address market related supply and demand fluctuations.

## 5.2 Financial Analysis

A complete set of Pro forma Financial Statements have been generated for both the Base case and Scenario 2. To allow for the development of the income statement a detailed analysis of the proposed operational and variable costs structures has been completed and are attached in **Appendix 1 - BIA “Base” Financial Forecasts** and **Appendix 2 - BIA Facility Scenario 40%**.

Financial Forecast Section 1 Financial Pro Forma Statements outlines:

- Section 1.1 BIA Statement of Pro Forma Income
- Section 1.2 Pro Forma Cash Flow
- Section 1.3 Pro Forma Balance Sheet
- Section 1.4 Financial Scenario
- Section 1.5 Financial Ratio's
- Section 1.6 Investment Breakdown
- Section 1.7 Source and Use of Funds

## 5.3 Analysis of Variances

Additional analysis of several variables such as a reduced facility cost (i.e. the opportunity to purchase an existing facility at a discounted price; and the costs if throughput is less than expected) is presented in **Appendix 3 - Analysis of Variances**.

These include:

- **Base Case Utility Break Even** – an analysis of the proposed toll processing pricing has been completed if the base case forecasted processing costs also included the costs of start up, as outlined in **Figure 3 - Start up Efficiency Losses**. **Appendix 3 - Analysis of Variances, Section 3.1** shows that an average increase of **\$27.34** per carcass would be required to allow the facility to break even in year 1 of operations. This increase would place pressure on the cash flow of the customers at a time when their individual marketing programs will be under market pressure.
- **Facility Cost Analysis (100%; 80%; 60%; 40%)** – an analysis of the cost of processing if the base facility cost is reduced at decreasing levels at increments of 20% was completed to determine the overall effect of interest and depreciation on the operating costs as well as the obvious decreased equity requirements involved with a lesser facility cost. **Appendix 3 - Analysis of Variance, Section 3.2 and 3.3** shows that as the cost of the facility decreases, the price of processing decreases on proportionate bases. As mentioned in **Figure 6 - Facility Cost Variance vs. Processing Charge per Animal** the cost of debt and amortization of an existing facility with similar capacity abilities and a lower initial cost to start up would represent an opportunity for the venture.
- **Capacity Utilization Analysis** – an analysis of the cost of processing or the facility processing price was completed at reduced levels of the facilities utilized capacity. **Appendix 3 - Analysis of Variance, Section 3.4 and 3.5** shows that in a very direct way the cost of processing rises dramatically as the plants designed capacity is

underutilized. The initial sales plan outlined in **Appendix 1, Section 2.2** is paramount for the facility's and its customer's success. The facility's targeted capacity of 800 beef animals per day could prove very optimistic and problematic in a start up situation. If a decision to proceed with further analysis is made, strong consideration for a facility of much less capacity is in order.

This analysis is useful background for any proponent who may be seeking to quantify the risks associated with varying capital costs and varying levels of throughput.

## 6.0 Report Card

The success of the toll processing facility lies in its ability to have a strong client user base that can consistently utilize the facility capacity. This relates to the users' ability to supply the required volume and type of animals to be processed as well as the ability to market and sell the product and maintain throughput.

To assess the strength of potential users of the toll processing facility, it is recommended that some manner of assessment or measurement be used to evaluate key attributes that would lend to the success of the partnership. Several elements have been identified as important aspects that, from experience, have are imperative to success. These elements have been positioned as a '**Report Card**' that will be used as an evaluation tool for potential client users interested in utilizing the facility. Of course, the facility will also be required to meet the needs of the client base in order to develop a win-win relationship.

The following overview provides an outline of the key elements of the Report Card. A measurement system – or score card such as a scale of 1 to 10 (with 1 being a low rating and 10 being a high rating) will need to be developed. The measurement of the various elements may be somewhat objective and will require an experienced team of individuals to assess the strengths and weaknesses of each potential client. Regardless, this tool is meant to assist the toll processing facility management with choosing and maintaining a strong customer base.

### 6.1 Overview

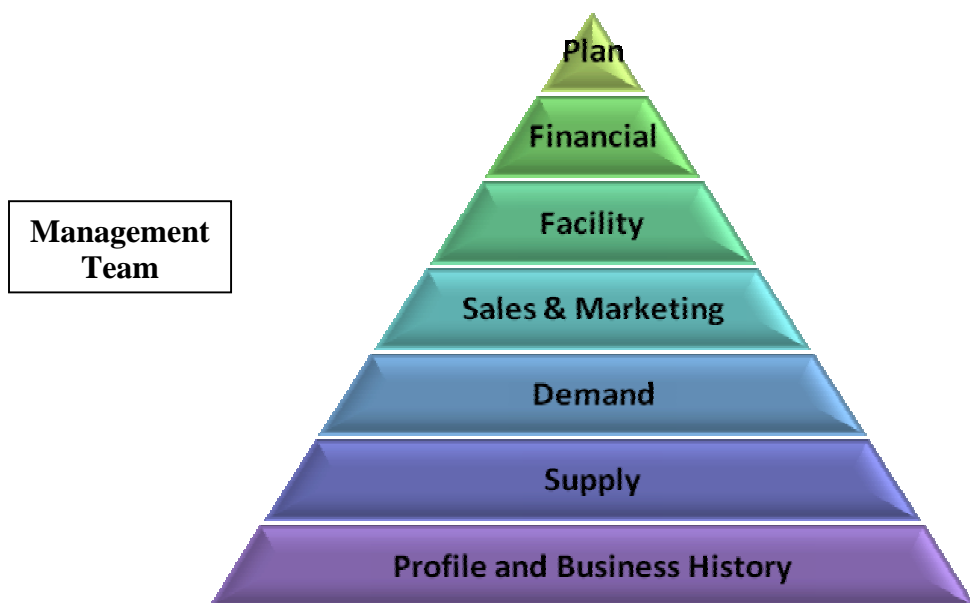
The following set of factors and associated conditions will be evaluated.

1. **Profile and Business History of the Proponents** – background and resumes of the proponents with a specific emphasis on brand management; marketing capability; financial management and a past record of performance in terms of business experience and success.
2. **Supply Analysis** – the detailed outline of the supply (market weight cattle) commitments that can be delivered to the plant on a daily, weekly and annual basis. The quality of the cattle to be delivered also needs to be considered.
3. **Demand Analysis** – the detailed market analysis that addresses the specific market opportunities, trends, structure and characteristics of the market sector to be developed.
4. **Marketing and Sales Strategy** – the marketing plan that identifies in detail the brand and customer strategy.
5. **The Management Team** – an outline of team experience with specific emphasis on marketing and brand management capability; also plant

management (understanding of processing) and financial management experience will be critical.

6. **The Financial Plan** – the project revenue stream forthcoming from the marketing and sales strategy; the cost plan; the financing plan with specific emphasis on start up and working capital requirements.
7. **The Overall Business Plan** – the overall plan combining the above elements and including the Critical Success Factors as well as the Critical Risk Factors.

Schematically the evaluation process appears as follows:



## **6.2 Developing the Detailed Report Card**

Each of the major factors identified in Section 6.1 is further developed to include a set of sub-factors against which user will be evaluated and measured. The detailed Report Card is presented in Appendix 4. The factors to be evaluated are listed as follows:

### **Profile and Business History of the Proponents**

- Names and addresses of the key proponents
- Business history – most notably current on going businesses that are successful; business in the past that have not been successful; reasons for unsuccessful businesses
- References – bank or financial; legal; industry peers; suppliers; customers; other.

### **Supply Analysis**

- Supply of cattle represented by the ownership group (or the proponents) – potential supply on a daily, weekly, monthly and seasonal basis
- Level of commitment – describe contracts; agreements; level of commitment
- Describe relationship between the producers of the cattle and the proponents of the value based enterprise
- Brand attributes associated with the cattle – breed, quality; other production features; and other qualitative variables.

### **Demand Analysis**

- Research activities conducted either directly or indirectly
- Market Segment to be addressed
- Size/Relative Size to Overall Market
- Target Market – who, key characteristics, buying practices
- Target Market – needs, unmet needs
- Trends
- Competitive Review including major players; percent of market held by each player; pricing review; marketing strategies employed by player
- Opportunities – customer interests; level of commitment; qualitative factors.

### **Marketing and Sales Strategy**

- Market segment to be pursued
- Positioning Strategy (Unique Selling Point) – what is it and why?
  - Brand strategy – objectives; attributes relative to customer needs/interests attributes relative to competitive offerings
- Promotion strategies and programs
- Customer programs

## **The Management Team**

- Detailed background on the following key positions:
  - President/CEO
  - Operations manager
  - Chief Financial Manager
  - Marketing Manager
  - Quality Control Manager
  - Supervisors
- Brand Management Experience and Record of Performance
- Customer Management Experience and Record of Performance
- Financial Management Experience and Record of Performance.

## **Financial Plan**

- Five year projects – Revenues, Costs, Net Operating Margin, Capital Plan, Cash Flow Projections
- Financing Plan – Equity; long term capital requirements; operating capital requirements.

## **Overall Business Plan**

- Combination of above elements
- Critical Success Factors – identify and discuss
- Critical Risk Factors – identify and discuss
- Contingency Analysis – identify major potential set backs or traumas that may affect the business. Discuss what these might be and how they would be addressed and/or mitigated.

## **7.0 Available Funding Programs**

This chapter lists all the range of relevant funding programs available to proponents who are considering a value based beef processing strategy.

### **7.1 Alberta Livestock and Meat Agency (ALMA)<sup>20</sup>**

#### **7.11 International Market Development Program**

The International Market Development Program is a 3-year program with \$6 million dedicated for 2009/2010. The purpose of the program is to stimulate the expansion and diversification of export markets for Alberta's livestock and meat industry and to assist industry associations and Alberta businesses in conducting market and customer research.

*Eligible applicants include:*

- Existing or prospective Alberta exporters marketing Alberta livestock and meat products in international markets.
- Industry associations working in partnership with Alberta exporters to promote Alberta livestock products in international markets.
- Existing and prospective Alberta processors using or intending to include Alberta livestock in products destined for international markets.

#### **7.12 Value Added Market Development Program**

A 3-year program with \$2 million dedicated for 2009/2010. The purpose is to develop marketing innovations for Alberta livestock genetics and livestock products. The program is intended to stimulate expansion and diversification of the domestic market for Alberta livestock and meat products. The program can also be used to develop value chains and supply chains.

*Eligible applicants include:*

- Existing or prospective Alberta food processors and other entities marketing meat products in Canada.
- Marketing associations working in partnership with Alberta food processors to promote specific Alberta livestock and meat products.
- Processors using or intending to use Alberta livestock in products produced in Alberta for Canadian markets.

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<sup>20</sup> Source: *Five Steps to Greater Success for Alberta's Livestock and Meat Product's industry.*

### **7.13 Research and Development Program**

A 3-year program with \$12 million dedicated for 2009/2010. The purpose is to encourage and provide innovation in Alberta's livestock and meat industry in the areas of animal care and health, environmental management, cost reduction and product differentiation. The focus of the program will be on food safety, improved production practices, Alberta Livestock Genomics and the Alberta Feed Grains Centre of Excellence.

*Eligible applicants include:*

- Government and industry organizations and associations serving the livestock industry.
- Educational institutions including universities, colleges and technical schools.
- Existing or prospective Alberta companies able to increase the value and sales of Alberta products.
- Existing or prospective supply chains producing and marketing meat products.

### **7.14 Industry Development Program**

A 3-year program with \$5 million dedicated for 2009/2010. The purpose is to enable and educate producers, processors, retailers and consumers to develop and deliver differentiated processes and products. The focus will include supply chain coordination, on-farm food safety, animal care, environmental actions and logistics development.

*Eligible applicants include:*

- Industry associations serving the livestock industry.
- Government organizations and agencies as well as educational institutions including universities, colleges and technical schools.
- Existing or prospective Alberta companies able to increase the value and sales of Alberta products.
- Existing or prospective supply chains producing and marketing meat products.

### **7.15 On Farm Technology Adaptation Program**

A 3-year program with \$5 million dedicated for 2009/2010. The purpose is to create competitive strength by improving productivity, reducing costs, increasing operational efficiencies, adopting best practices, and adopting new technologies and state-of-the-art processes at the producer level.

Technology and innovation adoption may include key areas such as NIR technologies, energy reduction and alternate energy systems.

*Eligible applicants include:*

- Existing or prospective Alberta primary livestock producers.

### **7.16 Agri-Business Automation and Lean Manufacturing (in Partnership with Growing Forward)**

This program is designed to stimulate new investment and capital expansion to enhance Alberta's ability to supply agriculture and agri-food products. It is targeted towards existing or prospective companies, producers, producer groups or processors. The funding is available for:

- Lean Manufacturing and Automation assessments.
- Process Automation – to assist in the acquisition or adaptation and installation of automated processes that will reduce costs, improve worker productivity and reduce energy and water consumption.
- Process Improvement – to implement lean manufacturing principles to reduce costs, add value, improve processing efficiency, and improve product quality and food safety.
- Technology Adoption – to assist in the adoption of new technologies and state-of-the-art processes to produce new products or improve existing products to better meet customer needs, increase market access; improve product safety, and security.

A total of \$8.05 million is available in the 2009/2010 fiscal year. Payment is dependent on the type of project. A maximum of 20% of eligible costs will be payable for capital projects. Non-capital projects, which includes: third-party costs, consulting and engineering fees, training and travel eligible costs will have a maximum of 50%.

### **7.17 Agri-Business and Product Development (in partnership with Growing Forward)**

This program targets agri-food processing companies and producers with innovative, market driven opportunities to commercialize a product, create healthy or healthier products or expand their business. Existing or prospective Alberta agri-food processors (companies, partnerships) who are producing and marketing crop-related and/or meat value-added products.

A total of \$2.22 million is available for the 2009/2010 fiscal year. The funding may be available for the following projects:

- Feasibility studies – for assessment of options and determining costs for eligible capital projects
- Market research
- Marketing plans
- Business plans
- Value chain development
- Business and competitiveness assessments
- Financial assessments
- Product development

- Packaging development
- Promotional materials
- Legal and financial expenses associated with the business model formation.
- Consultants/Business Coaches.

## 7.2 Canadian Beef and Cattle Market Development Fund<sup>21</sup>

The Canadian Beef and Cattle Market Development Fund, also known as the Legacy Fund, was established in 2005 to recover and expand markets around the world for Canadian beef and cattle genetics. It is comprised of \$50 million invested by the Government of Canada, \$30 million by Alberta government, and matched national and provincial check-off funds for a total investment of \$170 million over a 10-year period 2005-2015.

It supports eligible export marketing activities completed through the national marketing organizations, which include the Beef Information Centre, the Canada Beef Export Federation and the Canadian Beef Breeds Council. In addition, any eligible Alberta company or organization that proposes an innovative marketing initiative utilizing Alberta beef products will be considered for funding through the Alberta International Beef Marketing Development Fund (AIBMDF).

The list of eligible activities and range of potential applicants has been expanded. Market development and trade advocacy initiatives that offer the potential to maintain or increase exports of Alberta beef and cattle genetic products, including value-added products are now eligible for funding.

### Eligibility criteria

Any individual or organization in Canada with either, or both, ability and a track record of success in carrying out marketing and market development projects in areas potentially useful to the Canadian beef industry can apply. **Applications for federal funding must be submitted through one of the existing marketing organizations (Beef Information Centre, Canada Beef Export Federation, or Canadian Beef Breeds Council).**

Specific to AIBMDF, eligible applicants include the marketing organizations, beef packers, other industry organizations and Alberta companies that offer the potential to maintain or increase exports of Alberta beef and cattle genetic products. As well, key participants with an export marketing plan utilizing Alberta cattle and beef, and beef and cattle genetics international market development projects that align with ALMS are eligible.

Eligible activities under the AIBMDF include (but are not limited to):

- International market research

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<sup>21</sup> Alberta News Release, July 8, 2009. Marketing fund for cattle and beef widens its Alberta scope.

- Development of business and marketing plans for specific opportunities
- Beef value chain development for international markets
- Development and enhancing recognition of brands that contribute to enhanced Alberta beef product exports, including projects that enhance Canadian beef exports where it is expected that a large amount of the increase will include Alberta beef products
- Promotions and support for international retail and food service projects
- Market development for new products and diversifying markets with potential for Alberta beef products and companies
- Support to incoming and outgoing trade missions that promote and verify the food safety and quality of Alberta beef and genetics products
- Beef and beef genetics promotion costs for export markets
- Costs of developing packaging and labeling for international markets.

### **7.3 Agriculture and Agri-Food Canada - Agriflexibility Fund**

A five year (2009-2014) \$500 million fund to facilitate the implementation of new initiatives that will improve the sector's competitiveness through non-business risk-management measures. These are repayable contributions to processing facilities. The three main elements of the fund are:

- Investments to help reduce the cost of production or improve environmental sustainability for the sector
- Investments in value-chain innovation or sectoral adaptation
- Investments to address emerging opportunities and challenges for a sector.

Initiatives will be either one-time investments for a specific purpose or multi-year investments that will be delivered and administered similar to a stand alone program. Funding will be one of three methods: solely federally funded; (2) cost shared with a participating province at a 60:40 ratio; (3) or cost shared with a sector group at a 60:40 ratio. These funds shall not duplicate, overlap or displace Growing Forward or other Provincial programming. The fund is accepting project proposals from provincial governments and the agricultural industry. As of September 11, 2009 there were 2 programs outlined under this fund, the Agri-processing Initiative and the Livestock Auction Traceability Initiative.

#### **7.31 AgriProcessing Initiative (API)**

The API program will deliver \$50 million over five years designed to enhance competitiveness of the agri-processing sector. API may provide repayable contributions of up to \$2 million per project or up to 50% of eligible costs (whichever is less) towards the cost of purchasing and installing new machinery and equipment that enables the adoption of new technologies and processes. Contributions are non-interest bearing and unsecured. Full repayment is to be made within 8 years of project completion.

## 7.32 Livestock Auction Traceability Initiative

The investment will allow Canadian auction marts, assembly yards, fairs and exhibitions and privately managed community pastures to upgrade facilities to help in the identification and tracing of individual animals. This is specifically directed at sites where animals from different herds co-mingle.

The Government of Canada will deliver \$20 million through the Livestock Auction Traceability Initiative to upgrade handling systems in facilities to keep track of individual animals as they are mixed with other herds in auction marts and other facilities such as community pastures.

## 7.33 Slaughter Improvement Program (SIP)

A \$50 million Slaughter Improvement Program provides repayable contributions over a three-year period, ending March 31, 2012. The program will be delivered by AAFC.

The program provides interest-free, conditionally repayable contributions aimed at supporting investments to make operational improvements and to modernize and support investments to enhance slaughter capacity in regions that have a demonstrated regional gap that is constraining sector growth.

Applicants must be federally inspected meat packing and processing plants or be a provincially inspected plant implementing a project to become federally inspected to market their products beyond provincial boundaries, or planning to establish a federally-inspected plant in a region where a deficit in slaughter capacity is constraining sector growth.

Eligible investments must be focused on:

- Reducing operating costs or improving plant efficiency through the adoption of cost-reducing technologies and equipment including enhanced plant automation;
- Increasing revenues through adoption of new value-added activities or technologies including enhanced value-added processing and the development of red meat products for new markets;
- Adopting innovation to meet future business conditions and consumer expectations through the adoption of new practices or establishment of equipment and technologies aimed at increasing animal welfare, food safety and traceability, or improving the plant's environmental performance;
- Enhancing slaughter capacity in regions that have a demonstrated regional gap that is constraining sector growth.

The purchase, delivery, installation and implementation (including training of necessary personnel) of equipment and technologies can be considered eligible investment activities. **Construction costs directly associated with the approved projects may be**

**eligible where they meet the objectives of the Program, except for the construction of new facilities. Purchase of land and building is not considered an eligible activity.**

The deadline for the second round of applications was October 29, 2009. It is unknown if or when another round of applications will be announced. There were 27 applications in the 1<sup>st</sup> round and an additional 10 are expected in the 2<sup>nd</sup>. The maximum funding is \$10M per facility that cannot be more than 50% of the total funding. In the case of new plants, the funding can only be applied towards equipment. Existing plants that require retrofitting can have some of the funding apply towards renovations. The funds are repayable over 10 years following completion of the project.

Total annual program funding is \$20 million in 2009-10; \$15 million in 2010-11; and \$15 million on 2011-12.

## **7.4 AFSC**

### **7.41 Alberta Farm Loan Program (AFLP)**

This loan is available to primary agriculture producers. It can be used to purchase equipment, land, machinery, livestock, quota and shares in a farming company. It can also be used to invest in an Agribusiness Enterprise, but not for operating loans. Investment in agri-business companies requires that 80% of the shareholders are Alberta residents. **The maximum loan is \$5 million.** Repayment options can be over a maximum period of 20 years.

### **7.42 Value Added & Agribusiness Program (VAAP)**

VAAP loans can be used to start, expand, purchase or upgrade facilities, equipment or other capital assets needed for business. The program covers working capital expenditures, including training costs that support new or expanded operations or products for value added or agribusiness enterprises and change of ownership. The maximum loan per project applicant is \$25 million. Repayment can be over a maximum period of 20 years. AFSC would hold a shared first position as security for this instrument.

Note: The combined investment of the above two instruments in any particular project is limited to a total of \$25 million.

## 7.5 Farm Credit Canada (FCC)

FCC is Canada's largest provider of business and financial services to farms and agribusiness. They offer a wide array of financial products. The following is the list of agribusiness financing options listed on the FCC website:

- **Advancer Loan** - Use this pre-approved, secured loan with the flexibility to re-advance funds at your discretion.
- **American Currency Loan** - If you derive a lot of your revenue in U.S. dollars, you can borrow and make payments in U.S. dollars.
- **Cash Flow Optimizer Loan** - Make interest only payments while re-investing funds into other areas of your operation, giving you the control to make principal payments when you choose.
- **Construction Loan** - Defer your principal payments while you build or expand, with interim financing for up to 18 months on construction projects.
- **Enviro-Loan** - Defer principal payments while constructing, improving or expanding your operation when you improve environmental facilities.
- **Flexi-Loan** - Defer principal payments for up to one year to take advantage of opportunities or ease cash flow during adverse conditions.
- **Performer Loan** - Get rewarded with lower interest rates when your business achieves pre-set financial goals and ratios.
- **Start Now – Pay Later Loan** - Defer payments in your operation until you start seeing rewards for your efforts.
- **Fixed Closed Rate** - Get a low mortgage rate that is fixed for the term of the loan.
- **Fixed Rates** - Get a low mortgage rate that is fixed for the term of the loan with a 10% prepayment option included.
- **Open Rate** - A low rate fixed for the term of your personal property loan with the benefit of prepayment without penalty.
- **Closed Rate** - FCC's lowest rates fixed for the term of your personal property loan.

## **7.8 Export Development Canada**

Export Development Canada (EDC) is Canada's export credit agency, offering innovative financing, insurance and risk management solutions to help Canadian exporters and investors expand their international business. They offer a number of products that could be incorporated into a processing enterprise. Some of these include:

- Accounts receivable Insurance
- Risk sharing guarantees for other financial institutions
- Performance security guarantee
- Surety bond insurance
- Foreign exchange facility guarantee
- Financial security guarantee
- Foreign buyer financing.

## 8.0 Gap Analysis

The chapter examines the funding cycle specific to the establishment and start up of a new value based beef processing enterprise. As such it examines each stage and comments on what is required and what may be available in terms of funding and financing. The funding cycle is defined as follows:

- **Market Research, Assessments and Business Planning** – includes market research, market planning and all details associated with the preparation of the detailed business plan.
- **Construction or Plant Redesign** – the costs associated with securing land and the building of facilities from the ground up or the redesign of an existing facility.
- **Equipment** – all the necessary equipment and technologies required for a full service kill chill and cutting operation.
- **Operations** – the financing required to start up and cover expected losses in the operation of a meat processing business as well as working capital on a day to day basis.

### 8.1 Market Research, Assessments and Business Planning

Specialized agencies, government and industry programs have been established specifically to assist in the areas of market research, development and business planning. These include:

- **ALMA** – with an array of programs including the International Market Development Program; the Value Added Market Development Program; and the Industry Development Program. These programs will fund international and national market research and intelligence; marketing plans; and the development of product brands.
- **Canadian Beef and Cattle Market Development Fund** – this fund is a matching arrangement between the Governments of Canada, Alberta and the national and provincial checks-off funds from producers. It is under the direction of the Canadian Cattlemen Market Development Council and applications must be made through one of the existing marketing organizations (BIC, CBEF or CBBC).
- **Agri-Flexibility Fund** - a five year \$500 million commitment that has been established by Agriculture and Agri-Food Canada to improve sector competitiveness including sectoral adaptation. Programs continue to be developed including more specific guidelines for sectoral adaptation.

- **Agribusiness and Product Development Program** - part of the Growing Forward program and managed by ALMA. It is set up to fund feasibility studies, marketing plans, business plans and value chain development.

Overall there are no real gaps in this area. There is considerable funding for market research and market development especially for established firms. The major challenge for applicants is eligibility and the ability to raise their share of matching funds which is typically 50% of the total requirement.

## 8.2 Cost of Construction or Plant Redesign

Sources of funds for construction or plant redesign are as follows:

- **Slaughter Improvement Program** – from AAFC. The program is designed to provide repayable contributions to support investment that will modernize and enhance slaughter capacity. The program language states that construction of new facilities and the purchase of land and building are not eligible. However it is our understanding that sizeable commitments have been made to a Manitoba beef processing project that is in the process of retrofitting an existing facility.
- **Alberta Farm Loans Program (AFLP)** – from AFSC as a loan and allows farmers to re-invest in an Agribusiness Enterprise. Maximum is \$5 million per applicant to be secured against producer assets.
- **Value Added & Agribusiness Program (VAAP)** – from AFSC as a loan and designed for businesses to expand, purchase or upgrade facilities, equipment or capital assets. Maximum is \$25 million per project. Must be fully secured.
- **Agricultural Flexibility Fund** – from AAFC for value chain innovation and sectoral adaptation. Currently the program remains open to interpretation. A total of \$500 million is committed to this fund over the 2009-2014 period.
- **Commercial financing** – a full range commercial of financing for a variety of purposes is available from institutions such as FCC.

Overall, financing programs are available although there is little if any grant funding. The major challenge facing proponents is the willingness of financial institutions to invest and the ability of the individual proponent to provide adequate security. The agri-business sector – particularly the livestock and meat sector is considered high risk. In the case of the Slaughter Improvement Program, much will depend upon the acceptance of the proponent's business plan by AAFC and the extent to which the individual plan is regarded as meeting program or regional objectives. It is not clear how these objectives are defined and can only be determined by entering into the process. Any initiative that proposes to increase slaughter capacity in an over-capacity region may be problematic, particularly if no distinction is made between a value added strategy vs. the prevailing commodity strategy.

### 8.3 Equipment

Several programs are available to either fund or finance processing equipment including:

- **Agri-Flexibility Fund** - from AAFC. This fund and more specifically the Agri-Processing Initiative, is a \$50 million fund over 5 years in repayable contributions of up to \$2 million per project or up to 50% of eligible costs (whichever is less) towards the cost of purchasing and installing new machinery and equipment that enables the adoption of new technologies and processes. Contributions are non-interest bearing and unsecured. Full repayment is to be made within 8 years of project completion.
- **Industry Development Program** – from ALMA. This program identifies the cost of equipment as an eligible expense to meet the objective of enhancing the competitive position of Alberta’s meat and livestock sector. Funding is usually based on a 50% cost shared based to an eligible maximum of \$1 million per project.
- **Agri-business Automation and Lean Manufacturing** – part of the AAFC Growing Forward program but administered by ALMA. The program will fund process automation, process improvement and technology adoption that in turn improve product quality, food safety and efficiencies. A maximum of 20% of capital costs is eligible as a grant. Also non-capital costs such as consulting and engineering fees are eligible for a grant up to a maximum of 50%.
- **Value Added & Agribusiness Program (VAAP)** – from AFSC, as a loan and designed for businesses to expand, purchase or upgrade facilities, equipment or capital assets. Must be fully secured.

### 8.4 Operations

There are no programs that address the need for operating capital and accordingly no grant funding. Further, financial institutions are very reluctant to finance operating capital if at all. This is the major gap facing meat processors given the cost of cattle, the cost of operations and the time it takes to collect receivables which is typically 30 to 45 days.

## 8.5 Financing Requirements in Context

Our estimate of the financial requirements to establish and operate a value added beef processing enterprise is presented in Table 8.1. The actual estimates are based on the cost analysis presented in Chapter 4 – namely a full cost option (100%) and a discounted cost option (40%).

In summary, the most significant requirements and gaps are as follows:

- **Equity financing for facilities and equipment** – assuming the need for 60% equity, requires that anywhere from \$24 to \$50 million will need to be raised from beef producers. This is a formidable challenge to the extent that many producers may have insufficient equity (and security) to finance a loan for this purpose or may be reluctant to commit equity toward such an investment. Further the ability to capitalize a revenue stream of future contributions such as a per head levy is difficult if not impossible under current security requirements.
- **Debt Capital for facilities and equipment** – several potential sources of financing are available. The key challenges will be to provide a sound business plan, provide the necessary security for debt financing and eligibility for such programs as the Slaughter Improvement Program.
- **Operating Capital for Short Term Losses** – we project that total inefficiency losses over the first three years of operation will approach \$20 million. This will need to be financed with equity and does not vary by size of capital investment. In other words, this level of operating capital is required whether a processing is acquired at full price or at a substantially discounted price.
- **Working Capital to Finance Day to Day Operations** – we project that this will vary between \$1.3 million and \$3.2 million. Again this will need to be financed with equity.

**Table 8.1 Overview of Funding Requirements, Sources and Gaps**

<b>Type of Funding</b>	<b>Requirement</b>	<b>Available Sources</b>	<b>Gaps</b>
Equity Investment to fund Facilities and Equipment	Assume that 60% equity is required. The requirement ranges between \$24 to \$50 million depending on whether a new facility is built or an existing facility purchased at a discount is available.	Must come from individual investors	History of investment in processing plants has been poor  Producer balance sheets may already be stressed and unable to carry added debt.  Will require regulation change to capitalize a revenue stream based on a per head charge committed over time.
Debt Capital to fund Buildings and Equipment	\$12.4 to \$30 million	AFSC – VAAP (limit to \$25 million per project)  SIP  Agri-Flexibility	Requires security at producer level  Must meet regional objectives and criteria’. Repayable.  Must meet ‘criteria’ with 20% grant on eligible equipment
Operating Capital to finance projected losses due to inefficiencies	\$19.7 million	Must be provided as equity	Usually not available or in insufficient amounts
Working Capital to finance day to day operations.	\$1.3 to \$3.2 million	Must be provided as equity	Usually not available or in insufficient amounts

## 9.0 Organizational and Governance Analysis

### 9.1 Introduction

The purpose of this chapter is to identify the range of factors that contribute to the long term viability of a value added beef processing operation. More specifically, this analysis seeks to more fully understand some of the necessary marketing, management and organizational strategies that will need to be employed by proponents to improve the probability of success.

As background for this analysis, we reviewed several successful companies including:

- U.S. Premium Beef; Brawley Beef (now part of U.S. Premium Beef); Maverick Beef; B3R Beef; Ranchers Renaissance; Meyer's Natural Angus; and the Certified Angus Beef Program;

In addition we also reviewed a number of companies that have failed – either in the start up phase; pre-start up; or at some later stage in the business life. These companies include:

- Future Beef; Natural Valley; Gencor; Rancher's Meats and Ranchers' Beef.

This analysis is not based on detailed investigations or case studies. The scope of work associated with this project did not allow for this. Rather, our analysis is based on informed opinion from industry experts as well as those who have had direct involvement with some of these companies.

### 9.2 Key Success Factors

Our analysis of successful companies highlights a number of key success factors:

1. **Clear Differentiation and Customer Relations Strategy** – this is perhaps the single most important reason contributing to the success of any value added business operating in the beef industry. The differentiation and customer relations strategy is absolutely essential since it is the very 'raison d'être' for the company's existence in the first place and the reason why it is able to compete.

The following are examples of enduring differentiation and customer relations strategies:

- **Certified Angus Beef Program (CAB)** – introduced in 1977, the CAB is now regarded as the grand daddy of all brand programs. It is operates as a licensed program at three levels: (1) the processor; (2) the purveyor; (3) and food service/food retail. The program is based on a distinct brand name support defined by a clear selection process, colour, yield and grade

protocols. Significantly the CAB program has committed considerable resources to promotions and brand awareness over its 33 history.

- **U.S. Premium Beef (USPB)** – now the 4<sup>th</sup> largest processor in the USA, USPB began in 1997 as a group of feedlot operators wanting to vertically integrate in order to gain greater control over their cattle beyond the sale of the finished animal. The original ownership group of 14 feedlots started by buying a minority position of an established processor (Farmland National Beef Packing Co.). This purchase effectively ‘bought’ processing space for the group in the Dodge City plant. By 2003, USPB purchased controlling interest of this plant. In the same year it expanded with the purchase of a further processor - the Kansas City Steak Company. In 2004 and in the wake of the BSE crisis in Canada, USPB developed and tested a natural line of products under the banner slogan of “*Never, Ever*”. While USPB continued to supply commodity beef, the key to its success has been the supply of natural beef products with such specific brands as NatureWell – Natural Beef; Nature Source – Natural Angus Beef; Vintage Natural Beef – The Premium Natural; Imperial Valley – Premium Beef. USPB done a superb job with its differentiation strategy and this is one reason for its continued success.
  
- **Brawley Beef** – established in 2001 in southern California, east of San Diego, Brawley specializes in the processing of Holstein steers reared specifically for the U.S. Prime market. The strategy is based on two key factors:
  - The availability of dairy animals in southern California due to the presence of large scale dairy operations (also located in Arizona and West Texas). These are contracted at birth with dedicated feedlots and serve as the critical source of supply to the Brawley strategy.
  
  - The physiological ability of Holstein steers to marble in such a way during the finishing stage of the feeding cycle resulting in a high proportion of Prime grades. Note: while these cattle do not yield as well as traditional beef feedlot cattle, the quality of the cuts offsets any costs associated with lower yields.

Essentially Brawley Beef operates in a niche market coupled with a unique supply situation. In 2006, Brawley Beef was acquired by USPB. This gave USPB an expanded reach into the southern California market through an extensive network of retail, food service and processing customer located along the West Coast.

- **Maverick Ranch Natural Meats** – founded in 1986, Maverick Ranch is committed to supplying safe and nutritionally superior natural meats. NaturaLite Beef is the "flagship" product line with the positioning strategy that NaturaLite steaks, roasts, and ground beef contain at least 50% less fat, 33% fewer calories, 25% less cholesterol than USDA Choice beef as well as an 86% reduction in fat and 63% reduction in calories than other beef.

Maverick Ranch sources cattle from more than 50 family farmers who follow sustainable ranching practices on semi-arid ranges in western USA. Cattle selected from these ranches are from superior genetics and raised on low input operations thereby avoiding exposure to both pesticides and a minimal parasites. Maverick operates its own processing facility located in Denver, Colorado with a strong emphasis on food safety and extremely low bacterial counts using the most advanced processing equipment and cleaning technologies.

Maverick built its market on a differentiated supply and strengthened its positioning strategy with a “story” of mountains, fresh air and committed suppliers who care about the welfare of their animals. Their Colorado base showcased their differentiated story. Overall, Maverick Ranch has committed to a differentiation policy not only on the product differentiation but on two other fronts:

- Working closely with their producers to ensure that they receive a share of any premiums. This practice encourages producer loyalty and long-term commitment to supply.
  - Responding to customer requests. Maverick is very flexible in serving the needs of their retail partners and will provide special cuts and services that many of the mainstream beef processors do not provide.
- **B3R Country Meats** – founded by Minnie Low Bradley who had a vision of producing natural beef products long before “natural” was a household word. She was a rancher who recruited other ranchers to become suppliers to her brand. Subsequently, she lined up feed yards to finish cattle with no implanted hormones. Further, she secured a slaughter facility in Childree Texas, to both slaughter and add value. B3R was the first Natural Branded product sold in supermarkets in the southwest.

Bradley’s initial differentiation was the natural ‘fresh’ product but her desire to differentiate continued as she developed new products such as specialized natural patties. To this end, Bradley hired a top meat scientist out of Texas A & M University to insure low bacterial counts, manage

new product development as well as assist in opening the export market opportunities.

Ms. Bradley succeeded not only because she produced differentiated product but because she also:

1. Hired the best manager she could find.
2. Selected her partners carefully.
3. Developed trust between all segments.
4. Shared profits back with producers.
5. Provided individual animal data so that producers could improve their management decisions.
6. Insured that each partner/supplier shared her vision and utilized the agreed on protocols.
7. Managed the media well.
8. Grew in response to demand rather than in response to production opportunities.

With respect to opportunities for western Canadian beef suppliers, it is important to analyze the differentiation strategy that is being considered to ensure that the market is not already totally fulfilled. For example, a kosher strategy must ensure that there is existing unmet demand or whether the market is currently being satisfied with current suppliers. Or if a proponent is proposing to produce semi cooked steaks for cruise lines, he or she must ask: are there suppliers already doing this and how well is this market segment being served? If the plan is to produce a line of natural pet food products, has this market already been recognized and addressed?

Secondly, proponents must decide if a single point of differentiation is sufficient or if there is a requirement for multiple points of differentiation. If trim is going to be left over, can you differentiate with extremely low bacterial counts so that major users all want your product? (This is the case with an Atlanta processor who manufacturers valued added OTM products and whose “leftover” trim is highly marketable due to the extremely low bacterial counts).

Thirdly, if the differentiation is for a specific export market, how can the products be redirected in the event of a market shut down - the result of being caught in a non-tariff barrier which has nothing to do with the product itself? For example, both China and Japan desire highly marbled product...greater than Canada's AAA and the US Prime. This product can be produced profitably as long as the market is open. Where could it go if the Asian market closed? Thus China and Japan offer great opportunities but with extremely high risk.

**2. Focused Leadership and Experienced Management Team** – the development and execution of differentiation strategies requires a highly skilled and experienced management team. While the scale of the companies cited above differ widely, the following management skills are clearly present:

- **Clear and Focused Vision** – first and foremost, the management team **MUST** share the vision of the Board of Directors. It is through their leadership that this vision is then transferred to every member of the team. If the vision is one of differentiation, then the entire team must understand and be committed to these protocols. The CEO and the supporting management team must know at all times what is to be achieved and how all actions to be taken contribute to this differentiation strategy. This requires a depth of experience in understanding the market; customer relations; communications and the ability to manage and lead by objectives.
- **Strong operational skills** – the CEO must have outstanding operational management skills. Specifically, the CEO needs to be experienced in the following areas:
  1. Labor union negotiations.
  2. Personnel management.
  3. OSHA requirement and compliance.
  4. Environmental Quality Regulation Compliance.
  5. An understanding of global currency markets.
  6. An expert in logistical management including transportation, distribution and multiple differentiation storage requirements and systems.
  7. A detailed understanding individual animal ID tracking, tracing and information sharing.
  8. 10 plus years experience in operations management.

In addition to the above skills, it is desirable that the CEO has a detailed understanding of the beef slaughter and processing industry; the cattle production industry; and the retail and food service industry as well as the logistics of exporting. This set of attributes may be difficult to find in one person. Therefore it is not unusual for a company to be managed by one individual while the slaughter/processing facility is managed by a different individual with the necessary processing skills but lacking the years of experience in operations management.

However, and this is key: one person must ultimately be responsible. Therefore the Plant Manager should report to the Company Manager if a two person management team is utilized.

Yet another option used by USPB, is a situation where slaughter capacity is leased and the facility management is part of the lease. In the beginning of its business life, USPB purchased a set of shifts from National Packing. National operated the facility and slaughter, processed USPB's animals while USPB was in charge of supply and marketing. This arrangement was not toll processing per se. Rather, the entire shift was leased and it was USPB's responsibility to make the best use of the shift.

In yet another supply chain partnership, the group partnered with a major packer and the packer partner set aside designated shifts on specific days for the slaughter of partner cattle. They did not pay for slaughter but shared in the profits or losses.

- **Meeting Customer Specifications as the Top Priority** - a point to keep in mind at all times is this: the meeting of customer specifications is the paramount objective of the value added enterprise. Thus volume throughput cannot be the ultimate performance measure. Rather continuing customer satisfaction is the key performance measure.
- **Strong Market Development and Communication Skills** – a senior person must be in place to develop customer relationships with retailers, food service etc., but also be able to convey these market/customer requirements to producer suppliers (feedlots). This is essential to ensure that producers understand the 'what' and the 'why' regarding specific protocols and/or other quality measures and how these are essential to the differentiation strategy.

Clearly the scale of the business will determine the number of positions required. History shows that a small business may incorporate all three of the above skills in one person. However the large scaled operations will have each skill set filled by one or more experienced individuals. Again, using the USPB model, a key reasons contributing to their success as a company was the choice of two senior individuals at the very outset of the company coupled with competent plant manager which was part of the shift purchase.

Note: If a facility is focused on toll processing or if it is leasing shifts, it may not need a marketing manager. However, if it is committed to assisting its customers in moving those parts and pieces for which they do not have a market, it will at least need a market coordinator.

- 3. Separate Ownership from Operations<sup>22</sup>** – the importance of separating ‘owners’ from ‘operators’ cannot be overstated. Even if the proponents of a value added beef processing facility have processing experience, there must be a very clear delineation between the ownership (investor) group represented by the Board of Directors and the management team.

The role of the Board is to establish: goals; a clear set of performance measures; and the policies (values) under which the company is to operate. The role of Management is to agree to the established goals (or negotiate a set of realistic ones); achieve the performance measures; and to do so within the framework of the policies set by the Board. Clearly an effective relationship requires considerable interaction to ensure that realistic goals and objectives are set. The key link between the Board and Management is via the Chair of the Board with the CEO of the Company. The Board via the Chair holds the CEO accountable. If issues need to be addressed, it is the CEO who is held accountable.

USPB is probably the best example of an effective organizational structure. The Board is comprised of 7 members (6 feedlot members and the CEO). The Board has no involvement in the day to day operation of the business, which is the domain and the responsibility of the CEO.

Rarely do corporate founders make great CEO's. Future Beef had a fabulous team of founders who became the management team. However, few amongst them had successful slaughter plant and value adding experience which led to a short life span. Natural Valley also suffered from ‘founder management’ with limited processing plant experience.

- 4. Right Producer Partners and Committed Supply** - right producer partners and committed supply are two major but closely associated criteria. First, right producer partners are a must. One wrong partner can insure that others will choose not to join the group. One wrong partner can insure that the reputation of the group will discourage the needed market relationships. In the beginning, each partner needs to be considered carefully. Good neighbors do not necessarily make good partners. Frequently a bit of distance between partners will allow partners to enroll their neighbors and become supply satellites.

Each prospective producer partner must have a reputation of integrity, honesty and dependability. When one commits to deliver a number of calves conforming to a given set of protocols, every other partner needs to be confident that the new partner will deliver the required number on the required date, meeting the required protocols. There can be no 5 percent outliers, no animals that might have been given antibiotics or any animal whose birthday is unknown and could fall outside the prescribed age group. In the case of an export strategy, one wrong

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<sup>22</sup> Assumes a business of sufficient scale that there are multiple investors and the hiring of a qualified and experienced management team.

piece of meat in a box can close borders for months – a mistake that can be ill-afforded.

It is strongly advisable to have written criteria that are provided, understood and accepted by all potential producer partners. Saying NO to a potential partner may be difficult...especially when cattle are needed. But it is necessary if the company is to succeed. For this reason, “invitation only” meetings are a highly successful recruitment tool. Do not invite anyone that you have not previously screened to insure compatibility and adherence to stated values.

USPB committed to and executed this principle very well. As they continued their growth, they continued to adhere to their system. Future Beef also did a great job of partner selection.

Needless to say, supply is a year round requirement. Partners who can fulfill this requirement are a must and must be compensated accordingly. Additionally, partners need to remain committed when spot prices go up while they are locked into a lower price. As a corollary, partners will expect the processor to honour contracted price commitments, should the prices turn the other way.

A number of alliances have required significant investment to become a partner to insure that they remain during the “detours in the road”. One supply chain partnership in the USA and still operational today (started in 1995) required a 5 year commitment after a one year trial. Another supply chain partnership had only four partners with each partner representing a link in the chain. They shared profits or losses equally. Players within each link may change but the founding leaders are the same individuals and remained responsible for leadership. These partners have been able to produce 300,000 head annually.

The most successful supply chain partnerships have committed segment partners. This means that there is sufficient supply, feed yard capacity and slaughter capacity to accommodate the market commitments that have been made. This number is ideally a rolling twelve months with a projected 12 months of supply – thus allowing all participants to plan. A differentiated product strategy calls for animals that cannot be purchased in the open market and must be raised with a given set of protocols. Thus the supply chain must have 20 months of animals in the pipeline. For example, the US Premium Brawley slaughter facility has ongoing supply contracts for calves prior to their birth to insure an adequate supply.

Cattle targeted for the European Union must originate from certified farms. Therefore these facilities need to be certified prior to the birth of the animals. Similarly, feedlots need to be certified to produce for the EU market. Processing facilities desiring to export to Europe need to have both their calves and feeding facilities on line 20 months in advance.

Examples of committed supply include:

- US Premium Beef – 14 feedlots that had no choice but market through their own company.
- Smaller companies such as B3R who has their own feedlot cattle or buy/raise pens of cattle.
- Brawley Beef which contracts dairy steers from birth.
- Maverick is very committed to their producers - not only of beef but of other protein products. Their future plans are to move to organic only products, and they are working closely with their producers to ensure that the transition to a further differentiated product does not eliminate too many of their supply partners.

**5. A Plan in Place to Respond to Competition and Competitive Threats** - many new initiatives begin with well thought out business plans, which according to Stephen Covey, have a seven times greater chance of success than those who do not have a written plan<sup>23</sup>. Even with a plan, businesses will struggle. This is especially true in western Canada where two large packers dominate the market. These major competitors who have significant resources, leverage and an array of buying and selling tactics that can make it very difficult for any new player to compete. For example, large competitors can insure that anyone who markets their calves through the new entity does not have a buyer for their other animals. Recent history saw both of these actions occur for a new Saskatchewan packer.

To counteract, most proponents establish contracts for their initial supply of cattle. Thus, they have cattle to slaughter initially. However, when they go back into the market place the following year, those animals have been committed elsewhere, frequently at prices significantly over market. With no animals to slaughter or being forced to pay significant prices over the market, the new player cannot survive.

Western Canada beef industry history has also taught us that those producers who sell to the new player may not have a market for their other animals...being cull cows or bulls or the remaining calf crop. Realizing this in advance and planning accordingly, enables both the producer and the slaughter facility to anticipate and deal with this problem.

Previous failures illustrates that two contingencies need to be in place to assure supply. First there needs to be a commitment by all participating producers to supply animals and slaughter requirements well in advance. Secondly, producers need to be informed what will or may happen with respect to the offering of lucrative contracts from major competitors. Simply, participating producers need to be committed to the new initiative regardless of the 'spot' or future contract prices being offered. Participating producers need to consider a much longer planning horizon toward the realization of a sustained market with fewer peaks

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<sup>23</sup> Stephen Covey is author of the highly acclaimed book: Seven Habits of Highly Effective People. 1989.

and valleys in the pricing of their cattle. Some initiatives have charged significant enrollment fees that are lost when animals are not delivered as scheduled. This has helped assure supply through the “bumpy” times caused both by aggressive competitor pricing and natural market fluctuations.

Another factor that needs to be considered is the effective use of the trade press. Communicating too early to the press opens up the new entity for both criticism/skepticism as well as alerting the competition. A number of planned facilities announced their intentions to the country and then were unable to deliver. They are now associated with failure making future opportunities that much more difficult.

The best plan is to limit discussions to no one but potential partners and participants for as long as possible. History tells us that one person should be delegated the communication responsibility and that all other partners should defer to that individual. When the time comes that for fuller disclosure, it is more effective to focus on the “differentiation strategy” and assure the major packers that the new initiative is not a direct competitor.

6. **Adequate Financing** - when one asks the general managers of closed facilities why they failed, nearly 90% of the time the reply relates to the issue of insufficient capital. Further questioning reveals that there are a number of reasons behind these responses summarized as follows:

“ We did not anticipate the time and animals it took to train our staff.”

“ We were forced to process elsewhere prior to slaughter because our facilities were not finished, had problems or we did not have the needed permits. At the price we had to pay to have the animals slaughtered elsewhere, we lost nearly \$500 a head until our slaughter facilities were ready.”

“ Our fabrication facilities were not ready and we had to truck product for breaking. This put additional charges on every carcass as well as caused us higher bacterial counts.”

“ We did not adequately anticipate the time from payment to producers to payment from customers, especially foreign customers and value added processors who have to further process and ship. This time frequently exceeded 45 days. In today’s market place, the total cost invested by the time funding is received is roughly \$1600. When one multiplies \$1600 times the number of cattle slaughtered in 45 days, one arrives at the amount of capital needed to cover those early stage costs. Once in business, two things happen. First, folks give you credit after you have proved your viability. Second, you increase your efficiency. Once you

are this stage, your capital requirement decreases. Looking back on things, it takes a good 18 to 24 months to get to that stage.”

- “ We were forced to pay too high prices to have cattle to slaughter. Our competitors forced us to pay exorbitant prices just to get the animals. We should have forward contracted a lot more cattle and had some kind of significant financial penalty for non delivery.”
- “ We committed to begin delivering product and then our facility was not finished. We had to buy product to deliver...boy we took a bath for those 4 months.”

What these remarks all seem to have in common is that they were not anticipated or unexpected. What one needs to learn from this experience remarks is the necessity to anticipate that each eventuality can and will indeed happen. Then it is necessary to budget accordingly or insure that the incident will not happen, which is indeed a difficult task even for an experienced manager.

Securing operating capital is a particular challenge. For this reason, a number of failed facilities resorted to the practice of producer ownership of cattle through the slaughter phase. In some cases, the anticipated 2 week delay for payment turned into 30 days and then into 45 days and finally into 180 days. As word spread of the problem, cattlemen ceased bringing cattle. Today, most producers in Western Canada have heard the “horror” stories and are reluctant to consider this option again.

In an effort to insure a continuous supply of differentiated cattle, it seems desirable that producers are paid at least a significant portion of the agreed on selling price upon delivery. For the opportunity of realizing a portion of the differentiated margin, a number of producers have expressed a willingness to risk a portion of the sales price in an effort “to be paid more” than they would at the time of sale.

In a number of the US supply chain partnership endeavors, the owner of the cattle retains ownership through slaughter. This allows the harvest facility to utilize a far smaller operating line of credit. Additionally, it allows for the return on individual animal data to the owners which in turn allows them to improve their management decision making - thus realize more profit for calves in the future.

7. **Trust and Transparency** – historically, these two characteristics have been absent between segments in the beef industry. Producers don’t trust feeders. Feeders don’t trust packers. Packers don’t trust retailers. And the reverse is true as well. As a result, information is not passed back and forth that could improve the overall margin of the animals in the system.

In one US supply chain partnership, an additional \$160 plus dollars per carcass were realized once transparency of operation and trust between segments became a reality. First each animal was individually identified and the performance data returned to each entity that had owned or managed the animal at some point in its life time. Second, varying production practices were tried, including weaning ages, feed supplements, vaccines, feed stuffs, etc. Some practices yielded better results than others. These were shared with the partners. No one was forced to make any changes, but producers chose to make changes to improve their bottom line as well as to improve the consistency of the differentiated product. These continuing evolutions of Best Practices allow a small group to trial new products or practices and share the results with the remainder of the team. A number of practices can be trialed simultaneously by different small groups within the producer pool so that multiple research findings/products can be discarded or implemented based on the results.

The partner group, operating with trust and transparency between segments as well as within in them, realized more income from what they saved rather than what they received as premiums.

8. **A Shared Vision** – this factor sounds so simple but has been the cause for a number of major failures. Fundamental questions particular to the purpose of a processing facility need to be addressed and responded to in a very clear manner. For example, is the corporate vision to provide beef producers a facility to slaughter animals or is it to produce differentiated products for one or more specialty markets? Is it to make money for just the owners of the processing facility or is it to help the industry create and capture more value and improve returns to all participants? Does the vision focus on this year or 10 years down the road? Does the vision include government support or is it a total private industry initiative? The planners need to ensure that there is a clear and concise vision that is shared by all players within a segment and between all segments.

Focusing on an agreed vision minimizes the pursuit of tangents and subsidiary directions until the major focus has been accomplished. At all times, one must be able to answer this central question: does our course of action or initiative enable us to accomplish our vision? If that answer is no or even unclear, the proposed initiative probably does not deserve further time or resources.

### 9.3 Factors Contributing to Failure

The previous discussion of success factors establishes the conclusion that the absence of those success factors will indeed lead to failure. This section elaborates further on some of the shortcomings:

1. **Underestimating initial start up costs and associated levels of financing** – this factor is a prevailing cause for many of the failures that have occurred to date including Ranchers Choice; Natural Valley Farms, Ranchers Beef and Future Beef.

Overall it needs to be understood that establishing an integrated operation which includes supply, packing operations and marketing is a very challenging exercise. In the case of Natural Valley Farms (NVF), there were a number of factors that came into play. In effect NVF had a solid business plan, but with ‘just enough’ capital to move forward and begin construction under normal circumstances. But several cost concerns ensued: construction delays caused by shortage of available labour mostly due to the fact that every able bodied that could be employed was attracted to the energy sector; a significant rise in the price of steel, caused by a sharp spike in world demand (mostly driven by China (steel costs increased 30% over budget)) were the most significant cost overruns.

Another crippling mistake made by the NVF management at the outset was to commence operations by having cattle custom slaughtered and begin to (in their words) “develop markets & train staff”. This was a major error and burned up much of the capital that was required for operations.

Ranchers Meats never ever attracted enough capital to commence operations. However, they did have momentum to the extent that they had significant producer support albeit this support appeared divided right from the onset. In effect, the Ranchers Meat initiative was driven by several groups and individuals that came together seeking a solution, but they did not trust each other nor arrive at a shared vision of what was to be done.

2. **Failure to Separate Ownership from Operations** – specific to this dynamic, NVF made some serious mistakes right out of the starting gate; first they hired a manager that had operational experience in a provincial plant but no experience in the federal realm of meat processing, nor in the field of marketing beyond the province. Further his management experience was limited and he had no understanding of generally accepted management practices. But he was affordable! Subsequently this manager surrounded himself with a team of ‘affordables’ and constantly looked to the Board for guidance due to his lack of experience.

Significantly, the management team was bombarded by investors (shareholders) all of whom were ranchers, to take their cattle. This led to the decision to begin

custom slaughtering in another federal plant before its own facility was ready to operate. NVF also invested in another provincial plant not to mention the burn rate associated with custom processing costs. In retrospect, NVF should never have slaughtered a single animal until its own facilities were completely constructed.

Pressure from the shareholders caused management to make many serious blunders. A more experienced management team that had an understanding of the original vision of the organizational goals could have perhaps stayed the course. However, the pressure from the shareholders to process shareholder cattle was horrendous.

A plant in Colorado experienced a similar demise. It was focused on kosher products, but as it was being managed by 'cowboys'. They underestimated the costs of slaughter, processing and, so were unable to achieve a profitable operation.

**3. Unqualified or inexperienced management** – the management of a meat processing operation is exceeding complex and requires a great deal of skill and experience. The lack of experience is quickly manifested in many or multiple areas such as:

- Not knowing how to buy cattle.
- Managing and motivating staff.
- Scheduling.
- Keeping the plant clean.
- Managing a differentiation strategy.
- Generating and managing detailed cost information.

Simply put, there is no substitute for experience and no recommendation as a record of performance that can be validated by previous customers, investors or former staff.

It should also be noted that the sales and marketing of beef is unique. In most industries, the processor (or manufacturer) assembles pieces and markets a whole product. In contrast, the meat industry disassembles the whole animal and sells the pieces. In the case of the aforementioned companies, management hoped that the prices received for the pieces would be enough to cover their costs. Unfortunately it did not. Experienced management could have ensured that the cut out price was adequate but detailed cost information was lacking. This leads to another key imperative: proper accounting procedures, and experience in the meat industry is crucial in a CFO.

**4. Naïve or insufficient planning** – a common problem that we have observed among failed enterprises is the phenomenon of business plans with no 'zing!' What we mean is this: no clear differentiation strategy; no specific market or customer strategy; insufficient financing. Simply put – no understanding of

the challenge at hand. Instead the underlying premise and mantra is: ‘Build it and they will come.’ As a consulting team, we cannot tell you how many times we have heard this at...even in the last month!! After all the failures in the last 10 years within the North American beef slaughter industry, it is incredulous to believe that some proponents of beef processing businesses still believe this.

Large established packers like Cargill and XL have economies of scale on their side as well as years of learning and experience. Trying to compete with them makes little sense for newcomers in the market place. In order to succeed, new value added proponents need to focus on those market segments that the major players do not have an interest in pursuing.

5. **Failure to Focus on the Core Business (doing too much too fast)** – this is probably the biggest reason why Future Beef failed – trying to do too much all at the same time. While the initial investors and planners were a gifted group, they lacked the practical day to day operating experience of starting a completely new facility operating at 1,600 head per day. At the same time, Future Beef started five value added units: (1) case-ready ground beef; (2) case ready variety meats; (3) cooked and marinated products; (4) pet treats; and (5) blue-chrome hides. Several of these value units ran into problems and never ran properly – costing time and money. In the end, it was too much too soon.
6. **Sources of Financing** – as a new beef processing business seeks financing, there are a couple of key points that may be worth considering to decrease the opportunity of losing financing and thus failing. First, don’t seek financing from a financial institution who currently provides financing to a competitor. If the competitor is a major customer of the financial institution, unexplained demands on financial performance may emerge.

Secondly, inside knowledge has a way of leaking out, not intentionally but accidentally. The financial institution’s staff seldom understands all the ramifications of incidental pieces of information. Such information passed to a major competitor can reveal new products, markets or problems that can then be exploited to the disadvantage of the value added processor.

## 9.4 Implications for Governance and Organization

The implications and directions specific to governance and organization are based on the following assumption:

- A successful value added beef strategy in Western Canada will be the result of a consortium of producer groups and/or associated investors.

The corollary of this premise is that no one entity or investment group within western Canada has sufficient resources to be the majority player in the establishment of a successful enterprise. By majority player, we define this in terms of the ability to deliver three essential components to a value added processing solution:

1. The majority of investment and operating capital.
2. The majority of secured cattle supply to be processed.
3. The majority of processed product to be marketed.

Should a body with such a majority position emerge, then the governance and organizational discuss presented here has little or no relevance. Instead, such a body will have its own established governance structure and organizational strategy.

We offer the following implications based on the consortium assumption:

1. Distinguish between three types of organizations that will be at play in the establishment of a value added beef strategy. These are:
  - **The Processing Enterprise** – focused on cost efficient processing and the provision of processing services to users – namely the conversion of live animals to saleable meat products.
  - **The Marketing Company (User)** – focused on identifying and development specific markets, building a unique brand and sales strategy; and securing a supply of cattle.
  - **Investment Structures** – focused on attracting investment from producers and/or other interested parties to enable the Processing Enterprise (the identified industry bottleneck) to be properly capitalized for success
2. Given the three different organizations defined above, it may be possible or even desirable for individual Marketing Companies to be investors in the Processing Enterprise. However, we are assuming that no one single investor will be a majority investor.

3. Assuming the absence of a single majority investor, the Processing Enterprise will be structured and governed by a Board of Directors that is arms length from the Marketing Companies (the Users). The sole purpose of the Processing Enterprise will be to offer fair access to cost efficient processing to qualified users.
4. The Processing Enterprise will be established as a separate not for profit corporate entity with directors (at least the majority of directors) that are arms length from users. We propose that a small Board of Directors (5-7) be structured as follows:
  - a. 1-2 Directors representing the Users (requires the establishment of a User Advisory Council).
  - b. 1-2 Directors representing Class A shareholders (see recommendation below).
  - c. 1 Director representing the major financier.
  - d. 2 Directors representing required skill sets: processing technology; and marketing.
5. With respect to industry investment and specifically beef producers, we suggest the establishment of a new generation co-op that acts as a beef industry investment company that invests in the Processing Enterprise. To this end, we following could be considered:
  - a. Establish a beef industry investment company as a new generation co-op. Note: A new generation co-op<sup>24</sup> allows producers to invest as an ‘extension’ of their business – thus invest pre-tax dollars.
  - b. Recruit members (producers) to pledge an on going commitment based on a per head charge for every animal marketed.
  - c. The investment company undertakes to borrow capital<sup>25</sup> and place this borrowed capital as required equity for the establishment of the Processing Enterprise.
  - d. The investment company holds Class A shares in proportion to the equity held and holds these shares on behalf of its investors.

Such an investment structure permits cattle producers to pool their investment and as a cooperative hold shares in the Processing Enterprise.

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<sup>24</sup> Legal counsel and tax expertise will be required to detail this recommendation further. Considerable work on this approach has been undertaken by Merle Good with AFSC.

<sup>25</sup> Currently, it is difficult if not impossible to borrow capital based on a future stream of contributions (such as a per head levy). Financial institutions are extremely reluctant since they are not able to secure their investment by traditional means. Consequently, financial institutions will seek letters of guarantee from individual investors that in total equals the amount of capital borrowed by the beef industry investment company as security.

6. Agree on a detailed template to evaluate qualified Marketing Companies or Users (see Appendix 4). We recognize that Marketing Companies will comprise a range of differing organizational structures ranging from private corporations (such as Prairie Heritage and Spring Creek) to member driven initiatives (such as Canada Legacy Partners and Canada Gold). Critical to this template, is the evaluation of four factors: a) the business and specifically the marketing strategy; b) the management team; c) the forecasted volumes in terms of the number of cattle to be processed on a weekly basis; d) ability to finance cattle purchases and product sales.

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## **Appendices**

**Appendix 1: BIA “Base” Financial Forecasts**

**Appendix 2: BIA Facility Scenario 40% Financial Forecasts**

**Appendix 3: Analysis of Variances.**

**Appendix 4: Report Card**

# Appendix 1 -

## BIA “Base” Financial Forecasts



### **MALLOT CREEK STRATEGIES INC.**

Old Quarry Commons

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## **Section 1 – Financial Pro Forma Statements**

- 1.1 – BIA Statement of Pro Forma Income
- 1.2 – Pro Forma Cash Flow
- 1.3 – Pro Forma Balance Sheet
- 1.4 – Financial Scenario
- 1.5 – Financial Ratio's
- 1.6 – Investment Breakdown
- 1.7 – Source and Use of Funds

## **Section 2 – Revenue Centre's**

- 2.1 – Information Sheet
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  - 2.2.1 – Level #1 Sales Plan
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- 3.1 – Expense Allocation
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- 3.3 – Sales and Marketing Budget
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- 3.5 – Variable Kill and Chill Cost Forecasts
- 3.6 – Fabrication, Packaging and Distribution Variable Cost Forecasts
- 3.7 – Cost Flow Pricing Category Breakdown Year #1
- 3.8 – Start Up Fund Forecasts

## **Section 4 – Facility**

- 4.1 – Total Facility Summary
- 4.2 – Grey Water Development
- 4.3 – Kill and Chill Facility Summary
- 4.4 – Kill and Chill Site Estimate
- 4.5 – Kill and Chill Building Construction Estimate
- 4.6 – Kill and Chill Equipment Estimate
- 4.7 – Kill and Chill Utilities Estimate
- 4.8 – Fabrication Facility Estimate
- 4.9 – Fabrication Building Construction Estimate
- 4.10 – Fabrication Facility Equipment Estimate
- 4.11 – Fabrication Facility Utilities Estimate

## **Section 1 – Financial Pro Forma Statements**

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# BIA Financial Forecast "Base"

April 5th, 2010

## Section 1.1 - BIA Statement of Pro Forma Income

	Year #1	Year #2	Year #3	Year #4	Year #5
Level #1	\$ 8,470,007	\$ 9,692,743	\$ 10,494,450	\$ 10,573,781	\$ 10,655,053
Level #2	\$ 8,537,240	\$ 9,769,682	\$ 10,577,753	\$ 10,657,713	\$ 10,739,630
Level #3	\$ 20,998,134	\$ 24,029,439	\$ 26,016,964	\$ 26,213,635	\$ 26,415,118
Other	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Sales</b>	<b>\$ 38,005,381</b>	<b>\$ 43,491,863</b>	<b>\$ 47,089,167</b>	<b>\$ 47,445,130</b>	<b>\$ 47,809,801</b>
<b>Other Income</b>					
Revenue	\$ 38,005,381	\$ 43,491,863	\$ 47,089,167	\$ 47,445,130	\$ 47,809,801
<b>Cost of Goods Sold:</b>					
Inventory - beginning					
Beef Purchases	\$0	\$0	\$0	\$0	\$0
Kill and Chill Variable	\$10,801,731	\$12,060,133	\$13,465,138	\$13,667,115	\$13,872,122
Line Commissioning Costs					
Fabrication and Distribution Variable	\$12,496,331	\$13,652,592	\$15,243,119	\$15,471,765	\$15,703,842
Inventory - end					
<b>Cost of Goods Sold</b>	<b>\$23,298,062</b>	<b>\$25,712,725</b>	<b>\$28,708,257</b>	<b>\$29,138,881</b>	<b>\$29,575,964</b>
<b>Gross Contribution</b>	<b>\$14,707,319</b>	<b>\$17,779,138</b>	<b>\$18,380,910</b>	<b>\$18,306,249</b>	<b>\$18,233,837</b>
<b>Operational Expense</b>					
Operational Expense	\$12,221,003	\$14,933,896	\$15,300,332	\$15,202,384	\$15,106,115
Start Up Loss	\$7,144,264	\$5,549,409	\$3,805,708	\$1,825,759	
<b>Total Expenses</b>	<b>\$19,365,267</b>	<b>\$20,483,305</b>	<b>\$19,106,040</b>	<b>\$17,028,143</b>	<b>\$15,106,115</b>
<b>Net Earnings (loss)</b>	<b>-\$4,657,948</b>	<b>-\$2,704,167</b>	<b>-\$725,130</b>	<b>\$1,278,106</b>	<b>\$3,127,722</b>
<b>Other Income</b>					
<b>Net Earnings (Loss)</b>	<b>-\$4,657,948</b>	<b>-\$2,704,167</b>	<b>-\$725,130</b>	<b>\$1,278,106</b>	<b>\$3,127,722</b>
<b>Beginning</b>					
Beginning	\$0	-\$4,657,948	-\$7,362,115	-\$8,087,245	-\$6,809,139
<b>Ending</b>	<b>-\$4,657,948</b>	<b>-\$7,362,115</b>	<b>-\$8,087,245</b>	<b>-\$6,809,139</b>	<b>-\$3,681,417</b>

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 1.2 - Pro Forma Cash Flow

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Cash Provided by (used in):</b>					
<b>Operations:</b>					
Net earnings for Year	(4,657,948)	(2,704,167)	(725,130)	1,278,106	3,127,722
Other					
Depreciation	2,453,011	4,906,021	4,906,021	4,906,021	4,906,021
	(2,204,938)	2,201,855	4,180,891	6,184,128	8,033,743
<b>Change in non-cash operating Working Capital</b>					
Accounts Receivable	(728,870)	(105,220)	(68,989)	(6,827)	(6,994)
Inventory	(312,373)	(45,094)	(29,567)	(2,926)	(2,997)
Prepaid Expenses					
Accounts Payable	898,268	(83,334)	94,940	13,648	13,853
Income Taxes Payable					
Deferred Taxes					
	(142,975)	(233,649)	(3,617)	3,896	3,862
<b>Net Cash From Operating Activities</b>	<b>(2,347,912)</b>	<b>1,968,206</b>	<b>4,177,275</b>	<b>6,188,023</b>	<b>8,037,605</b>
<b>Financing:</b>					
STD Bank Loan	300,000				
Bank Loan LTD	30,041,676				
Principal Repayment	(3,004,168)	(3,004,168)	(3,004,168)	(3,004,168)	(3,004,168)
Other					
<b>Issue of Shares</b>					
Class A Voting Shares	40,050,012				
Class B Shares	5,006,251				
Other Investment	5,006,251				
<b>Total</b>	<b>77,400,023</b>	<b>(3,004,168)</b>	<b>(3,004,168)</b>	<b>(3,004,168)</b>	<b>(3,004,168)</b>
<b>Investing:</b>					
Facility					
Kill and Chill Facility Estimate	(34,959,328)				
Fabrication and Distribution Facility Estimate	(23,290,000)				
Grey Water	(6,380,000)				
Engineering	(3,203,713)				
Contingency	(5,824,933)				
Start up Costs Management and Fixed	(1,446,218)				
Total Capital Asset	(75,104,191)				
<b>Net Increase in Cash</b>	<b>(52,080)</b>	<b>(1,035,962)</b>	<b>1,173,107</b>	<b>3,183,856</b>	<b>5,033,438</b>
<b>Cash (bank advance) at Beginning of Year</b>		<b>(52,080)</b>	<b>(1,088,042)</b>	<b>85,065</b>	<b>3,268,921</b>
<b>Cash (bank advance) at end of Year</b>	<b>(52,080)</b>	<b>(1,088,042)</b>	<b>85,065</b>	<b>3,268,921</b>	<b>8,302,359</b>

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 1.3 - Pro Forma Balance Sheet

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Assets</b>					
<b>Current Assets:</b>					
Cash	-\$ 52,080	-\$ 1,088,042	\$ 85,065	\$ 3,268,921	\$ 8,302,359
Accounts Receivable	\$ 728,870	\$ 834,091	\$ 903,080	\$ 909,907	\$ 916,900
Inventories	\$ 312,373	\$ 357,467	\$ 387,034	\$ 389,960	\$ 392,957
Goodwill					
<b>Total Current Assets</b>	<b>\$ 989,163</b>	<b>\$ 103,516</b>	<b>\$ 1,375,180</b>	<b>\$ 4,568,788</b>	<b>\$ 9,612,216</b>
<b>Capital Assets</b>	<b>\$ 72,651,180</b>	<b>\$ 67,745,159</b>	<b>\$ 62,839,137</b>	<b>\$ 57,933,116</b>	<b>\$ 53,027,094</b>
<b>Total Assets</b>	<b>\$ 73,640,343</b>	<b>\$ 67,848,675</b>	<b>\$ 64,214,317</b>	<b>\$ 62,501,903</b>	<b>\$ 62,639,310</b>
<b>Liabilities and Owners Equity</b>					
<b>Current Liabilities:</b>					
<b>Operating Loan</b>					
Accounts Payable	\$898,268	\$814,934	\$909,874	\$923,522	\$937,375
Current Portion Long Term Debt*	\$3,004,168	\$3,004,168	\$3,004,168	\$3,004,168	\$3,004,168
Operating Bank Loan	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
<b>Total Current Liabilities</b>	<b>\$4,202,436</b>	<b>\$4,119,102</b>	<b>\$4,214,042</b>	<b>\$4,227,690</b>	<b>\$4,241,543</b>
<b>Other</b>					
<b>Long Term Liabilities :</b>					
LTD	\$24,033,341	\$21,029,173	\$18,025,006	\$15,020,838	\$12,016,671
<b>Total Liabilities</b>	<b>\$28,235,777</b>	<b>\$25,148,275</b>	<b>\$22,239,047</b>	<b>\$19,248,528</b>	<b>\$16,258,213</b>
<b>Shareholder's Equity:</b>					
Class A Voting Shares	\$ 40,050,012	\$ 40,050,012	\$ 40,050,012	\$ 40,050,012	\$ 40,050,012
Class B Shares	\$ 5,006,251	\$ 5,006,251	\$ 5,006,251	\$ 5,006,251	\$ 5,006,251
Other Investment	\$ 5,006,251	\$ 5,006,251	\$ 5,006,251	\$ 5,006,251	\$ 5,006,251
Retained Earnings	-\$4,657,948	-\$7,362,115	-\$8,087,245	-\$6,809,139	-\$3,681,417
<b>Total Shareholder's Equity</b>	<b>\$ 45,404,566</b>	<b>\$ 42,700,399</b>	<b>\$ 41,975,269</b>	<b>\$ 43,253,376</b>	<b>\$ 46,381,097</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$73,640,343</b>	<b>\$67,848,675</b>	<b>\$64,214,317</b>	<b>\$62,501,903</b>	<b>\$62,639,310</b>
Check	\$0	\$0	\$0	\$0	\$0

Working Capital -\$3,213,273 -\$4,015,586 -\$2,838,862 \$341,098 \$5,370,674

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 1.4 - Financial Scenario

<b>1.0 Facility Build Estimate</b>		
Kill and Chill Facility Estimate	\$	34,959,328
Fabrication and Distribution Facility Estimate	\$	23,290,000
<b>Total Building</b>	<b>\$</b>	<b>58,249,328</b>
Grey Water	\$	6,380,000
Engineering	\$	3,203,713
Contingency	\$	5,824,933
Start up Costs Management and Fixed	\$	1,446,218
<b>1.0 Total Facility Costs</b>	<b>\$</b>	<b>75,104,191</b>
<b>2.0 Investment Requirements</b>		
Total Cost	\$	75,104,191
Start Up Equity	\$	5,000,000
<b>2.0 Total Investment Requirements</b>	<b>\$</b>	<b>80,104,191</b>
<b>3.0 Equity Investment Requirements</b>		
Class A Voting Shares	\$	40,050,012
Class B Shares	\$	5,006,251
Other Investment	\$	5,006,251
<b>3.0 Total Equity Requirement</b>	<b>\$</b>	<b>50,062,515</b>
<b>4.0 Debt Requirements</b>		
<b>4.0 Debt based on 40% of Facility Estimate</b>	<b>\$</b>	<b>30,041,676</b>
<b>5.0 Start up and Training Fixed Cost Estimate</b>		
<b>5.0 Start up Month 1-12 pre opening</b>	<b>\$</b>	<b>1,446,218</b>
<b>6.0 Production Start up Costs Year 1-5</b>		
Production Efficiency Loss Dollars	\$	1,048,849
Product Yield Loss Dollars	\$	16,492,186
Sales Capacity Loss Dollars	\$	784,105
<b>6.0 Total Production Start up Costs Year 1-5</b>	<b>\$</b>	<b>18,325,140</b>
<b>7.0 Working Capital Requirements</b>		
Additional ability to secure working capital		\$3,213,273
<b>7.0 Working Capital Requirements</b>		<b>\$3,213,273</b>

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 1.5 - Financial Ratio's

<b>1.0 Tangible Net Worth</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Total Assets	\$ 73,640,343	\$ 67,848,675	\$ 64,214,317	\$ 62,501,903	\$ 62,639,310
Total Liabilities	\$28,235,777	\$25,148,275	\$22,239,047	\$19,248,528	\$16,258,213
Goodwill	\$0	\$0	\$0	\$0	\$0
<b>1.0 Tangible Net Worth</b>	<b>2.61</b>	<b>2.70</b>	<b>2.89</b>	<b>3.25</b>	<b>3.85</b>
<b>2.0 Current Ratio</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Total Current Assets	\$989,163	\$103,516	\$1,375,180	\$4,568,788	\$9,612,216
Total Current Liabilities	\$4,202,436	\$4,119,102	\$4,214,042	\$4,227,690	\$4,241,543
<b>2.0 Current Ratio</b>	<b>0.24</b>	<b>0.03</b>	<b>0.33</b>	<b>1.08</b>	<b>2.27</b>
<b>3.0 DSCR "Debt Service Ratio"</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Annual Net Income	-\$4,657,948	-\$2,704,167	-\$725,130	\$1,278,106	\$3,127,722
Amortization and Depreciation	\$ 2,453,011	\$ 4,906,021	\$ 4,906,021	\$ 4,906,021	\$ 4,906,021
Other	-\$2,204,938	\$2,201,855	\$4,180,891	\$6,184,128	\$8,033,743
Principle Repayment	\$3,004,168	\$3,004,168	\$3,004,168	\$3,004,168	\$3,004,168
Interest Payments	\$ 1,993,232	\$ 1,785,944	\$ 1,578,657	\$ 1,371,369	\$ 1,164,082
Lease Payments	\$4,997,400	\$4,790,112	\$4,582,824	\$4,375,537	\$4,168,249
<b>3.0 DSCR "Debt Service Ratio"</b>	<b>-0.44</b>	<b>0.46</b>	<b>0.91</b>	<b>1.41</b>	<b>1.93</b>
<b>4.0 Debt to Equity</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Interest Bearing LTD	\$24,033,341	\$21,029,173	\$18,025,006	\$15,020,838	\$12,016,671
Current Portion Long Term Debt*	\$3,004,168	\$3,004,168	\$3,004,168	\$3,004,168	\$3,004,168
	\$27,037,509	\$24,033,341	\$21,029,173	\$18,025,006	\$15,020,838
Shareholders Equity	\$45,404,566	\$42,700,399	\$41,975,269	\$43,253,376	\$46,381,097
<b>4.0 Debt to Equity</b>	<b>0.60</b>	<b>0.56</b>	<b>0.50</b>	<b>0.42</b>	<b>0.32</b>
<b>5.0 Fixed Charge Coverage Ratio</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2012</b>	<b>2013</b>
Net Income Before Interest and Taxes	-\$4,657,948	-\$2,704,167	-\$725,130	\$1,278,106	\$3,127,722
Interest +Fixed Costs	\$12,221,003	\$14,933,896	\$15,300,332	\$15,202,384	\$15,106,115
	\$7,563,055	\$12,229,730	\$14,575,202	\$16,480,490	\$18,233,837
Fixed Costs	\$10,227,771	\$13,147,952	\$13,721,675	\$13,831,015	\$13,942,034
<b>5.0 Fixed Charge Coverage Ratio</b>	<b>0.74</b>	<b>0.93</b>	<b>1.06</b>	<b>1.19</b>	<b>1.31</b>

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 1.6 - Investment Breakdown

Total Investment

**\$ 80,104,191**

Equity Investment	\$	50,062,515	62%
Debt	\$	30,041,676	38%
<b>Financial Breakdown</b>			<b>%</b>
Class A Voting Shares	\$	40,050,012	80%
Class B Shares	\$	5,006,251	10%
Other Investment	\$	5,006,251	10%
<b>Total Equity Investment</b>	<b>\$</b>	<b>50,062,515</b>	<b>100%</b>
<b>Operating Capital Needs</b>		<b>\$3,213,273</b>	

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 1.7 - Source and Use of Funds

Source of Funds		Use of Funds	
Equity Investment	\$50,062,515	Facility Investment	\$ 75,104,191
Facility Based Debt	\$ 30,041,676	Operating Line	\$ 203,042
		Start up Investment	\$ 5,000,000
<b>Total Debt</b>	<b>\$ 30,041,676</b>		<b>\$ 5,203,042</b>
Operational Line Loan	\$ 203,042		
<b>Source of Funds</b>	<b>\$ 80,307,233</b>	<b>Use of Funds</b>	<b>\$ 80,307,233</b>

## **Section 2 – Revenue Centre's**

2.1 – Information Sheet

2.2 – BIA Sales Plan

2.2.1 – Level #1 Sales Plan

2.2.2 – Level #2 Sales Plan

2.2.3 – Level #3 Sales Plan

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 2.1 - Information Sheet

			Year #1	Year #2	Year #3	Year #4	Year #5
<b>Proposed Plant Weekly Capacity / Week</b>	<b>Average</b>	<b>Clients</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>
Level #1	100 to 250	175	4	700	770	847	847
Level #2	250 to 1200	363	2	726	799	878	878
Level #3	1200 to 2500	1850	1	1,850	2,035	2,239	2,239
<b>Average Weekly Kill</b>			<b>3,276</b>	<b>3,604</b>	<b>3,964</b>	<b>3,964</b>	<b>3,964</b>
Level #1			4	36,400	40,040	44,044	44,044
Level #2			2	37,752	41,527	45,680	45,680
Level #3			1	96,200	105,820	116,402	116,402
<b>Total Kill Per Year</b>				<b>170,352</b>	<b>187,387</b>	<b>206,126</b>	<b>206,126</b>
% of Capacity				81.9%	90.1%	99.1%	99.1%
Rendering charge			\$	0.12	\$ 0.12	\$ 0.12	\$ 0.12
Planned Conversion Factor				94%	94%	95%	95%
Planned Conversion Factor Cow				94%	97%	95%	95%
Lbs per Fat Cattle Rail				785	785	785	785
Kgs per animal "Fat"				356.1	356.1	356.1	356.1
Kgs per animal "Cull Cow"				325.0	325.0	325.0	325.0
<b>Proposed Toll Charges /KG</b>							
Kill and Chill				0.301	0.316	0.310	0.312
Fabrication				0.439	0.453	0.446	0.450
				60,355,667	66,391,233	73,030,357	73,030,357
				45,266,750	49,793,425	54,772,767	54,772,767
			\$	18,155,400	\$ 20,949,713	\$ 22,655,605	\$ 22,820,252
			\$	19,850,000	\$ 22,542,172	\$ 24,433,585	\$ 24,624,902
			\$	38,005,400	\$ 43,491,884	\$ 47,089,190	\$ 47,445,153
				<b>Year #1</b>	<b>Year #2</b>	<b>Year #3</b>	<b>Year #4</b>
<b>1. Kill and Chill</b>							<b>Year #5</b>
Level #1		104%	\$	0.314	\$ 0.329	\$ 0.324	\$ 0.326
Level #2		101%	\$	0.305	\$ 0.320	\$ 0.314	\$ 0.317
Level #3		98%	\$	0.294	\$ 0.309	\$ 0.304	\$ 0.306
<b>2. Fabrication and Distribution</b>							
Level #1		104%	\$	0.457	\$ 0.472	\$ 0.465	\$ 0.469
Level #2		101%	\$	0.444	\$ 0.459	\$ 0.452	\$ 0.456
Level #3		98%	\$	0.429	\$ 0.443	\$ 0.436	\$ 0.440
<b>Total Package</b>							
Level #1			\$	0.771	\$ 0.801	\$ 0.789	\$ 0.795
Level #2			\$	0.749	\$ 0.779	\$ 0.767	\$ 0.772
Level #3			\$	0.723	\$ 0.752	\$ 0.740	\$ 0.746
			\$	38,005,381	\$ 43,491,863	\$ 47,089,167	\$ 47,445,130
<b>Break Even / Animal</b>			\$	27.34	\$ 14.43	\$ 3.52	\$ (6.20)
<b>Break Even / kd Cold Carcass</b>			\$	(0.08)	\$ (0.04)	\$ (0.01)	\$ 0.02

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 2.2 - BIA Sales Plan

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Level #1</b>					
Animals	36,400	40,040	44,044	44,044	44,044
Weight KG	12,896,510	14,186,161	15,604,777	15,604,777	15,604,777
Boxed Meat	9,672,382	10,639,621	11,703,583	11,703,583	11,703,583
Dollars	\$ 8,470,007	\$ 9,692,743	\$ 10,494,450	\$ 10,573,781	\$ 10,655,053
<b>Level #2</b>					
Animals	37,752	41,527	45,680	45,680	45,680
Weight KG	13,375,523	14,713,076	16,184,383	16,184,383	16,184,383
Boxed Meat	10,031,642	11,034,807	12,138,287	12,138,287	12,138,287
Dollars	\$ 8,537,240	\$ 9,769,682	\$ 10,577,753	\$ 10,657,713	\$ 10,739,630
<b>Level #3</b>					
Animals	96,200	105,820	116,402	116,402	116,402
Weight KG	34,083,633	37,491,997	41,241,196	41,241,196	41,241,196
Boxed Meat	25,562,725	28,118,998	30,930,897	30,930,897	30,930,897
Dollars	\$ 20,998,134	\$ 24,029,439	\$ 26,016,964	\$ 26,213,635	\$ 26,415,118
<b>Grand Total</b>					
Animals	170,352	187,387	206,126	206,126	206,126
Weight KG	60,355,667	66,391,233	73,030,357	73,030,357	73,030,357
Boxed Meat	45,266,750	49,793,425	54,772,767	54,772,767	54,772,767
Dollars	\$ 38,005,381	\$ 43,491,863	\$ 47,089,167	\$ 47,445,130	\$ 47,809,801

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 2.2.1 - Level #1 Sales Plan

		Year #1	Year #2	Year #3	Year #4	Year #5
<b>Customer #1</b>	<b>25%</b>					
Animals		9,100	10,010	11,011	11,011	11,011
Weight KG	354	3,224,127	3,546,540	3,901,194	3,901,194	3,901,194
<b>Customer #2</b>	<b>25%</b>					
Animals		9,100	10,010	11,011	11,011	11,011
Weight KG	354	3,224,127	3,546,540	3,901,194	3,901,194	3,901,194
<b>Customer #3</b>	<b>25%</b>					
Animals		9,100	10,010	11,011	11,011	11,011
Weight KG	354	3,224,127	3,546,540	3,901,194	3,901,194	3,901,194
<b>Customer #4</b>	<b>25%</b>					
Animals		9,100	10,010	11,011	11,011	11,011
Weight KG	354	3,224,127	3,546,540	3,901,194	3,901,194	3,901,194
<b>Total Level #1</b>	<b>100%</b>					
Animals		36,400	40,040	44,044	44,044	44,044
Weight KG	354.3	12,896,510	14,186,161	15,604,777	15,604,777	15,604,777
Boxed	265.7	9,672,382	10,639,621	11,703,583	11,703,583	11,703,583
Kill and Chill	\$ 0.31	\$ 4,046,171	\$ 4,668,921	\$ 5,049,102	\$ 5,085,795	\$ 5,123,415
Fabrication	\$ 0.46	\$ 4,423,835	\$ 5,023,822	\$ 5,445,348	\$ 5,487,986	\$ 5,531,638
<b>Dollars</b>	<b>\$ -</b>	<b>\$ 8,470,007</b>	<b>\$ 9,692,743</b>	<b>\$ 10,494,450</b>	<b>\$ 10,573,781</b>	<b>\$ 10,655,053</b>

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 2.2.2 - Level #2 Sales Plan

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Customer #1</b>	<b>50%</b>				
Animals		18,876	20,764	22,840	22,840
Weight KG	354.30	6,687,762	7,356,538	8,092,192	8,092,192
Kill and Chill					
Boxed					
<b>Customer #2</b>	<b>50%</b>				
Animals		18,876	20,764	22,840	22,840
Weight KG	354	6,687,762	7,356,538	8,092,192	8,092,192
<b>Customer #3</b>	<b>0%</b>				
Animals		0	0	0	0
Weight KG	354	-	-	-	-
<b>Customer #4</b>	<b>0%</b>				
Animals		0	0	0	0
Weight KG	354.3	-	-	-	-
<b>Total Level #1</b>	<b>100%</b>				
Animals		37,752	41,527	45,680	45,680
Weight KG	354.3	13,375,523	14,713,076	16,184,383	16,184,383
Boxed	265.7	10,031,642	11,034,807	12,138,287	12,138,287
Kill and Chill	\$ 0.30	\$ 4,078,289	\$ 4,705,982	\$ 5,089,180	\$ 5,126,165
Fabrication	\$ 0.44	\$ 4,458,951	\$ 5,063,700	\$ 5,488,572	\$ 5,531,548
<b>Dollars</b>	<b>\$ -</b>	<b>\$ 8,537,240</b>	<b>\$ 9,769,682</b>	<b>\$ 10,577,753</b>	<b>\$ 10,657,713</b>

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 2.2.3 - Level #3 Sales Plan

	Year #1	Year #2	Year #3	Year #4	Year #5	
<b>Customer #1</b>	<b>100%</b>					
Animals		96,200	105,820	116,402	116,402	116,402
Weight KG	354.30	34,083,633	37,491,997	41,241,196	41,241,196	41,241,196
Boxed Meat	265.72	25,562,725	28,118,998	30,930,897	30,930,897	30,930,897
Kill and Chill						
Boxed						
<b>Customer #2</b>	<b>0%</b>					
Animals		0	0	0	0	0
Weight KG	354.30	-	-	-	-	-
Boxed Meat	265.72					
<b>Customer #3</b>	<b>0%</b>					
Animals		0	0	0	0	0
Weight KG	354	-	-	-	-	-
Boxed Meat	265.72					
<b>Customer #4</b>	<b>0%</b>					
Animals		0	0	0	0	0
Weight KG	354	-	-	-	-	-
<b>Total Level #1</b>	<b>100%</b>					
Animals		96,200	105,820	116,402	116,402	116,402
Weight KG	354.30	34,083,633	37,491,997	41,241,196	41,241,196	41,241,196
Boxed	265.72	25,562,725	28,118,998	30,930,897	30,930,897	30,930,897
Kill and Chill	\$ 0.29	\$ 10,030,930	\$ 11,574,799	\$ 12,517,312	\$ 12,608,280	\$ 12,701,543
Fabrication	\$ 0.43	\$ 10,967,204	\$ 12,454,639	\$ 13,499,653	\$ 13,605,356	\$ 13,713,575
<b>Dollars</b>	<b>\$ -</b>	<b>\$ 20,998,134</b>	<b>\$ 24,029,439</b>	<b>\$ 26,016,964</b>	<b>\$ 26,213,635</b>	<b>\$ 26,415,118</b>

### **Section 3 – Cost Centre's**

3.1 – Expense Allocation

3.2 – BIA Operational Budget Allocation

3.3 – Sales and Marketing Budget

3.4 – BIA Operational Cost Forecasts

3.5 – Variable Kill and Chill Cost Forecasts

3.6 – Fabrication, Packaging and Distribution Variable Cost Forecasts

3.7 – Cost Flow Pricing Category Breakdown Year #1

3.8 – Start Up Fund Forecasts

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 3.1 - Expense Allocation

	170,352	187,387	206,126	206,126	206,126
	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Variable Expenses</b>					
Kill and Chill	\$10,801,731	\$12,060,133	\$13,465,138	\$13,667,115	\$13,872,122
Fabrication and Distribution	\$12,496,331	\$13,652,592	\$15,243,119	\$15,471,765	\$15,703,842
	<b>\$23,298,062</b>	<b>\$25,712,725</b>	<b>\$28,708,257</b>	<b>\$29,138,881</b>	<b>\$29,575,964</b>
<b>Operational Expenses</b>					
	\$12,221,003	\$14,933,896	\$15,300,332	\$15,202,384	\$15,106,115
	<b>\$12,221,003</b>	<b>\$14,933,896</b>	<b>\$15,300,332</b>	<b>\$15,202,384</b>	<b>\$15,106,115</b>
	<b>\$35,519,065</b>	<b>\$40,646,621</b>	<b>\$44,008,589</b>	<b>\$44,341,265</b>	<b>\$44,682,079</b>
	Year #1	Year #2	Year #3	Year #4	Year #5
Hot Carcass Weight	356.08	356.08	356.08	356.08	356.08
Carcass Shrink	0.5%	354.30	354.30	354.30	354.30
Boxed Meat	25%	265.72	265.72	265.72	265.72
Cost Categories / Carcass	Year #1	Year #2	Year #3	Year #4	Year #5
1. Kill and Chill	\$ 99.28	\$ 104.21	\$ 102.44	\$ 103.18	\$ 103.94
2. Fabrication and Distribution	\$ 109.23	\$ 112.71	\$ 111.06	\$ 111.94	\$ 112.83
<b>Total / Carcass</b>	<b>\$ 208.50</b>	<b>\$ 216.91</b>	<b>\$ 213.50</b>	<b>\$ 215.12</b>	<b>\$ 216.77</b>
<b>Margin /Carcass</b>	<b>7%</b>	<b>\$ 14.60</b>	<b>\$ 15.18</b>	<b>\$ 14.95</b>	<b>\$ 15.06</b>
<b>Total Charge / Carcass</b>	<b>\$ 223.10</b>	<b>\$ 232.10</b>	<b>\$ 228.45</b>	<b>\$ 230.18</b>	<b>\$ 231.94</b>

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 3.2 - BIA Operational Budget Allocation

	Year #1	/animal	/animal	/animal	/animal	/animal
<b>Facility Costs</b>						
Animals	170,352					
Weight KG	356.08	60,658,961				
Carcass Shrink	354.30	60,355,667				
Boxed Meat	265.72	45,266,750				
Operational Costs	\$ 12,221,003	\$ 71.74	\$ 79.70	\$ 74.23	\$ 73.75	\$ 73.29
Kill and Chill Costs	\$ 10,801,731	\$ 63.41	\$ 64.36	\$ 65.32	\$ 66.30	\$ 67.30
Fabrication Costs	\$ 12,496,331	\$ 73.36	\$ 72.86	\$ 73.95	\$ 75.06	\$ 76.19
Profit	\$ 2,486,335	\$ 14.60	\$ 15.18	\$ 14.95	\$ 15.06	\$ 15.17
<b>Total Cost</b>	<b>\$ 38,005,400</b>	<b>\$ 223.10</b>	<b>\$ 232.10</b>	<b>\$ 228.45</b>	<b>\$ 230.18</b>	<b>\$ 231.94</b>
<b>Cost Categories</b>						
	Year #1	Year #2	Year #4	Year #5	Year #6	
Kill and Chill	\$ 18,155,400	\$ 106.58	\$ 111.80	\$ 109.91	\$ 110.71	\$ 111.53
Fabrication and Distribution	\$ 19,850,000	\$ 116.52	\$ 120.30	\$ 118.54	\$ 119.47	\$ 120.42
<b>Total Cost per Animal</b>	<b>\$ 38,005,400</b>	<b>\$ 223.10</b>	<b>\$ 232.10</b>	<b>\$ 228.45</b>	<b>\$ 230.18</b>	<b>\$ 231.94</b>
<b>Price Calculation</b>						
Kill and Chill	354.30	\$ 0.30	\$ 0.32	\$ 0.31	\$ 0.31	\$ 0.31
Fabrication and Distribution	265.72	\$ 0.44	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45
<b>Level #1</b>						
Animals	36,400					
Weight KG	354.30	12,896,510				
Boxed Meat	265.72	9,672,382				
Dollars Sales						
Fixed allocation % by kg						
Variable allocation % by kg						
Capacity allocation demerit % by kg						
Kg Charge						
<b>Dollars Sales</b>	<b>\$ 8,470,007</b>					
<b>Level #2</b>						
Animals	37,752					
Weight KG		13,375,523				
Dollars Sales						
Fixed allocation % by kg						
Variable allocation % by kg						
Capacity allocation demerit % by kg						
Kg Charge						
<b>Dollars Sales</b>	<b>\$ 8,537,240</b>					
<b>Level #3</b>						
Animals	96,200					
Weight KG		34,083,633				
Dollars Sales						
Fixed allocation % by kg						
Variable allocation % by kg						
Capacity allocation demerit % by kg						
Kg Charge						
<b>Dollars Sales</b>	<b>\$ 20,998,134</b>					
<b>Total</b>						
Animals	170,352					
Weight KG		60,355,667				
Dollars Sales						
Fixed allocation % by kg						
Variable allocation % by kg						
Capacity allocation demerit % by kg						
Kg Charge						
<b>Total Dollar Sales</b>	<b>\$ 38,005,381</b>					

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 3.3 - Sales and Marketing Variable Budget

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Total Fabrication KGs</b>	<b>60,355,667</b>	<b>66,391,233</b>	<b>73,030,357</b>	<b>73,030,357</b>	<b>73,030,357</b>
<b>Sales and Marketing Kgs</b>	<b>33%</b>	<b>19,917,370</b>	<b>21,909,107</b>	<b>24,100,018</b>	<b>24,100,018</b>
Sales and Marketing Fixed					
Sales and Marketing Program	\$ 0.019	\$ 378,430	\$ 416,273	\$ 457,900	\$ 457,900
Brokerage / Other "Over and Above"	\$ 0.005	\$ 99,587	\$ 109,546	\$ 120,500	\$ 120,500
Other	\$ 0.019	\$ 378,430	\$ 416,273	\$ 457,900	\$ 457,900
<b>Total Sales Programs</b>	<b>\$0.1150</b>	<b>\$ 856,447</b>	<b>\$ 942,092</b>	<b>\$ 1,036,301</b>	<b>\$ 1,036,301</b>
<b>Labour</b>		<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>
Plant Staff	10	11	12	12	12
Labour Rate per hour Including Benefits	\$ 16.07	\$ 16.39	\$ 16.72	\$ 17.06	\$ 17.40
Labour Efficiency	0	0	0	0	0
Hours/ week	37.5	37.5	37.5	37.5	37.5
<b>Total Labour</b>	<b>\$313,393</b>	<b>\$351,627</b>	<b>\$391,265</b>	<b>\$399,090</b>	<b>\$407,072</b>
<b>Total Brand Variable</b>	<b>\$1,169,840</b>	<b>\$1,293,718</b>	<b>\$1,427,565</b>	<b>\$1,435,391</b>	<b>\$1,443,373</b>
<b>Sales and Marketing Charge kg</b>	<b>\$ 0.0587</b>	<b>\$ 0.0590</b>	<b>\$ 0.0592</b>	<b>\$ 0.0596</b>	<b>\$ 0.0599</b>

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 3.4 - BIA Operational Cost Forecasts

Fixed Labour		Start up	Year #1	/animal	Year #2	/animal	Year #3	/animal	Year #4	/animal	Year #5	/animal													
Estimated Kill			170,352		187,387		206,126		206,126		206,126														
Revenue		\$	38,005,381		\$	43,491,863		\$	47,089,167		\$	47,445,130		\$	47,809,801										
Management Salaries		Salary	1.50%		1.50%		1.50%		1.50%		1.50%														
General Manager	1	\$	200,000	\$	200,000	\$	200,000	\$	1.17	\$	203,000	\$	1.08	\$	206,045	\$	1.00	\$	209,136	\$	1.01	\$	212,273	\$	1.03
Assistant Manager	1	\$	125,000	\$	62,500	\$	125,000	\$	0.73	\$	126,875	\$	0.68	\$	128,778	\$	0.62	\$	130,710	\$	0.63	\$	132,670	\$	0.64
Production Manager	1	\$	100,000	\$	50,000	\$	100,000	\$	0.59	\$	101,500	\$	0.54	\$	103,023	\$	0.50	\$	104,568	\$	0.51	\$	106,136	\$	0.51
Sales Manager	1	\$	100,000	\$	50,000	\$	100,000	\$	0.59	\$	101,500	\$	0.54	\$	103,023	\$	0.50	\$	104,568	\$	0.51	\$	106,136	\$	0.51
Sales	1.5	\$	75,000	\$	15,000	\$	112,500	\$	0.66	\$	114,188	\$	0.61	\$	115,900	\$	0.56	\$	117,639	\$	0.57	\$	119,403	\$	0.58
Order Desk	3	\$	50,000	\$	15,000	\$	150,000	\$	0.88	\$	152,250	\$	0.81	\$	154,534	\$	0.75	\$	156,852	\$	0.76	\$	159,205	\$	0.77
HACCP Coordinator	1	\$	80,000	\$	56,000	\$	80,000	\$	0.47	\$	81,200	\$	0.43	\$	82,418	\$	0.40	\$	83,654	\$	0.41	\$	84,909	\$	0.41
HACCP	2	\$	50,000	\$	5,000	\$	100,000	\$	0.59	\$	101,500	\$	0.54	\$	103,023	\$	0.50	\$	104,568	\$	0.51	\$	106,136	\$	0.51
Production Supervisor	6	\$	75,000	\$	90,000	\$	450,000	\$	2.64	\$	456,750	\$	2.44	\$	463,601	\$	2.25	\$	470,555	\$	2.28	\$	477,614	\$	2.32
Maintenance	5	\$	60,000	\$	60,000	\$	300,000	\$	1.76	\$	304,500	\$	1.62	\$	309,068	\$	1.50	\$	313,704	\$	1.52	\$	318,409	\$	1.54
Maintenance Supervisor	1	\$	80,000	\$	60,000	\$	80,000	\$	0.47	\$	81,200	\$	0.43	\$	82,418	\$	0.40	\$	83,654	\$	0.41	\$	84,909	\$	0.41
Finance	1	\$	100,000	\$	75,000	\$	100,000	\$	0.59	\$	101,500	\$	0.54	\$	103,023	\$	0.50	\$	104,568	\$	0.51	\$	106,136	\$	0.51
Finance Assistant	2	\$	50,000	\$	15,000	\$	100,000	\$	0.59	\$	101,500	\$	0.54	\$	103,023	\$	0.50	\$	104,568	\$	0.51	\$	106,136	\$	0.51
Other	6	\$	40,000	\$	36,000	\$	240,000	\$	1.41	\$	243,600	\$	1.30	\$	247,254	\$	1.20	\$	250,963	\$	1.22	\$	254,727	\$	1.24
Management Benefits	7.5%		\$	59,213	\$	167,813	\$	0.99	\$	170,330	\$	0.91	\$	172,885	\$	0.84	\$	175,478	\$	0.85	\$	178,110	\$	0.86	
<b>Total Management Wages and Benefits</b>			<b>\$</b>	<b>848,713</b>	<b>\$</b>	<b>2,405,313</b>	<b>\$</b>	<b>14.1</b>	<b>\$</b>	<b>2,441,392</b>	<b>\$</b>	<b>13.0</b>	<b>\$</b>	<b>2,478,013</b>	<b>\$</b>	<b>12.0</b>	<b>\$</b>	<b>2,515,183</b>	<b>\$</b>	<b>12.2</b>	<b>\$</b>	<b>2,552,911</b>	<b>\$</b>	<b>12.4</b>	
Expenses			Year #1	Year #2	Year #3	Year #4	Year #5																		
Advertising and Promotion		\$	45,000	\$	45,000	\$	0.26	\$	45,675	\$	0.24	\$	46,360	\$	0.22	\$	47,056	\$	0.23	\$	47,761	\$	0.23		
Sales and Marketing Program			\$	1,169,840	\$	6.87	\$	1,293,718	\$	6.90	\$	1,427,565	\$	6.93	\$	1,435,391	\$	6.96	\$	1,443,373	\$	7.00			
Amortization			\$	2,453,011	\$	14.40	\$	4,906,021	\$	26.18	\$	4,906,021	\$	23.80	\$	4,906,021	\$	23.80	\$	4,906,021	\$	23.80			
Automotive	\$	0.22	\$	18,739	\$	37,477	\$	0.22	\$	41,844	\$	0.22	\$	46,718	\$	0.23	\$	47,419	\$	0.23	\$	48,130	\$	0.23	
Bad Debts	\$	0.09	\$	15,332	\$	0.09	\$	16,865	\$	0.09	\$	18,551	\$	0.09	\$	18,551	\$	0.09	\$	18,551	\$	0.09			
Business Taxes, Licences and Expenses	0.01574	\$	25,815,228	\$	406,430	\$	2.39	\$	412,526	\$	2.20	\$	418,714	\$	2.03	\$	424,995	\$	2.06	\$	431,370	\$	2.09		
Insurance	\$	0.50	\$	34,070	\$	85,176	\$	0.50	\$	93,694	\$	0.50	\$	103,063	\$	0.50	\$	103,063	\$	0.50	\$	103,063	\$	0.50	
Interest and Bank Charges	\$	0.15	\$	20,442	\$	25,553	\$	0.15	\$	28,108	\$	0.15	\$	30,919	\$	0.15	\$	30,919	\$	0.15	\$	30,919	\$	0.15	
Interest on LTD and Operating			\$	1,993,232	\$	11.70	\$	1,785,944	\$	9.53	\$	1,578,657	\$	7.66	\$	1,371,369	\$	6.65	\$	1,164,082	\$	5.65			
Office misc	\$	0.12	\$	19,590	\$	0.12	\$	21,550	\$	0.12	\$	23,704	\$	0.12	\$	23,704	\$	0.12	\$	23,704	\$	0.12			
Professional Fees	\$		\$	325,000	\$	250,000	\$	1.47	\$	150,000	\$	0.80	\$	100,000	\$	0.49	\$	100,000	\$	0.49	\$	100,000	\$	0.49	
Supply Chain Development	\$	0.10	\$	17,035	\$	0.10	\$	18,739	\$	0.10	\$	20,613	\$	0.10	\$	20,613	\$	0.10	\$	20,613	\$	0.10			
Repairs and Maintenance	\$	8.00	\$	1,362,816	\$	8.00	\$	1,521,584	\$	8.12	\$	1,698,849	\$	8.24	\$	1,724,331	\$	8.37	\$	1,750,196	\$	8.49			
Quality Assurance and HACCP	\$	0.67	\$	28,534	\$	114,136	\$	0.67	\$	127,433	\$	0.68	\$	142,279	\$	0.69	\$	144,413	\$	0.70	\$	146,579	\$	0.71	
Contract Work	\$	0.28	\$	47,699	\$	0.28	\$	52,468	\$	0.28	\$	57,715	\$	0.28	\$	57,715	\$	0.28	\$	57,715	\$	0.28			
Telephone	\$	0.89	\$	30,323	\$	151,613	\$	0.89	\$	166,775	\$	0.89	\$	183,452	\$	0.89	\$	183,452	\$	0.89	\$	183,452	\$	0.89	
Training	\$	0.20	\$	95,397	\$	34,070	\$	0.20	\$	37,477	\$	0.20	\$	41,225	\$	0.20	\$	41,225	\$	0.20	\$	41,225	\$	0.20	
Travel	\$	0.20	\$	34,070	\$	0.20	\$	37,477	\$	0.20	\$	41,225	\$	0.20	\$	41,225	\$	0.20	\$	41,225	\$	0.20			
Utilities	\$	9.12	\$	1,553,610	\$	9.12	\$	1,734,606	\$	9.26	\$	1,936,687	\$	9.40	\$	1,965,738	\$	9.54	\$	1,995,224	\$	9.68			
<b>Total Expenses</b>			<b>\$</b>	<b>597,505</b>	<b>\$</b>	<b>9,815,690</b>	<b>\$</b>	<b>57.62</b>	<b>\$</b>	<b>12,492,504</b>	<b>\$</b>	<b>66.67</b>	<b>\$</b>	<b>12,822,319</b>	<b>\$</b>	<b>62.21</b>	<b>\$</b>	<b>12,687,201</b>	<b>\$</b>	<b>61.55</b>	<b>\$</b>	<b>12,553,204</b>	<b>\$</b>	<b>60.90</b>	
<b>Grand Total</b>			<b>\$</b>	<b>1,446,218</b>	<b>\$</b>	<b>12,221,003</b>	<b>\$</b>	<b>71.74</b>	<b>\$</b>	<b>14,933,896</b>	<b>\$</b>	<b>79.70</b>	<b>\$</b>	<b>15,300,332</b>	<b>\$</b>	<b>74.23</b>	<b>\$</b>	<b>15,202,384</b>	<b>\$</b>	<b>73.75</b>	<b>\$</b>	<b>15,106,115</b>	<b>\$</b>	<b>73.29</b>	

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 3.5 - Variable Kill and Chill Cost Forecasts

	Year #1	/animal	Year #2	/animal	Year #3	/animal	Year #4	/animal	Year #5	/animal
<b>Kill / Year</b>	<b>170,352</b>		<b>187,387</b>		<b>206,126</b>		<b>206,126</b>		<b>206,126</b>	
<b>Cost Inflation</b>			<b>1.50%</b>		<b>1.50%</b>		<b>1.50%</b>		<b>1.50%</b>	
<b>Preparation Supplies</b>										
Cutting Tools	\$ 0.35	\$ 59,623	\$ 0.35	\$ 66,569	\$ 0.36	\$ 74,325	\$ 0.36	\$ 75,439	\$ 0.37	\$ 76,571
Grading Fees	\$ 0.55	\$ 93,694	\$ 0.55	\$ 104,609	\$ 0.56	\$ 116,796	\$ 0.57	\$ 118,548	\$ 0.58	\$ 120,326
Packaging Supplies	\$ 0.10	\$ 17,035	\$ 0.10	\$ 19,020	\$ 0.10	\$ 21,236	\$ 0.10	\$ 21,554	\$ 0.10	\$ 21,877
Cleaning and Shop Supplies	\$ 0.10	\$ 17,035	\$ 0.10	\$ 19,020	\$ 0.10	\$ 21,236	\$ 0.10	\$ 21,554	\$ 0.10	\$ 21,877
Uniform	\$ 0.25	\$ 42,588	\$ 0.25	\$ 47,550	\$ 0.25	\$ 53,089	\$ 0.26	\$ 53,885	\$ 0.26	\$ 54,694
Rendering and Compost	\$ 12.50	\$ 2,129,400	\$ 12.50	\$ 2,377,475	\$ 12.69	\$ 2,654,451	\$ 12.88	\$ 2,694,268	\$ 13.07	\$ 2,734,682
CFIA	\$ 1.58	\$ 268,304	\$ 1.58	\$ 299,562	\$ 1.60	\$ 334,461	\$ 1.62	\$ 339,478	\$ 1.65	\$ 344,570
SRM Program	\$ 19.50	\$ 3,321,864	\$ 19.50	\$ 3,708,861	\$ 19.79	\$ 4,140,943	\$ 20.09	\$ 4,203,058	\$ 20.39	\$ 4,266,103
<b>Total Preparation Supplies</b>	<b>\$ 34.93</b>	<b>\$ 5,949,544</b>	<b>\$ 34.93</b>	<b>\$ 6,642,665</b>	<b>\$ 35.45</b>	<b>\$ 7,416,536</b>	<b>\$ 35.98</b>	<b>\$ 7,527,784</b>	<b>\$ 36.52</b>	<b>\$ 7,640,701</b>
<b>Labour Rate Increase per year</b>			<b>1.5%</b>		<b>1.5%</b>		<b>1.5%</b>		<b>1.5%</b>	
<b>Rate per Beef</b>		\$28.48		\$28.91		\$29.34		\$29.78		\$30.23
Cost per employee		\$30,134		\$30,586		\$31,045		\$31,510		\$31,983
Cooler	3.5	26		29		31		31		31
Kill Floor	1.75	52		57		63		63		63
Fancy Meats	5.5	17		18		20		20		20
Shipping	6.0	15		17		18		18		18
General Plant	10.0	9		10		11		11		11
Maintenance	7.5	12		13		15		15		15
Distribution	3	30		33		37		37		37
Total Employee Kill and Chill		<b>161</b>		<b>177</b>		<b>195</b>		<b>195</b>		<b>195</b>
Labour Training Plan **	\$ -		\$ -		\$ -		\$ -		\$ -	
Hourly Wage Rate	\$ 16.07		\$ 16.31		\$ 16.56		\$ 16.81		\$ 17.06	
<b>Total Employee Wages &amp; Benefits and Training</b>		<b>\$4,852,188</b>	<b>\$28.48</b>	<b>\$5,417,467</b>	<b>\$28.91</b>	<b>\$6,048,602</b>	<b>\$29.34</b>	<b>\$6,139,331</b>	<b>\$29.78</b>	<b>\$6,231,421</b>
<b>Start up Labour Costs Budget***</b>										
<b>Total Kill and Chill Variable *</b>	<b>\$ 10,801,731</b>	<b>\$ 63.41</b>	<b>\$ 12,060,133</b>	<b>\$ 64.36</b>	<b>\$ 13,465,138</b>	<b>\$ 65.32</b>	<b>\$ 13,667,115</b>	<b>\$ 66.30</b>	<b>\$ 13,872,122</b>	<b>\$ 67.30</b>

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 3.6 - Fabrication, Packaging and Distribution Variable Cost Forecasts

	Year #1	/animal	Year #2	/animal	Year #3	/animal	Year #4	/animal	Year #5	/animal
<b>Kill / Year</b>	170,352		187,387		206,126		206,126		206,126	
<b>Cost Inflation</b>			1.50%		1.50%		1.50%		1.50%	
<b>Preparation Supplies</b>										
Cutting Tools	\$ 0.11	\$ 18,739	\$ 0.11	\$ 20,922	\$ 0.11	\$ 23,359	\$ 0.11	\$ 23,710	\$ 0.12	\$ 24,065
Packaging Supplies	\$ 15.62	\$ 2,660,898	\$ 15.62	\$ 2,970,893	\$ 15.85	\$ 3,317,002	\$ 16.09	\$ 3,366,757	\$ 16.33	\$ 3,417,258
Cleaning and Shop Supplies	\$ 0.53	\$ 89,435	\$ 0.53	\$ 99,854	\$ 0.53	\$ 111,487	\$ 0.54	\$ 113,159	\$ 0.55	\$ 114,857
Uniform	\$ 0.95	\$ 161,834	\$ 0.95	\$ 180,688	\$ 0.96	\$ 201,738	\$ 0.98	\$ 204,764	\$ 0.99	\$ 207,836
CFIA	\$ 1.58	\$ 268,304	\$ 1.58	\$ 295,135	\$ 1.58	\$ 329,518	\$ 1.60	\$ 334,461	\$ 1.62	\$ 339,478
<b>Total Preparation Supplies</b>	<b>\$ 18.78</b>	<b>\$ 3,199,211</b>	<b>\$ 18.78</b>	<b>\$ 3,272,357</b>	<b>\$ 19.04</b>	<b>\$ 3,653,586</b>	<b>\$ 19.32</b>	<b>\$ 3,708,390</b>	<b>\$ 19.61</b>	<b>\$ 3,764,016</b>
<b>Total Processing Costs</b>										
<b>Distribution Expenses</b>										
Distribution Program	\$ 9.50	\$ 1,618,344	\$ 9.50	\$ 1,806,881	\$ 9.64	\$ 2,017,383	\$ 9.79	\$ 2,047,643	\$ 9.93	\$ 2,078,358
Distribution Expenses	\$ 0.95	\$ 161,834	\$ 0.95	\$ 180,688	\$ 0.96	\$ 201,738	\$ 0.98	\$ 204,764	\$ 0.99	\$ 207,836
<b>Total Distribution Expense</b>	<b>\$ 10.45</b>	<b>\$ 1,780,178</b>	<b>\$ 10.45</b>	<b>\$ 1,987,569</b>	<b>\$ 10.61</b>	<b>\$ 2,219,121</b>	<b>\$ 10.77</b>	<b>\$ 2,252,408</b>	<b>\$ 10.93</b>	<b>\$ 2,286,194</b>
<b>Labour Rate Increase per year</b>			1.5%		1.5%		1.5%		1.5%	
Rate per Beef			\$44.13	\$44.79	\$44.79	\$45.46	\$45.46	\$46.14	\$46.14	\$46.83
Cost per employee		\$30,134		\$30,586		\$31,045		\$31,510		\$31,983
Main Break	2.25	40		44		49		49		49
Primals	0.95	96		105		116		116		116
Specialty	3	30		33		37		37		37
Shipping /Packaging	1.9	48		53		58		58		58
General Plant	6.0	15		17		18		18		18
Maintenance	4.5	20		22		24		24		24
Total Employee Kill and Chill		249		274		302		302		302
Labour Training Plan **		\$ -		\$ -		\$ -		\$ -		\$ -
Hourly Wage Rate		\$ 16.07		\$ 16.31		\$ 16.56		\$ 16.81		\$ 17.06
<b>Total Employee Wages and Benefits and Training</b>		<b>\$7,516,942</b>	<b>\$44.13</b>	<b>\$8,392,666</b>	<b>\$44.79</b>	<b>\$9,370,411</b>	<b>\$45.46</b>	<b>\$9,510,968</b>	<b>\$46.14</b>	<b>\$9,653,632</b>
<b>Start up Labour Costs Budget***</b>										
<b>Total Fab Variable *</b>		<b>\$ 12,496,331</b>	<b>\$ 73.36</b>	<b>\$ 13,652,592</b>	<b>\$ 74.43</b>	<b>\$ 15,243,119</b>	<b>\$ 75.55</b>	<b>\$ 15,471,765</b>	<b>\$ 76.68</b>	<b>\$ 15,703,842</b>

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 3.7 - Cost Flow Pricing Category Breakdown Year #1

Cost Flow Centre Breakdown /Animal	Facility	Level 1	Level 2	Level 3
<b>Pricing Category</b>		104%	101%	98%
<b>1. Kill and Chill Cost Category</b>	<b>\$ 106.58</b>	<b>\$ 111.16</b>	<b>\$ 108.03</b>	<b>\$ 104.27</b>
<b>Receiving</b>				
Segregation	\$ 4.50	\$ 4.69	\$ 4.56	\$ 4.40
Receiving	\$ 19.50	\$ 20.34	\$ 19.77	\$ 19.08
<b>Raw Material &amp; Dry Receiving</b>				
Storage General Supplies	\$ 1.80	\$ 1.88	\$ 1.82	\$ 1.76
Customer Specification Packaging	\$ 0.75	\$ 0.78	\$ 0.76	\$ 0.73
General Packaging	\$ 8.89	\$ 9.27	\$ 9.01	\$ 8.70
<b>Kill</b>				
Stunning / Kill	\$ 53.00	\$ 55.28	\$ 53.72	\$ 51.85
Rail	\$ 1.15	\$ 1.20	\$ 1.17	\$ 1.13
Hide Offal and Other	\$ 12.50	\$ 13.04	\$ 12.67	\$ 12.23
<b>Chill</b>				
General Program	\$ 3.40	\$ 3.55	\$ 3.45	\$ 3.33
Carcass Shipping	\$ 1.09	\$ 1.14	\$ 1.10	\$ 1.07
<b>1. Kill and Chill Cost Category</b>	<b>\$ 106.58</b>	<b>\$ 111.16</b>	<b>\$ 108.03</b>	<b>\$ 104.28</b>
<b>2. Fabrication, Packaging and Distribution</b>				
<b>2. Fabrication, Packaging and Distribution</b>	<b>\$ 116.52</b>	<b>\$ 121.53</b>	<b>\$ 118.11</b>	<b>\$ 114.00</b>
<b>Fabrication</b>				
Primal Break	\$59.29	\$61.84	\$60.10	\$58.01
Product Segregation	\$0.95	\$0.99	\$0.96	\$0.93
Customer Further Converting Cuts Segregation	\$0.80	\$0.83	\$0.81	\$0.78
<b>Packaging</b>				
Boxed Meat Format	\$23.10	\$24.10	\$23.42	\$22.60
Customer Special Packaging				
<b>Storage</b>				
Carcass	\$2.31	\$2.41	\$2.34	\$2.26
Product #	\$5.19	\$5.41	\$5.26	\$5.08
Carcass and Product Aging	\$3.74	\$3.90	\$3.79	\$3.66
<b>Distribution</b>				
General Distribution	\$5.96	\$6.22	\$6.05	\$5.83
Customer Program	\$2.38	\$2.48	\$2.41	\$2.32
Warehouse program	\$4.48	\$4.68	\$4.54	\$4.39
Export Program	\$2.38	\$2.48	\$2.41	\$2.32
Facility and outside storage	\$5.94	\$6.19	\$6.02	\$5.81
<b>2. Fabrication, Packaging and Distribution</b>	<b>\$116.52</b>	<b>\$121.53</b>	<b>\$118.11</b>	<b>\$114.00</b>
<b>Total Process Costs *</b>	<b>\$223.10</b>	<b>\$232.69</b>	<b>\$226.14</b>	<b>\$218.28</b>

\* Costs do not include start up related losses and Customer Sales and Marketing costs and losses

# BIA Financial Forecast "Base"

April 5th, 2010

## Section 3.8 - Start Up Fund Forecast

	Year #1	Year #2	Year #3	Year #4	Year #5	Total
<b>Production Efficiency</b>	95.00%	98.00%	99.00%	100.00%	100.00%	
<b>Production Efficiency Loss Dollars</b>	\$618,456	\$276,203	\$154,190	\$0	\$0	\$ 1,048,849
<b>Product Yield efficiency</b>	96.00%	97.00%	98.00%	99.00%	100.00%	
<b>Product Yield Loss Dollars</b>	\$ 6,035,567	\$ 4,979,342	\$ 3,651,518	\$ 1,825,759	\$ -	\$ 16,492,186
<b>Sales Capacity Efficiency Loss</b>	17.2%	9.01%	0.0%	0.0%	0.0%	
<b>Sales Capacity Loss Dollars</b>	\$ 490,241	\$ 293,864	\$ -	\$ -	\$ -	\$ 784,105
<b>Grand Total</b>	\$ 7,144,264	\$ 5,549,409	\$ 3,805,708	\$ 1,825,759	\$ -	\$ 18,325,140

## **Section 4 – Facility**

- 4.1 – Total Facility Summary
- 4.2 – Grey Water Development
- 4.3 – Kill and Chill Facility Summary
- 4.4 – Kill and Chill Site Estimate
- 4.5 – Kill and Chill Building Construction Estimate
- 4.6 – Kill and Chill Equipment Estimate
- 4.7 – Kill and Chill Utilities Estimate
- 4.8 – Fabrication Facility Estimate
- 4.9 – Fabrication Building Construction Estimate
- 4.10 – Fabrication Facility Equipment Estimate
- 4.11 – Fabrication Facility Utilities Estimate

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

CFIA Agriculture Canada/USDA Approval

## Section 4.1 - Total Facility Summary

Beef Toll Processing Facility 800 per day Capacity			
1	Kill and Chill Process Estimate	\$	34,959,328
2	Fabrication and Distribution Facility Estimate	\$	23,290,000
3	Section 4.2 - Grey Water Development	\$	6,380,000
<b>Total</b>		<b>\$</b>	<b>64,629,328</b>
5	Engineering/Project Management/Start-up	\$	3,203,713
6	Contingencies @ 10% TBS	\$	5,824,933
7	Start up Costs Management and Fixed	\$	1,446,218
<b>Grand Total Project</b>		<b>\$</b>	<b>75,104,191</b>

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

CFIA Agriculture Canada/USDA Approval

## Section 4.2 - Grey Water Development

Grey Water			
3.10 Process Wastewater Treatment		\$	4,500,000
3.20 Compost	40	\$ 30,000	1,200,000
3.30 Instalation		\$	100,000
3.30 Other		\$	580,000
<b>TOTAL SITE AND SITE IMPROVEMENTS</b>			<b>\$ 6,380,000</b>

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

CFIA Agriculture Canada/USDA Approval

## Section 4.3 - Kill and Chill Facility Summary

1	Site/Site Improvements	\$	2,425,000
2	New Building Construction	\$	14,280,228
3	Equipment and Furnishings Estimate	\$	8,639,100
4	Utilities/Refrigeration/Steam/Hydro	\$	9,615,000
<b>Total</b>		<b>\$</b>	<b>34,959,328</b>
5	Engineering/Project Management/Startup	\$	1,922,763
6	Contingencies @ 10%	\$	3,495,933
<b>Grand Total Project</b>		<b>\$</b>	<b>40,378,023</b>

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

CFIA Agriculture Canada/USDA Approval

## Section 4.4 - Kill and Chill Site Estimate

<b>1.10 SITE AND SITE IMPROVEMENTS</b>		
1.11 Purchase of Land (20 acres @70,000/acre)	\$	1,400,000
<b>1.20 SITE IMPROVEMENTS</b>		
1.21 Identity and Directional Monument/Signage	\$	75,000
1.22 Interior Roadway/Parking Lots/Landscaping Site Improvements	\$	600,000
1.23 Site Fencing/Security		
1.24 Underground Services/Drainage	\$	350,000
<b>TOTAL SITE AND SITE IMPROVEMENTS</b>	<b>\$</b>	<b>2,425,000</b>

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

CFIA Agriculture Canada/USDA Approval

## Section 4.5 - Kill and Chill Building Construction Estimate

Room No.	Space Requirement (Square Feet)	Space Requirement (Square Feet)	Estimated Cost per Square Foot	Estimated Construction Cost
101	VEST.	125	688	\$ 85.00 \$ 58,438
102	MAIN OFFICE	730	4015	\$ 85.00 \$ 341,275
103	OFFICE	149	820	\$ 85.00 \$ 69,658
104	OFFICE	147	809	\$ 85.00 \$ 68,723
105	LAB	121	666	\$ 125.00 \$ 83,188
106	WASHROOM	50	275	\$ 140.00 \$ 38,500
107	WASHROOM	33	182	\$ 140.00 \$ 25,410
108	FILE/STORAGE	108	594	\$ 85.00 \$ 50,490
109	CORRIDOR	290	1595	\$ 85.00 \$ 135,575
110	CFIA COMMON ROOM	166	913	\$ 85.00 \$ 77,605
111	VETS OFFICE	138	759	\$ 85.00 \$ 64,515
112	CFIA LOCKER ROOM	55	303	\$ 85.00 \$ 25,713
113	CFIA WASHROOM	65	358	\$ 140.00 \$ 50,050
114	CORRIDOR	103	567	\$ 85.00 \$ 48,153
115	LAUNDRY	117	644	\$ 100.00 \$ 64,350
116	MENS LOCKER ROOM	142	781	\$ 100.00 \$ 78,100
117	MENS WASHROOM	209	1150	\$ 140.00 \$ 160,930
118	WOMENS LOCKER ROOM	126	693	\$ 100.00 \$ 69,300
119	WOMENS WASHROOM	134	737	\$ 140.00 \$ 103,180
120	LUNCHROOM	407	2239	\$ 100.00 \$ 223,850
121	UTILITY CLOSET	34	187	\$ 85.00 \$ 15,895
122	STORAGE CLOSET	50	275	\$ 85.00 \$ 23,375
123	LAUNDRY	188	1034	\$ 100.00 \$ 103,400
124	CORRIDOR	182	1001	\$ 80.00 \$ 80,080
125	DIRTY LOCKER ROOM	132	726	\$ 100.00 \$ 72,600
126	DIRTY WASHROOM	118	649	\$ 140.00 \$ 90,860
127	STAIRS	104	572	\$ 140.00 \$ 80,080
128	DIRTY LUNCH ROOM	213	1172	\$ 100.00 \$ 117,150
129	LIVESTOCK HOLDING	2527	13899	\$ 70.00 \$ 972,895
130	EVISCERATION	1332	7326	\$ 100.00 \$ 732,600
131	HIDE-OFF AREA	1416	7788	\$ 100.00 \$ 778,800
132	RED OFFAL AND HEAD BONING	270	1485	\$ 100.00 \$ 148,500
133	TRIBE	241	1326	\$ 100.00 \$ 132,550
134	CORR.	627	3449	\$ 100.00 \$ 344,850
135	KNIFE ROOM	106	583	\$ 100.00 \$ 58,300
136	TROLLEY WASH	238	1309	\$ 140.00 \$ 183,260
137	TROLLEY STORAGE	181	996	\$ 100.00 \$ 99,550
138	CARCASS CORR. #1	787	4329	\$ 150.00 \$ 649,275
139	CARCASS CHILL #1	972	5346	\$ 175.00 \$ 935,550
140	CARCASS CHILL #2	944	5192	\$ 175.00 \$ 908,600
141	CARCASS HOLDING #3	2187	12029	\$ 175.00 \$ 2,104,988
142	NOT USED		0	\$ -
143	CARCASS CORR. #2	605	3328	\$ 150.00 \$ 499,125
144	QUARTERING COOLER	300	1650	\$ 150.00 \$ 247,500
145	SHIPPING AREA	452	2486	\$ 125.00 \$ 310,750
146	EDIBLE OFFAL CHILLER	224	1232	\$ 150.00 \$ 184,800
147	SHIPPING OFFICE	211	1161	\$ 100.00 \$ 116,050
B101	CORR.	1405	7728	\$ 60.00 \$ 463,650
B102	INEDIBLE ROOM	1912	10516	\$ 60.00 \$ 630,960
B103	MAINTENANCE ROOM	486	2673	\$ 75.00 \$ 200,475
B104	BOILER/ENGINE ROOM	1415	7783	\$ 80.00 \$ 622,600
B105	MAINTENANCE STOR.	805	4428	\$ 80.00 \$ 354,200
B106	MECHANICAL ROOM	409	2250	\$ 80.00 \$ 179,960
<b>Total</b>		<b>24,488</b>	<b>134,684</b>	<b>583</b> <b>14,280,228</b>

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.6 - Kill and Chill Equipment Estimate

3.00 Equipment and Furnishings			
3.10	Slaughter/Evisceration Process Equipment	\$	9,358,700
3.30	Chill/Holding Coolers	\$	750,000
3.10	Staging/Shipping (Material Handling)	\$	450,000
3.11	Employee Welfare Includes for lockers, washroom furnishings, lunchroom furnishings, shelving, etc. clothing, knives, protective equipment	\$	350,000
3.12	Administrative/Management Offices Furnishings, office equipment, telephone system,	\$	180,000
3.13	Manufacturing Support System Data Collection/Grading System Yield Control and Reporting	\$	1,400,000
3.14	Administrative Systems	\$	1,000,000
<b>Total</b>		<b>\$</b>	<b>8,639,100</b>

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.7 - Kill and Chill Utilities Estimate

4.00 UTILITIES ESTIMATE			
4.10	<b>Process and Sanitation Hot Water</b> 100 HP Oil Fired Hot Water Boiler c/w high pressure pumps, piping and distribution	\$	900,000
4.20	<b>Water Treatment (Softening/Iron Removal)</b>	\$	540,000
4.40	<b>Refrigeration</b> 800 horsepower ammonia refrigeration system, space cooling evaporators, evaporative condensor, water treatment, piping, controls and installation	\$	7,200,000
4.60	<b>Compressed Air</b> 2 X 25 HP Compressed air system, refrigerated air dryer, storage tank, controls, installed.	\$	450,000
4.70	<b>Sanitation System</b> Tanks, piping, controls, distribution, installed	\$	525,000
<b>TOTAL</b>		\$	<b>9,615,000</b>

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.8 - Fabrication Facility Estimate

1	Site/Site Improvements	\$	-
2	Building	\$	11,535,000
3	Equipment and Furnishings Estimate	\$	7,800,000
4	Utilities/Refrigeration/Steam/Hydro	\$	3,955,000
<b>Total</b>		<b>\$</b>	<b>23,290,000</b>
5	Engineering/Project Management/Startup	\$	1,280,950
6	Contingencies @ 10%	\$	2,329,000
<b>Grand Total Project</b>		<b>\$</b>	<b>26,899,950</b>

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.9 - Fabrication Building Construction Estimate

NEW BUILDING CONSTRUCTION	Space Requirement (Square Feet)	Estimated Cost per Square Foot	Estimated Construction Cost
Fabrication Room Main Break	6,000	\$ 175	\$ 1,050,000
Fabrication Room #2	4,500	\$ 175	\$ 787,500
Converting Cuts Room	5,000	\$ 175	\$ 875,000
Distribution Assembly	7,500	\$ 175	\$ 1,312,500
Distribution	7,500	\$ 175	\$ 1,312,500
Storage Cooler	5,500	\$ 175	\$ 962,500
Freezer #1	5,500	\$ 250	\$ 1,375,000
Freezer #2	6,500	\$ 250	\$ 1,625,000
Export Assembly	3,500	\$ 150	\$ 525,000
Dry Storage	3,500	\$ 150	\$ 525,000
Employee Welfare #1	2,500	\$ 110	\$ 275,000
Employee Welfare #2	2,500	\$ 130	\$ 325,000
Misc	4,500	\$ 130	\$ 585,000
<b>Total Fabrication and Distribution</b>	<b>64,500</b>		<b>11,535,000</b>

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.10 - Fabrication Facility Equipment Estimate

<b>3.00 Equipment and Furnishings</b>			
<b>3.10</b>	<b>Carcass Holding Cooler Rails</b>		
	500 lf @ \$125.00/lf	\$	281,250
<b>3.20</b>	<b>Breaking and Boning Equipment</b>	\$	2,400,000
<b>3.30</b>	<b>Vacuum Packaging Equipment including Shrink Tunnel</b>	\$	1,250,000
<b>3.40</b>	<b>Weigh/Print/Apply (Cartons)</b>	\$	300,000
<b>3.50</b>	<b>Metal Detection</b>	\$	112,500
<b>3.60</b>	<b>Carton Strapping</b>	\$	112,500
<b>3.70</b>	<b>Cooler/Freezer Racking</b>	\$	225,000
<b>3.80</b>	<b>Material Handling Equipment</b>	\$	750,000
<b>3.90</b>	<b>Employee Welfare</b>	\$	325,000
<b>3.12</b>	<b>Administrative/Management Offices</b>	\$	300,000
	Furnishings, office equipment, telephone system,		
<b>3.13</b>	<b>Manufacturing Support System</b>		
	Data Collection/Grading System	\$	900,000
	Yield Control and Reporting		
<b>3.14</b>	<b>Equipment Installation</b>	\$	843,750
<b>Total</b>		<b>\$</b>	<b>7,800,000</b>

# BIA Financial Forecast "Base"

April 5th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.11 - Fabrication Facility Utilities Estimate

4.00 UTILITIES ESTIMATE			
4.10	<b>Process and Sanitation Hot Water</b> 50 HP Gas Fired Hot Water Boiler c/w high pressure pumps, piping and distribution	\$	450,000
4.20	<b>Water Treatment (Softening)</b>	\$	135,000
4.40	<b>Refrigeration</b> 250 horsepower ammonia refrigeration system, space cooling evaporators, evaporative condensor, water treatment, piping, controls and installation	\$	2,400,000
4.60	<b>Compressed Air</b> 1 X 25 HP Compressed air system, refrigerated air dryer, storage tank, controls, installed.	\$	240,000
4.70	<b>Sanitation System</b> Tanks, piping, controls, distribution, installed	\$	450,000
4.80	<b>Building Mechanical Requirements</b>	\$	280,000
<b>TOTAL</b>		<b>\$</b>	<b>3,955,000</b>

# **Appendix 2 - BIA “Facility Scenario 40%” Financial Forecasts**



## **MALLOT CREEK STRATEGIES INC.**

Old Quarry Commons

294 Mill Street East, Suite 201, Elora, Ontario N0B 1S0

Tel: (519) 846-1830

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## **Section 1 – Financial Pro Forma Statements**

- 1.1 – BIA Statement of Pro Forma Income
- 1.2 – Pro Forma Cash Flow
- 1.3 – Pro Forma Balance Sheet
- 1.4 – Financial Scenario
- 1.5 – Financial Ratio's
- 1.6 – Investment Breakdown
- 1.7 – Source and Use of Funds

## **Section 2 – Revenue Centre's**

- 2.1 – Information Sheet
- 2.2 – BIA Sales Plan
  - 2.2.1 – Level #1 Sales Plan
  - 2.2.2 – Level #2 Sales Plan
  - 2.2.3 – Level #3 Sales Plan

## **Section 3 – Cost Centre's**

- 3.1 – Expense Allocation
- 3.2 – BIA Operational Budget Allocation
- 3.3 – Sales and Marketing Budget
- 3.4 – BIA Operational Cost Forecasts
- 3.5 – Variable Kill and Chill Cost Forecasts
- 3.6 – Fabrication, Packaging and Distribution Variable Cost Forecasts
- 3.7 – Cost Flow Pricing Category Breakdown Year #1
- 3.8 – Start Up Fund Forecasts

## **Section 4 – Facility**

- 4.1 – Total Facility Summary
- 4.2 – Grey Water Development
- 4.3 – Kill and Chill Facility Summary
- 4.4 – Kill and Chill Site Estimate
- 4.5 – Kill and Chill Building Construction Estimate
- 4.6 – Kill and Chill Equipment Estimate
- 4.7 – Kill and Chill Utilities Estimate
- 4.8 – Fabrication Facility Estimate
- 4.9 – Fabrication Building Construction Estimate
- 4.10 – Fabrication Facility Equipment Estimate
- 4.11 – Fabrication Facility Utilities Estimate

## **Section 1 – Financial Pro Forma Statements**

- 1.1 – BIA Statement of Pro Forma Income
- 1.2 – Pro Forma Cash Flow
- 1.3 – Pro Forma Balance Sheet
- 1.4 – Financial Scenario
- 1.5 – Financial Ratio's
- 1.6 – Investment Breakdown
- 1.7 – Source and Use of Funds

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 1.1 - BIA Statement of Pro Forma Income

	Year #1	Year #2	Year #3	Year #4	Year #5
Level #1	\$ 7,790,640	\$ 8,696,705	\$ 9,526,614	\$ 9,634,134	\$ 9,743,581
Level #2	\$ 7,852,481	\$ 8,765,737	\$ 9,602,234	\$ 9,710,607	\$ 9,820,923
Level #3	\$ 19,313,906	\$ 21,560,145	\$ 23,617,586	\$ 23,884,140	\$ 24,155,472
Other	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Sales</b>	<b>\$ 34,957,027</b>	<b>\$ 39,022,587</b>	<b>\$ 42,746,434</b>	<b>\$ 43,228,881</b>	<b>\$ 43,719,976</b>
<b>Other Income</b>					
Revenue	\$ 34,957,027	\$ 39,022,587	\$ 42,746,434	\$ 43,228,881	\$ 43,719,976
<b>Cost of Goods Sold:</b>					
Inventory - beginning					
Beef Purchases	\$0	\$0	\$0	\$0	\$0
Kill and Chill Variable	\$10,801,731	\$12,060,133	\$13,465,138	\$13,667,115	\$13,872,122
Line Commissioning Costs					
Fabrication and Distribution Variable	\$12,496,331	\$13,652,592	\$15,243,119	\$15,471,765	\$15,703,842
Inventory - end					
<b>Cost of Goods Sold</b>	<b>\$23,298,062</b>	<b>\$25,712,725</b>	<b>\$28,708,257</b>	<b>\$29,138,881</b>	<b>\$29,575,964</b>
<b>Gross Contribution</b>	<b>\$11,658,965</b>	<b>\$13,309,863</b>	<b>\$14,038,177</b>	<b>\$14,090,000</b>	<b>\$14,144,012</b>
<b>Operational Expense</b>					
Operational Expense	\$9,372,073	\$10,757,001	\$11,241,701	\$11,261,963	\$11,283,847
Start Up Loss	\$7,104,943	\$5,519,211	\$3,805,708	\$1,825,759	
<b>Total Expenses</b>	<b>\$16,477,016</b>	<b>\$16,276,212</b>	<b>\$15,047,409</b>	<b>\$13,087,722</b>	<b>\$11,283,847</b>
<b>Net Earnings (loss)</b>	<b>-\$4,818,050</b>	<b>-\$2,966,350</b>	<b>-\$1,009,232</b>	<b>\$1,002,279</b>	<b>\$2,860,165</b>
<b>Other Income</b>					
<b>Net Earnings (Loss)</b>	<b>-\$4,818,050</b>	<b>-\$2,966,350</b>	<b>-\$1,009,232</b>	<b>\$1,002,279</b>	<b>\$2,860,165</b>
<b>Beginning</b>					
Beginning	\$0	-\$4,818,050	-\$7,784,400	-\$8,793,632	-\$7,791,353
<b>Ending</b>	<b>-\$4,818,050</b>	<b>-\$7,784,400</b>	<b>-\$8,793,632</b>	<b>-\$7,791,353</b>	<b>-\$4,931,188</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 1.2 - Pro Forma Cash Flow

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Cash Provided by (used in):</b>					
<b>Operations:</b>					
Net earnings for Year	(4,818,050)	(2,966,350)	(1,009,232)	1,002,279	2,860,165
Other					
Depreciation	1,006,726	2,013,452	2,013,452	2,013,452	2,013,452
	(3,811,325)	(952,898)	1,004,220	3,015,730	4,873,617
<b>Change in non-cash operating Working Capital</b>					
Accounts Receivable	(670,409)	(77,970)	(71,416)	(9,252)	(9,418)
Inventory	(287,318)	(33,416)	(30,607)	(3,965)	(4,036)
Prepaid Expenses					
Accounts Payable	898,268	(83,334)	94,940	13,648	13,853
Income Taxes Payable					
Deferred Taxes					
	(59,458)	(194,719)	(7,083)	430	398
<b>Net Cash From Operating Activities</b>	<b>(3,870,783)</b>	<b>(1,147,617)</b>	<b>997,136</b>	<b>3,016,161</b>	<b>4,874,015</b>
<b>Financing:</b>					
STD Bank Loan	300,000				
Bank Loan LTD	12,363,763				
Principal Repayment	(1,236,376)	(1,236,376)	(1,236,376)	(1,236,376)	(1,236,376)
Other					
<b>Issue of Shares</b>					
Class A Voting Shares	18,836,515				
Class B Shares	2,354,564				
Other Investment	2,354,564				
<b>Total</b>	<b>34,973,031</b>	<b>(1,236,376)</b>	<b>(1,236,376)</b>	<b>(1,236,376)</b>	<b>(1,236,376)</b>
<b>Investing:</b>					
Facility					
Kill and Chill Facility Estimate	(13,983,731)				
Fabrication and Distribution Facility Estimate	(9,316,000)				
Grey Water	(2,552,000)				
Engineering	(1,281,485)				
Contingency	(2,329,973)				
Start up Costs Management and Fixed	(1,446,218)				
Total Capital Asset	(30,909,407)				
<b>Net Increase in Cash</b>	<b>192,841</b>	<b>(2,383,994)</b>	<b>(239,240)</b>	<b>1,779,784</b>	<b>3,637,639</b>
<b>Cash (bank advance) at Beginning of Year</b>		<b>192,841</b>	<b>(2,191,153)</b>	<b>(2,430,393)</b>	<b>(650,609)</b>
<b>Cash (bank advance) at end of Year</b>	<b>192,841</b>	<b>(2,191,153)</b>	<b>(2,430,393)</b>	<b>(650,609)</b>	<b>2,987,030</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 1.3 - Pro Forma Balance Sheet

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Assets</b>					
<b>Current Assets:</b>					
Cash	\$ 192,841	-\$ 2,191,153	-\$ 2,430,393	-\$ 650,609	\$ 2,987,030
Accounts Receivable	\$ 670,409	\$ 748,378	\$ 819,795	\$ 829,047	\$ 838,465
Inventories	\$ 287,318	\$ 320,734	\$ 351,341	\$ 355,306	\$ 359,342
Goodwill					
<b>Total Current Assets</b>	<b>\$ 1,150,568</b>	<b>-\$ 1,122,041</b>	<b>-\$ 1,259,258</b>	<b>\$ 533,744</b>	<b>\$ 4,184,837</b>
<b>Capital Assets</b>	<b>\$ 29,902,681</b>	<b>\$ 27,889,230</b>	<b>\$ 25,875,778</b>	<b>\$ 23,862,326</b>	<b>\$ 21,848,875</b>
<b>Total Assets</b>	<b>\$ 31,053,249</b>	<b>\$ 26,767,189</b>	<b>\$ 24,616,520</b>	<b>\$ 24,396,071</b>	<b>\$ 26,033,712</b>
<b>Liabilities and Owners Equity</b>					
<b>Current Liabilities:</b>					
<b>Operating Loan</b>					
Accounts Payable	\$898,268	\$814,934	\$909,874	\$923,522	\$937,375
Current Portion Long Term Debt*	\$1,236,376	\$1,236,376	\$1,236,376	\$1,236,376	\$1,236,376
Operating Bank Loan	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
<b>Total Current Liabilities</b>	<b>\$2,434,645</b>	<b>\$2,351,310</b>	<b>\$2,446,250</b>	<b>\$2,459,898</b>	<b>\$2,473,751</b>
<b>Other</b>					
<b>Long Term Liabilities :</b>					
LTD	\$9,891,010	\$8,654,634	\$7,418,258	\$6,181,881	\$4,945,505
<b>Total Liabilities</b>	<b>\$12,325,655</b>	<b>\$11,005,944</b>	<b>\$9,864,508</b>	<b>\$8,641,780</b>	<b>\$7,419,256</b>
<b>Shareholder's Equity:</b>					
Class A Voting Shares	\$ 18,836,515	\$ 18,836,515	\$ 18,836,515	\$ 18,836,515	\$ 18,836,515
Class B Shares	\$ 2,354,564	\$ 2,354,564	\$ 2,354,564	\$ 2,354,564	\$ 2,354,564
Other Investment	\$ 2,354,564	\$ 2,354,564	\$ 2,354,564	\$ 2,354,564	\$ 2,354,564
Retained Earnings	-\$4,818,050	-\$7,784,400	-\$8,793,632	-\$7,791,353	-\$4,931,188
<b>Total Shareholder's Equity</b>	<b>\$ 18,727,594</b>	<b>\$ 15,761,244</b>	<b>\$ 14,752,012</b>	<b>\$ 15,754,291</b>	<b>\$ 18,614,456</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$31,053,249</b>	<b>\$26,767,189</b>	<b>\$24,616,520</b>	<b>\$24,396,071</b>	<b>\$26,033,712</b>
Check	\$0	\$0	\$0	\$0	\$0

Working Capital -\$1,284,077 -\$3,473,351 -\$3,705,508 -\$1,926,154 \$1,711,086

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 1.4 - Financial Scenario

<b>1.0 Facility Build Estimate</b>	
Kill and Chill Facility Estimate	\$ 13,983,731
Fabrication and Distribution Facility Estimate	\$ 9,316,000
<b>Total Building</b>	<b>\$ 23,299,731</b>
Grey Water	\$ 2,552,000
Engineering	\$ 1,281,485
Contingency	\$ 2,329,973
Start up Costs Management and Fixed	\$ 1,446,218
<b>1.0 Total Facility Costs</b>	<b>\$ 30,909,407</b>
<b>2.0 Investment Requirements</b>	
Total Cost	\$ 30,909,407
Start Up Equity	\$ 5,000,000
<b>2.0 Total Investment Requirements</b>	<b>\$ 35,909,407</b>
<b>3.0 Equity Investment Requirements</b>	
Class A Voting Shares	\$ 18,836,515
Class B Shares	\$ 2,354,564
Other Investment	\$ 2,354,564
<b>3.0 Total Equity Requirement</b>	<b>\$ 23,545,644</b>
<b>4.0 Debt Requirements</b>	
<b>4.0 Debt based on 40% of Facility Estimate</b>	<b>\$ 12,363,763</b>
<b>5.0 Start up and Training Fixed Cost Estimate</b>	
<b>5.0 Start up Month 1-12 pre opening</b>	<b>\$ 1,446,218</b>
<b>6.0 Production Start up Costs Year 1-5</b>	
Production Efficiency Loss Dollars	\$ 1,048,849
Product Yield Loss Dollars	\$ 16,492,186
Sales Capacity Loss Dollars	\$ 714,585
<b>6.0 Total Production Start up Costs Year 1-5</b>	<b>\$ 18,255,620</b>
<b>7.0 Working Capital Requirements</b>	
Additional ability to secure working capital	\$1,284,077
<b>7.0 Working Capital Requirements</b>	<b>\$1,284,077</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 1.5 - Financial Ratio's

<b>1.0 Tangible Net Worth</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Total Assets	\$ 31,053,249	\$ 26,767,189	\$ 24,616,520	\$ 24,396,071	\$ 26,033,712
Total Liabilities	\$12,325,655	\$11,005,944	\$9,864,508	\$8,641,780	\$7,419,256
Goodwill	\$0	\$0	\$0	\$0	\$0
<b>1.0 Tangible Net Worth</b>	<b>2.52</b>	<b>2.43</b>	<b>2.50</b>	<b>2.82</b>	<b>3.51</b>
<b>2.0 Current Ratio</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Total Current Assets	\$1,150,568	-\$1,122,041	-\$1,259,258	\$533,744	\$4,184,837
Total Current Liabilities	\$2,434,645	\$2,351,310	\$2,446,250	\$2,459,898	\$2,473,751
<b>2.0 Current Ratio</b>	<b>0.47</b>	<b>-0.48</b>	<b>-0.51</b>	<b>0.22</b>	<b>1.69</b>
<b>3.0 DSCR "Debt Service Ratio"</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Annual Net Income	-\$4,818,050	-\$2,966,350	-\$1,009,232	\$1,002,279	\$2,860,165
Amortization and Depreciation	\$ 1,006,726	\$ 2,013,452	\$ 2,013,452	\$ 2,013,452	\$ 2,013,452
Other	-\$3,811,325	-\$952,898	\$1,004,220	\$3,015,730	\$4,873,617
Principle Repayment	\$1,236,376	\$1,236,376	\$1,236,376	\$1,236,376	\$1,236,376
Interest Payments	\$ 834,445	\$ 749,135	\$ 663,825	\$ 578,515	\$ 493,205
Lease Payments	\$2,070,821	\$1,985,511	\$1,900,201	\$1,814,891	\$1,729,581
<b>3.0 DSCR "Debt Service Ratio"</b>	<b>-1.84</b>	<b>-0.48</b>	<b>0.53</b>	<b>1.66</b>	<b>2.82</b>
<b>4.0 Debt to Equity</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Interest Bearing LTD	\$9,891,010	\$8,654,634	\$7,418,258	\$6,181,881	\$4,945,505
Current Portion Long Term Debt*	\$1,236,376	\$1,236,376	\$1,236,376	\$1,236,376	\$1,236,376
	\$11,127,386	\$9,891,010	\$8,654,634	\$7,418,258	\$6,181,881
Shareholders Equity	\$18,727,594	\$15,761,244	\$14,752,012	\$15,754,291	\$18,614,456
<b>4.0 Debt to Equity</b>	<b>0.59</b>	<b>0.63</b>	<b>0.59</b>	<b>0.47</b>	<b>0.33</b>
<b>5.0 Fixed Charge Coverage Ratio</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2012</b>	<b>2013</b>
Net Income Before Interest and Taxes	-\$4,818,050	-\$2,966,350	-\$1,009,232	\$1,002,279	\$2,860,165
Interest +Fixed Costs	\$9,372,073	\$10,757,001	\$11,241,701	\$11,261,963	\$11,283,847
	\$4,554,023	\$7,790,652	\$10,232,469	\$12,264,241	\$14,144,012
Fixed Costs	\$8,537,628	\$10,007,866	\$10,577,877	\$10,683,448	\$10,790,642
<b>5.0 Fixed Charge Coverage Ratio</b>	<b>0.53</b>	<b>0.78</b>	<b>0.97</b>	<b>1.15</b>	<b>1.31</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 1.6 - Investment Breakdown

Total Investment

**\$ 35,909,407**

<b>Equity Investment</b>	<b>\$ 23,545,644</b>	<b>66%</b>
<b>Debt</b>	<b>\$ 12,363,763</b>	<b>34%</b>
<b>Financial Breakdown</b>		
		<b>%</b>
Class A Voting Shares	\$ 18,836,515	<b>80%</b>
Class B Shares	\$ 2,354,564	<b>10%</b>
Other Investment	\$ 2,354,564	<b>10%</b>
<b>Total Equity Investment</b>	<b>\$ 23,545,644</b>	<b>100%</b>
<b>Operating Capital Needs</b>		
	<b>\$1,284,077</b>	

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 1.7 - Source and Use of Funds

Source of Funds		Use of Funds	
Equity Investment	\$23,545,644	Facility Investment	\$ 30,909,407
Facility Based Debt	\$ 12,363,763	Operating Line	\$ 186,757
		Start up Investment	\$ 5,000,000
<b>Total Debt</b>	<b>\$ 12,363,763</b>		<b>\$ 5,186,757</b>
Operational Line Loan	\$ 186,757		
<b>Source of Funds</b>	<b>\$ 36,096,164</b>	<b>Use of Funds</b>	<b>\$ 36,096,164</b>

## **Section 2 – Revenue Centre's**

2.1 – Information Sheet

2.2 – BIA Sales Plan

2.2.1 – Level #1 Sales Plan

2.2.2 – Level #2 Sales Plan

2.2.3 – Level #3 Sales Plan

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 2.1 - Information Sheet

			Year #1	Year #2	Year #3	Year #4	Year #5
<b>Proposed Plant Weekly Capacity / Week</b>	<b>Average</b>	<b>Clients</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>
Level #1	100 to 250	175	4	700	770	847	847
Level #2	250 to 1200	363	2	726	799	878	878
Level #3	1200 to 2500	1850	1	1,850	2,035	2,239	2,239
<b>Average Weekly Kill</b>			<b>3,276</b>	<b>3,604</b>	<b>3,964</b>	<b>3,964</b>	<b>3,964</b>
Level #1			4	36,400	40,040	44,044	44,044
Level #2			2	37,752	41,527	45,680	45,680
Level #3			1	96,200	105,820	116,402	116,402
<b>Total Kill Per Year</b>			<b>170,352</b>	<b>187,387</b>	<b>206,126</b>	<b>206,126</b>	<b>206,126</b>
% of Capacity			81.9%	90.1%	99.1%	99.1%	99.1%
Rendering charge			\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12
Planned Conversion Factor			94%	94%	95%	95%	95%
Planned Conversion Factor Cow			94%	97%	95%	95%	95%
Lbs per Fat Cattle Rail			785	785	785	785	785
Kgs per animal "Fat"			356.1	356.1	356.1	356.1	356.1
Kgs per animal "Cull Cow"			325.0	325.0	325.0	325.0	325.0
<b>Proposed Toll Charges /KG</b>							
Kill and Chill			0.276	0.282	0.280	0.284	0.287
Fabrication			0.405	0.408	0.406	0.411	0.416
			60,355,667	66,391,233	73,030,357	73,030,357	73,030,357
			45,266,750	49,793,425	54,772,767	54,772,767	54,772,767
			\$ 16,631,222	\$ 18,715,074	\$ 20,484,238	\$ 20,712,126	\$ 20,944,139
			\$ 18,325,822	\$ 20,307,533	\$ 22,262,218	\$ 22,516,776	\$ 22,775,859
			\$ 34,957,045	\$ 39,022,606	\$ 42,746,456	\$ 43,228,903	\$ 43,719,997
			<b>Year #1</b>	<b>Year #2</b>	<b>Year #3</b>	<b>Year #4</b>	<b>Year #5</b>
<b>1. Kill and Chill</b>							
Level #1		104%	\$ 0.287	\$ 0.294	\$ 0.293	\$ 0.296	\$ 0.299
Level #2		101%	\$ 0.279	\$ 0.286	\$ 0.284	\$ 0.287	\$ 0.291
Level #3		98%	\$ 0.270	\$ 0.276	\$ 0.274	\$ 0.277	\$ 0.281
<b>2. Fabrication and Distribution</b>							
Level #1		104%	\$ 0.422	\$ 0.425	\$ 0.424	\$ 0.429	\$ 0.434
Level #2		101%	\$ 0.410	\$ 0.413	\$ 0.412	\$ 0.417	\$ 0.421
Level #3		98%	\$ 0.396	\$ 0.399	\$ 0.398	\$ 0.402	\$ 0.407
<b>Total Package</b>							
Level #1			\$ 0.710	\$ 0.719	\$ 0.716	\$ 0.725	\$ 0.733
Level #2			\$ 0.690	\$ 0.699	\$ 0.696	\$ 0.704	\$ 0.712
Level #3			\$ 0.666	\$ 0.675	\$ 0.672	\$ 0.680	\$ 0.687
			\$ 34,957,027	\$ 39,022,587	\$ 42,746,434	\$ 43,228,881	\$ 43,719,976

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 2.2 - BIA Sales Plan

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Level #1</b>					
Animals	36,400	40,040	44,044	44,044	44,044
Weight KG	12,896,510	14,186,161	15,604,777	15,604,777	15,604,777
Boxed Meat	9,672,382	10,639,621	11,703,583	11,703,583	11,703,583
Dollars	\$ 7,790,640	\$ 8,696,705	\$ 9,526,614	\$ 9,634,134	\$ 9,743,581
<b>Level #2</b>					
Animals	37,752	41,527	45,680	45,680	45,680
Weight KG	13,375,523	14,713,076	16,184,383	16,184,383	16,184,383
Boxed Meat	10,031,642	11,034,807	12,138,287	12,138,287	12,138,287
Dollars	\$ 7,852,481	\$ 8,765,737	\$ 9,602,234	\$ 9,710,607	\$ 9,820,923
<b>Level #3</b>					
Animals	96,200	105,820	116,402	116,402	116,402
Weight KG	34,083,633	37,491,997	41,241,196	41,241,196	41,241,196
Boxed Meat	25,562,725	28,118,998	30,930,897	30,930,897	30,930,897
Dollars	\$ 19,313,906	\$ 21,560,145	\$ 23,617,586	\$ 23,884,140	\$ 24,155,472
<b>Grand Total</b>					
Animals	170,352	187,387	206,126	206,126	206,126
Weight KG	60,355,667	66,391,233	73,030,357	73,030,357	73,030,357
Boxed Meat	45,266,750	49,793,425	54,772,767	54,772,767	54,772,767
Dollars	\$ 34,957,027	\$ 39,022,587	\$ 42,746,434	\$ 43,228,881	\$ 43,719,976

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 2.2.1 - Level #1 Sales Plan

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Customer #1</b>	<b>25%</b>				
Animals		9,100	10,010	11,011	11,011
Weight KG	354	3,224,127	3,546,540	3,901,194	3,901,194
Dollars	\$ 0.71	\$ 2,288,006	\$ 2,516,807	\$ 2,768,487	\$ 2,768,487
<b>Customer #2</b>	<b>25%</b>				
Animals		9,100	10,010	11,011	11,011
Weight KG	354	3,224,127	3,546,540	3,901,194	3,901,194
Dollars	\$ 0.71	2,288,006	2,516,807	2,768,487	2,768,487
<b>Customer #3</b>	<b>25%</b>				
Animals		9,100	10,010	11,011	11,011
Weight KG	354	3,224,127	3,546,540	3,901,194	3,901,194
Dollars	\$ 0.71	2,288,006	2,516,807	2,768,487	2,768,487
<b>Customer #4</b>	<b>25%</b>				
Animals		9,100	10,010	11,011	11,011
Weight KG	354	3,224,127	3,546,540	3,901,194	3,901,194
Dollars	\$ 0.71	2,288,006	2,516,807	2,768,487	2,768,487
<b>Total Level #1</b>	<b>100%</b>				
Animals		36,400	40,040	44,044	44,044
Weight KG	354.3	12,896,510	14,186,161	15,604,777	15,604,777
Boxed	265.7	9,672,382	10,639,621	11,703,583	11,703,583
Kill and Chill	\$ 0.29	\$ 3,706,488	\$ 4,170,902	\$ 4,565,184	\$ 4,615,972
Fabrication	\$ 0.42	\$ 4,084,152	\$ 4,525,803	\$ 4,961,430	\$ 5,018,162
Dollars	\$ 0.71	\$ 7,790,640	\$ 8,696,705	\$ 9,526,614	\$ 9,634,134
					\$ 9,743,581

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 2.2.2 - Level #2 Sales Plan

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Customer #1</b>	<b>50%</b>				
Animals		18,876	20,764	22,840	22,840
Weight KG	354.30	6,687,762	7,356,538	8,092,192	8,092,192
Kill and Chill					
Boxed					
Dollars	\$ 0.69	\$ 4,612,336	\$ 5,073,569	\$ 5,580,926	\$ 5,580,926
<b>Customer #2</b>	<b>50%</b>				
Animals		18,876	20,764	22,840	22,840
Weight KG	354	6,687,762	7,356,538	8,092,192	8,092,192
Dollars	\$ 0.69	4,612,336	5,073,569	5,580,926	5,580,926
<b>Customer #3</b>	<b>0%</b>				
Animals		0	0	0	0
Weight KG	354	-	-	-	-
Dollars	\$ 0.69	-	-	-	-
<b>Customer #4</b>	<b>0%</b>				
Animals		0	0	0	0
Weight KG	354.3 266	-	-	-	-
Dollars	\$ 0.69	-	-	-	-
<b>Total Level #1</b>	<b>100%</b>				
Animals		37,752	41,527	45,680	45,680
Weight KG	354	13,375,523	14,713,076	16,184,383	16,184,383
Boxed	266	10,031,642	11,034,807	12,138,287	12,138,287
Kill and Chill	\$ 0.28	\$ 3,735,910	\$ 4,204,010	\$ 4,601,421	\$ 4,652,612
Fabrication	\$ 0.41	\$ 4,116,571	\$ 4,561,728	\$ 5,000,813	\$ 5,057,995
Dollars	\$ 0.69	\$ 7,852,481	\$ 8,765,737	\$ 9,602,234	\$ 9,710,607

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 2.2.3 - Level #3 Sales Plan

	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Customer #1</b>	<b>100%</b>				
Animals		96,200	105,820	116,402	116,402
Weight KG	354.30	34,083,633	37,491,997	41,241,196	41,241,196
Boxed Meat	265.72	25,562,725	28,118,998	30,930,897	30,930,897
Kill and Chill					
Boxed					
Dollars	\$ 0.69	\$ 23,506,394	\$ 25,857,034	\$ 28,442,737	\$ 28,442,737
<b>Customer #2</b>	<b>0%</b>				
Animals		0	0	0	0
Weight KG	354.30	-	-	-	-
Boxed Meat	265.72				
Dollars	\$ 0.69	-	-	-	-
<b>Customer #3</b>	<b>0%</b>				
Animals		0	0	0	0
Weight KG	354	-	-	-	-
Boxed Meat	265.72				
Dollars	\$ 0.69	-	-	-	-
<b>Customer #4</b>	<b>0%</b>				
Animals		0	0	0	0
Weight KG	354	-	-	-	-
Dollars	\$ 0.69	-	-	-	-
<b>Total Level #1</b>	<b>100%</b>				
Animals		96,200	105,820	116,402	116,402
Weight KG	354.30	34,083,633	37,491,997	41,241,196	41,241,196
Boxed	265.72	25,562,725	28,118,998	30,930,897	30,930,897
Kill and Chill	\$ 0.27	\$ 9,188,816	\$ 10,340,153	\$ 11,317,623	\$ 11,443,532
Fabrication	\$ 0.40	\$ 10,125,090	\$ 11,219,992	\$ 12,299,964	\$ 12,440,608
Dollars	\$ 0.69	\$ 19,313,906	\$ 21,560,145	\$ 23,617,586	\$ 23,884,140
					\$ 24,155,472

### **Section 3 – Cost Centre's**

3.1 – Expense Allocation

3.2 – BIA Operational Budget Allocation

3.3 – Sales and Marketing Budget

3.4 – BIA Operational Cost Forecasts

3.5 – Variable Kill and Chill Cost Forecasts

3.6 – Fabrication, Packaging and Distribution Variable Cost Forecasts

3.7 – Cost Flow Pricing Category Breakdown Year #1

3.8 – Start Up Fund Forecasts

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 3.1 - Expense Allocation

	170,352	187,387	206,126	206,126	206,126
	Year #1	Year #2	Year #3	Year #4	Year #5
<b>Variable Expenses</b>					
Kill and Chill	\$10,801,731	\$12,060,133	\$13,465,138	\$13,667,115	\$13,872,122
Fabrication and Distribution	\$12,496,331	\$13,652,592	\$15,243,119	\$15,471,765	\$15,703,842
	<b>\$23,298,062</b>	<b>\$25,712,725</b>	<b>\$28,708,257</b>	<b>\$29,138,881</b>	<b>\$29,575,964</b>
<b>Operational Expenses</b>					
	\$9,372,073	\$10,757,001	\$11,241,701	\$11,261,963	\$11,283,847
	<b>\$9,372,073</b>	<b>\$10,757,001</b>	<b>\$11,241,701</b>	<b>\$11,261,963</b>	<b>\$11,283,847</b>
	<b>\$32,670,135</b>	<b>\$36,469,726</b>	<b>\$39,949,958</b>	<b>\$40,400,844</b>	<b>\$40,859,811</b>
	Year #1	Year #2	Year #3	Year #4	Year #5
Hot Carcass Weight	356.08	356.08	356.08	356.08	356.08
Carcass Shrink	0.5%	354.30	354.30	354.30	354.30
Boxed Meat	25%	265.72	265.72	265.72	265.72
Cost Categories	Year #1	Year #2	Year #3	Year #4	Year #5
1. Kill and Chill	\$ 90.92	\$ 93.06	\$ 92.59	\$ 93.62	\$ 94.67
2. Fabrication and Distribution	\$ 100.86	\$ 101.56	\$ 101.22	\$ 102.38	\$ 103.56
<b>Total Per Animal</b>	<b>\$ 191.78</b>	<b>\$ 194.62</b>	<b>\$ 193.81</b>	<b>\$ 196.00</b>	<b>\$ 198.23</b>
<b>Margin</b>	<b>7%</b>	<b>\$ 13.42</b>	<b>\$ 13.62</b>	<b>\$ 13.57</b>	<b>\$ 13.72</b>
	<b>\$ 205.20</b>	<b>\$ 208.25</b>	<b>\$ 207.38</b>	<b>\$ 209.72</b>	<b>\$ 212.10</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 3.2 - BIA Operational Budget Allocation

	Year #1	/animal	/animal	/animal	/animal	/animal
<b>Facility Costs</b>						
Animals	170,352					
Weight KG	356.08	60,658,961				
Carcass Shrink	354.30	60,355,667				
Boxed Meat	265.72	45,266,750				
Operational Costs	\$ 9,372,073	\$ 55.02	\$ 57.41	\$ 54.54	\$ 54.64	\$ 54.74
Kill and Chill Costs	\$ 10,801,731	\$ 63.41	\$ 64.36	\$ 65.32	\$ 66.30	\$ 67.30
Fabrication Costs	\$ 12,496,331	\$ 73.36	\$ 72.86	\$ 73.95	\$ 75.06	\$ 76.19
Profit	\$ 2,286,909	\$ 13.42	\$ 13.62	\$ 13.57	\$ 13.72	\$ 13.88
<b>Total Cost</b>	<b>\$ 34,957,045</b>	<b>\$ 205.20</b>	<b>\$ 208.25</b>	<b>\$ 207.38</b>	<b>\$ 209.72</b>	<b>\$ 212.10</b>
<b>Cost Categories</b>						
Kill and Chill	\$ 16,631,222	\$ 97.63	\$ 99.87	\$ 99.38	\$ 100.48	\$ 101.61
Fabrication and Distribution	\$ 18,325,822	\$ 107.58	\$ 108.37	\$ 108.00	\$ 109.24	\$ 110.49
<b>Total Cost</b>	<b>\$ 34,957,045</b>	<b>\$ 205.20</b>	<b>\$ 208.25</b>	<b>\$ 207.38</b>	<b>\$ 209.72</b>	<b>\$ 212.10</b>
<b>Price Calculation</b>						
Kill and Chill	354.30	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.29
Fabrication and Distribution	265.72	\$ 0.40	\$ 0.41	\$ 0.41	\$ 0.41	\$ 0.42
<b>Level #1</b>						
Animals	36,400					
Weight KG	354.30	12,896,510				
Boxed Meat	265.72	9,672,382				
Dollars Sales						
Fixed allocation % by kg						
Variable allocation % by kg						
Capacity allocation demerit % by kg						
Kg Charge						
<b>Dollars Sales</b>	<b>\$ 7,790,640</b>					
<b>Level #2</b>						
Animals	37,752					
Weight KG		13,375,523				
Dollars Sales						
Fixed allocation % by kg						
Variable allocation % by kg						
Capacity allocation demerit % by kg						
Kg Charge						
<b>Dollars Sales</b>	<b>\$ 7,852,481</b>					
<b>Level #3</b>						
Animals	96,200					
Weight KG		34,083,633				
Dollars Sales						
Fixed allocation % by kg						
Variable allocation % by kg						
Capacity allocation demerit % by kg						
Kg Charge						
<b>Dollars Sales</b>	<b>\$ 19,313,906</b>					
<b>Total</b>						
Animals	170,352					
Weight KG		60,355,667				
Dollars Sales						
Fixed allocation % by kg						
Variable allocation % by kg						
Capacity allocation demerit % by kg						
Kg Charge						
<b>Total Dollar Sales</b>	<b>\$ 34,957,027</b>					

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 3.3 - Sales and Marketing Variable Budget

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Total Fabrication KGs</b>	<b>60,355,667</b>	<b>66,391,233</b>	<b>73,030,357</b>	<b>73,030,357</b>	<b>73,030,357</b>
<b>Sales and Marketing Kgs</b>	<b>33%</b>	<b>19,917,370</b>	<b>21,909,107</b>	<b>24,100,018</b>	<b>24,100,018</b>
Sales and Marketing Fixed					
Sales and Marketing Program	\$ 0.019	\$ 378,430	\$ 416,273	\$ 457,900	\$ 457,900
Brokerage / Other "Over and Above"	\$ 0.005	\$ 99,587	\$ 109,546	\$ 120,500	\$ 120,500
Other	\$ 0.019	\$ 378,430	\$ 416,273	\$ 457,900	\$ 457,900
<b>Total Sales Programs</b>	<b>\$0.1150</b>	<b>\$ 856,447</b>	<b>\$ 942,092</b>	<b>\$ 1,036,301</b>	<b>\$ 1,036,301</b>
<b>Labour</b>		<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>
Plant Staff	10	11	12	12	12
Labour Rate per hour Including Benefits	\$ 16.07	\$ 16.39	\$ 16.72	\$ 17.06	\$ 17.40
Labour Efficiency	0	0	0	0	0
Hours/ week	37.5	37.5	37.5	37.5	37.5
<b>Total Labour</b>	<b>\$313,393</b>	<b>\$351,627</b>	<b>\$391,265</b>	<b>\$399,090</b>	<b>\$407,072</b>
<b>Total Brand Variable</b>	<b>\$1,169,840</b>	<b>\$1,293,718</b>	<b>\$1,427,565</b>	<b>\$1,435,391</b>	<b>\$1,443,373</b>
<b>Sales and Marketing Charge kg</b>	<b>\$ 0.0587</b>	<b>\$ 0.0590</b>	<b>\$ 0.0592</b>	<b>\$ 0.0596</b>	<b>\$ 0.0599</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 3.4 - BIA Operational Cost Forecasts

Fixed Labour		Start up	Year #1	/animal	Year #2	/animal	Year #3	/animal	Year #4	/animal	Year #5	/animal													
Estimated Kill			170,352		187,387		206,126		206,126		206,126														
Revenue		\$	34,957,027		\$	39,022,587		\$	42,746,434		\$	43,228,881		\$	43,719,976										
Management Salaries		Salary	1.50%		1.50%		1.50%		1.50%		1.50%														
General Manager	1	\$	200,000	\$	200,000	\$	200,000	\$	1.17	\$	203,000	\$	1.08	\$	206,045	\$	1.00	\$	209,136	\$	1.01	\$	212,273	\$	1.03
Assistant Manager	1	\$	125,000	\$	62,500	\$	125,000	\$	0.73	\$	126,875	\$	0.68	\$	128,778	\$	0.62	\$	130,710	\$	0.63	\$	132,670	\$	0.64
Production Manager	1	\$	100,000	\$	50,000	\$	100,000	\$	0.59	\$	101,500	\$	0.54	\$	103,023	\$	0.50	\$	104,568	\$	0.51	\$	106,136	\$	0.51
Sales Manager	1	\$	100,000	\$	50,000	\$	100,000	\$	0.59	\$	101,500	\$	0.54	\$	103,023	\$	0.50	\$	104,568	\$	0.51	\$	106,136	\$	0.51
Sales	1.5	\$	75,000	\$	15,000	\$	112,500	\$	0.66	\$	114,188	\$	0.61	\$	115,900	\$	0.56	\$	117,639	\$	0.57	\$	119,403	\$	0.58
Order Desk	3	\$	50,000	\$	15,000	\$	150,000	\$	0.88	\$	152,250	\$	0.81	\$	154,534	\$	0.75	\$	156,852	\$	0.76	\$	159,205	\$	0.77
HACCP Coordinator	1	\$	80,000	\$	56,000	\$	80,000	\$	0.47	\$	81,200	\$	0.43	\$	82,418	\$	0.40	\$	83,654	\$	0.41	\$	84,909	\$	0.41
HACCP	2	\$	50,000	\$	5,000	\$	100,000	\$	0.59	\$	101,500	\$	0.54	\$	103,023	\$	0.50	\$	104,568	\$	0.51	\$	106,136	\$	0.51
Production Supervisor	6	\$	75,000	\$	90,000	\$	450,000	\$	2.64	\$	456,750	\$	2.44	\$	463,601	\$	2.25	\$	470,555	\$	2.28	\$	477,614	\$	2.32
Maintenance	5	\$	60,000	\$	60,000	\$	300,000	\$	1.76	\$	304,500	\$	1.62	\$	309,068	\$	1.50	\$	313,704	\$	1.52	\$	318,409	\$	1.54
Maintenance Supervisor	1	\$	80,000	\$	60,000	\$	80,000	\$	0.47	\$	81,200	\$	0.43	\$	82,418	\$	0.40	\$	83,654	\$	0.41	\$	84,909	\$	0.41
Finance	1	\$	100,000	\$	75,000	\$	100,000	\$	0.59	\$	101,500	\$	0.54	\$	103,023	\$	0.50	\$	104,568	\$	0.51	\$	106,136	\$	0.51
Finance Assistant	2	\$	50,000	\$	15,000	\$	100,000	\$	0.59	\$	101,500	\$	0.54	\$	103,023	\$	0.50	\$	104,568	\$	0.51	\$	106,136	\$	0.51
Other	6	\$	40,000	\$	36,000	\$	240,000	\$	1.41	\$	243,600	\$	1.30	\$	247,254	\$	1.20	\$	250,963	\$	1.22	\$	254,727	\$	1.24
Management Benefits	7.5%		\$	59,213	\$	167,813	\$	0.99	\$	170,330	\$	0.91	\$	172,885	\$	0.84	\$	175,478	\$	0.85	\$	178,110	\$	0.86	
<b>Total Management Wages and Benefits</b>			<b>\$</b>	<b>848,713</b>	<b>\$</b>	<b>2,405,313</b>	<b>\$</b>	<b>14.1</b>	<b>\$</b>	<b>2,441,392</b>	<b>\$</b>	<b>13.0</b>	<b>\$</b>	<b>2,478,013</b>	<b>\$</b>	<b>12.0</b>	<b>\$</b>	<b>2,515,183</b>	<b>\$</b>	<b>12.2</b>	<b>\$</b>	<b>2,552,911</b>	<b>\$</b>	<b>12.4</b>	
Expenses			Year #1		Year #2		Year #3		Year #4		Year #5														
Advertising and Promotion		\$	45,000	\$	45,000	\$	0.26	\$	45,675	\$	0.24	\$	46,360	\$	0.22	\$	47,056	\$	0.23	\$	47,761	\$	0.23		
Sales and Marketing Program			\$	1,169,840	\$	6.87	\$	1,293,718	\$	6.90	\$	1,427,565	\$	6.93	\$	1,435,391	\$	6.96	\$	1,443,373	\$	7.00			
Amortization			\$	1,006,726	\$	5.91	\$	2,013,452	\$	10.74	\$	2,013,452	\$	9.77	\$	2,013,452	\$	9.77	\$	2,013,452	\$	9.77			
Automotive	\$	0.22	\$	18,739	\$	37,477	\$	0.22	\$	41,844	\$	0.22	\$	46,718	\$	0.23	\$	47,419	\$	0.23	\$	48,130	\$	0.23	
Bad Debts	\$	0.09	\$	15,332	\$	0.09	\$	16,865	\$	0.09	\$	18,551	\$	0.09	\$	18,551	\$	0.09	\$	18,551	\$	0.09			
Business Taxes, Licences and Expenses	0.01574	\$	10,326,091		\$	162,572	\$	0.95	\$	165,010	\$	0.88	\$	167,486	\$	0.81	\$	169,998	\$	0.82	\$	172,548	\$	0.84	
Insurance	\$	0.50	\$	34,070	\$	85,176	\$	0.50	\$	93,694	\$	0.50	\$	103,063	\$	0.50	\$	103,063	\$	0.50	\$	103,063	\$	0.50	
Interest and Bank Charges	\$	0.15	\$	20,442	\$	25,553	\$	0.15	\$	28,108	\$	0.15	\$	30,919	\$	0.15	\$	30,919	\$	0.15	\$	30,919	\$	0.15	
Interest on LTD and Operating			\$	834,445	\$	4.90	\$	749,135	\$	4.00	\$	663,825	\$	3.22	\$	578,515	\$	2.81	\$	493,205	\$	2.39			
Office misc	\$	0.12	\$	19,590	\$	0.12	\$	21,550	\$	0.12	\$	23,704	\$	0.12	\$	23,704	\$	0.12	\$	23,704	\$	0.12			
Professional Fees	\$		\$	325,000	\$	250,000	\$	1.47	\$	150,000	\$	0.80	\$	100,000	\$	0.49	\$	100,000	\$	0.49	\$	100,000	\$	0.49	
Supply Chain Development	\$	0.10	\$	17,035	\$	0.10	\$	18,739	\$	0.10	\$	20,613	\$	0.10	\$	20,613	\$	0.10	\$	20,613	\$	0.10			
Repairs and Maintenance	\$	8.00	\$	1,362,816	\$	8.00	\$	1,521,584	\$	8.12	\$	1,698,849	\$	8.24	\$	1,724,331	\$	8.37	\$	1,750,196	\$	8.49			
Quality Assurance and HACCP	\$	0.67	\$	28,534	\$	114,136	\$	0.67	\$	127,433	\$	0.68	\$	142,279	\$	0.69	\$	144,413	\$	0.70	\$	146,579	\$	0.71	
Contract Work	\$	0.28	\$	47,699	\$	0.28	\$	52,468	\$	0.28	\$	57,715	\$	0.28	\$	57,715	\$	0.28	\$	57,715	\$	0.28			
Telephone	\$	0.89	\$	30,323	\$	151,613	\$	0.89	\$	166,775	\$	0.89	\$	183,452	\$	0.89	\$	183,452	\$	0.89	\$	183,452	\$	0.89	
Training	\$	0.20	\$	95,397	\$	34,070	\$	0.20	\$	37,477	\$	0.20	\$	41,225	\$	0.20	\$	41,225	\$	0.20	\$	41,225	\$	0.20	
Travel	\$	0.20	\$	34,070	\$	0.20	\$	37,477	\$	0.20	\$	41,225	\$	0.20	\$	41,225	\$	0.20	\$	41,225	\$	0.20			
Utilities	\$	9.12	\$	1,553,610	\$	9.12	\$	1,734,606	\$	9.26	\$	1,936,687	\$	9.40	\$	1,965,738	\$	9.54	\$	1,995,224	\$	9.68			
<b>Total Expenses</b>			<b>\$</b>	<b>597,505</b>	<b>\$</b>	<b>6,966,760</b>	<b>\$</b>	<b>40.90</b>	<b>\$</b>	<b>8,315,609</b>	<b>\$</b>	<b>44.38</b>	<b>\$</b>	<b>8,763,688</b>	<b>\$</b>	<b>42.52</b>	<b>\$</b>	<b>8,746,779</b>	<b>\$</b>	<b>42.43</b>	<b>\$</b>	<b>8,730,936</b>	<b>\$</b>	<b>42.36</b>	
<b>Grand Total</b>			<b>\$</b>	<b>1,446,218</b>	<b>\$</b>	<b>9,372,073</b>	<b>\$</b>	<b>55.02</b>	<b>\$</b>	<b>10,757,001</b>	<b>\$</b>	<b>57.41</b>	<b>\$</b>	<b>11,241,701</b>	<b>\$</b>	<b>54.54</b>	<b>\$</b>	<b>11,261,963</b>	<b>\$</b>	<b>54.64</b>	<b>\$</b>	<b>11,283,847</b>	<b>\$</b>	<b>54.74</b>	

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 3.5 - Variable Kill and Chill Cost Forecasts

	Year #1	/animal	Year #2	/animal	Year #3	/animal	Year #4	/animal	Year #5	/animal
<b>Kill / Year</b>	<b>170,352</b>		<b>187,387</b>		<b>206,126</b>		<b>206,126</b>		<b>206,126</b>	
<b>Cost Inflation</b>			<b>1.50%</b>		<b>1.50%</b>		<b>1.50%</b>		<b>1.50%</b>	
<b>Preparation Supplies</b>										
Cutting Tools	\$ 0.35	\$ 59,623	\$ 0.35	\$ 66,569	\$ 0.36	\$ 74,325	\$ 0.36	\$ 75,439	\$ 0.37	\$ 76,571
Grading Fees	\$ 0.55	\$ 93,694	\$ 0.55	\$ 104,609	\$ 0.56	\$ 116,796	\$ 0.57	\$ 118,548	\$ 0.58	\$ 120,326
Packaging Supplies	\$ 0.10	\$ 17,035	\$ 0.10	\$ 19,020	\$ 0.10	\$ 21,236	\$ 0.10	\$ 21,554	\$ 0.10	\$ 21,877
Cleaning and Shop Supplies	\$ 0.10	\$ 17,035	\$ 0.10	\$ 19,020	\$ 0.10	\$ 21,236	\$ 0.10	\$ 21,554	\$ 0.10	\$ 21,877
Uniform	\$ 0.25	\$ 42,588	\$ 0.25	\$ 47,550	\$ 0.25	\$ 53,089	\$ 0.26	\$ 53,885	\$ 0.26	\$ 54,694
Rendering and Compost	\$ 12.50	\$ 2,129,400	\$ 12.50	\$ 2,377,475	\$ 12.69	\$ 2,654,451	\$ 12.88	\$ 2,694,268	\$ 13.07	\$ 2,734,682
CFIA	\$ 1.58	\$ 268,304	\$ 1.58	\$ 299,562	\$ 1.60	\$ 334,461	\$ 1.62	\$ 339,478	\$ 1.65	\$ 344,570
SRM Program	\$ 19.50	\$ 3,321,864	\$ 19.50	\$ 3,708,861	\$ 19.79	\$ 4,140,943	\$ 20.09	\$ 4,203,058	\$ 20.39	\$ 4,266,103
<b>Total Preparation Supplies</b>	<b>\$ 34.93</b>	<b>\$ 5,949,544</b>	<b>\$ 34.93</b>	<b>\$ 6,642,665</b>	<b>\$ 35.45</b>	<b>\$ 7,416,536</b>	<b>\$ 35.98</b>	<b>\$ 7,527,784</b>	<b>\$ 36.52</b>	<b>\$ 7,640,701</b>
<b>Labour Rate Increase per year</b>			<b>1.5%</b>		<b>1.5%</b>		<b>1.5%</b>		<b>1.5%</b>	
<b>Rate per Beef</b>		\$28.48		\$28.91		\$29.34		\$29.78		\$30.23
Cost per employee		\$30,134		\$30,586		\$31,045		\$31,510		\$31,983
Cooler	3.5	26		29		31		31		31
Kill Floor	1.75	52		57		63		63		63
Fancy Meats	5.5	17		18		20		20		20
Shipping	6.0	15		17		18		18		18
General Plant	10.0	9		10		11		11		11
Maintenance	7.5	12		13		15		15		15
Distribution	3	30		33		37		37		37
Total Employee Kill and Chill		<b>161</b>		<b>177</b>		<b>195</b>		<b>195</b>		<b>195</b>
Labour Training Plan **	\$ -		\$ -		\$ -		\$ -		\$ -	
Hourly Wage Rate	\$ 16.07		\$ 16.31		\$ 16.56		\$ 16.81		\$ 17.06	
<b>Total Employee Wages &amp; Benefits and Training</b>		<b>\$4,852,188</b>	<b>\$28.48</b>	<b>\$5,417,467</b>	<b>\$28.91</b>	<b>\$6,048,602</b>	<b>\$29.34</b>	<b>\$6,139,331</b>	<b>\$29.78</b>	<b>\$6,231,421</b>
<b>Start up Labour Costs Budget***</b>										
<b>Total Kill and Chill Variable *</b>	<b>\$ 10,801,731</b>	<b>\$ 63.41</b>	<b>\$ 12,060,133</b>	<b>\$ 64.36</b>	<b>\$ 13,465,138</b>	<b>\$ 65.32</b>	<b>\$ 13,667,115</b>	<b>\$ 66.30</b>	<b>\$ 13,872,122</b>	<b>\$ 67.30</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 3.6 - Fabrication, Packaging and Distribution Variable Cost Forecasts

	Year #1	/animal	Year #2	/animal	Year #3	/animal	Year #4	/animal	Year #5	/animal
<b>Kill / Year</b>	170,352		187,387		206,126		206,126		206,126	
<b>Cost Inflation</b>			1.50%		1.50%		1.50%		1.50%	
<b>Preparation Supplies</b>										
Cutting Tools	\$ 0.11	\$ 18,739	\$ 0.11	\$ 20,922	\$ 0.11	\$ 23,359	\$ 0.11	\$ 23,710	\$ 0.12	\$ 24,065
Packaging Supplies	\$ 15.62	\$ 2,660,898	\$ 15.62	\$ 2,970,893	\$ 15.85	\$ 3,317,002	\$ 16.09	\$ 3,366,757	\$ 16.33	\$ 3,417,258
Cleaning and Shop Supplies	\$ 0.53	\$ 89,435	\$ 0.53	\$ 99,854	\$ 0.53	\$ 111,487	\$ 0.54	\$ 113,159	\$ 0.55	\$ 114,857
Uniform	\$ 0.95	\$ 161,834	\$ 0.95	\$ 180,688	\$ 0.96	\$ 201,738	\$ 0.98	\$ 204,764	\$ 0.99	\$ 207,836
CFIA	\$ 1.58	\$ 268,304	\$ 1.58	\$ 295,135	\$ 1.58	\$ 329,518	\$ 1.60	\$ 334,461	\$ 1.62	\$ 339,478
<b>Total Preparation Supplies</b>	<b>\$ 18.78</b>	<b>\$ 3,199,211</b>	<b>\$ 18.78</b>	<b>\$ 3,272,357</b>	<b>\$ 19.04</b>	<b>\$ 3,653,586</b>	<b>\$ 19.32</b>	<b>\$ 3,708,390</b>	<b>\$ 19.61</b>	<b>\$ 3,764,016</b>
<b>Total Processing Costs</b>										
<b>Distribution Expenses</b>										
Distribution Program	\$ 9.50	\$ 1,618,344	\$ 9.50	\$ 1,806,881	\$ 9.64	\$ 2,017,383	\$ 9.79	\$ 2,047,643	\$ 9.93	\$ 2,078,358
Distribution Expenses	\$ 0.95	\$ 161,834	\$ 0.95	\$ 180,688	\$ 0.96	\$ 201,738	\$ 0.98	\$ 204,764	\$ 0.99	\$ 207,836
<b>Total Distribution Expense</b>	<b>\$ 10.45</b>	<b>\$ 1,780,178</b>	<b>\$ 10.45</b>	<b>\$ 1,987,569</b>	<b>\$ 10.61</b>	<b>\$ 2,219,121</b>	<b>\$ 10.77</b>	<b>\$ 2,252,408</b>	<b>\$ 10.93</b>	<b>\$ 2,286,194</b>
<b>Labour Rate Increase per year</b>			1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Rate per Beef			\$44.13	\$44.79	\$44.79	\$45.46	\$45.46	\$46.14	\$46.14	\$46.83
Cost per employee		\$30,134		\$30,586		\$31,045		\$31,510		\$31,983
Main Break	2.25	40		44		49		49		49
Primals	0.95	96		105		116		116		116
Specialty	3	30		33		37		37		37
Shipping /Packaging	1.9	48		53		58		58		58
General Plant	6.0	15		17		18		18		18
Maintenance	4.5	20		22		24		24		24
Total Employee Kill and Chill		249		274		302		302		302
Labour Training Plan **		\$ -		\$ -		\$ -		\$ -		\$ -
Hourly Wage Rate		\$ 16.07		\$ 16.31		\$ 16.56		\$ 16.81		\$ 17.06
<b>Total Employee Wages and Benefits and Training</b>		<b>\$7,516,942</b>	<b>\$44.13</b>	<b>\$8,392,666</b>	<b>\$44.79</b>	<b>\$9,370,411</b>	<b>\$45.46</b>	<b>\$9,510,968</b>	<b>\$46.14</b>	<b>\$9,653,632</b>
<b>Start up Labour Costs Budget***</b>										
<b>Total Fab Variable *</b>		<b>\$ 12,496,331</b>	<b>\$ 73.36</b>	<b>\$ 13,652,592</b>	<b>\$ 74.43</b>	<b>\$ 15,243,119</b>	<b>\$ 75.55</b>	<b>\$ 15,471,765</b>	<b>\$ 76.68</b>	<b>\$ 15,703,842</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 3.7 - Cost Flow Pricing Category Breakdown Year #1

Cost Flow Centre Breakdown /Animal	Facility	Level 1	Level 2	Level 3
<b>Pricing Category</b>		104%	101%	98%
<b>1. Kill and Chill Cost Category</b>	\$ 115.13	\$ 120.08	\$ 116.70	\$ 112.64
<b>Receiving</b>				
Receiving	\$ 4.50	\$ 4.69	\$ 4.56	\$ 4.40
Segregation	\$ 19.50	\$ 20.34	\$ 19.77	\$ 19.08
<b>Raw Material &amp; Dry Receiving</b>				
Misc Packaging	\$ 1.80	\$ 1.88	\$ 1.82	\$ 1.76
Customer Specification Packaging	\$ 0.75	\$ 0.78	\$ 0.76	\$ 0.73
Storage General Supplies	\$ 10.89	\$ 11.36	\$ 11.04	\$ 10.65
<b>Kill</b>				
Stunning / Kill	\$ 53.00	\$ 55.28	\$ 53.72	\$ 51.85
Rail	\$ 7.00	\$ 7.30	\$ 7.10	\$ 6.85
Hide Offal and Other	\$ 12.50	\$ 13.04	\$ 12.67	\$ 12.23
<b>Chill</b>				
General Program	\$ 4.00	\$ 4.17	\$ 4.05	\$ 3.91
Carcass Shipping	\$ 1.19	\$ 1.24	\$ 1.21	\$ 1.16
<b>1. Kill and Chill Cost Category</b>	\$ 115.13	\$ 120.08	\$ 116.70	\$ 112.64
<b>2. Fabrication, Packaging and Distribution</b>				
<b>Fabrication</b>				
Primal Break	\$58.25	\$60.75	\$59.04	\$56.99
Product Segregation	\$1.15	\$1.20	\$1.17	\$1.13
Customer Further Converting Cuts Segregation	\$0.90	\$0.94	\$0.91	\$0.88
<b>Packaging</b>				
Boxed Meat Format	\$24.06	\$25.09	\$24.39	\$23.54
Customer Special Packaging				
<b>Storage</b>				
Carcass	\$3.25	\$3.39	\$3.29	\$3.18
Product #	\$5.19	\$5.41	\$5.26	\$5.08
Carcass and Product Aging	\$2.87	\$2.99	\$2.90	\$2.80
<b>Distribution</b>				
General Distribution	\$5.44	\$5.67	\$5.51	\$5.32
Customer Program	\$2.38	\$2.48	\$2.41	\$2.32
Warehouse program	\$3.44	\$3.59	\$3.49	\$3.36
Export Program	\$2.38	\$2.48	\$2.41	\$2.32
Facility and outside storage	\$5.94	\$6.19	\$6.02	\$5.81
<b>2. Fabrication, Packaging and Distribution</b>	\$115.23	\$120.18	\$116.80	\$112.74
<b>Total Process Costs *</b>	<b>\$230.36</b>	<b>\$240.26</b>	<b>\$233.50</b>	<b>\$225.38</b>

\* Costs do not include start up related losses and Customer Sales and Marketing costs and losses

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## Section 3.8 - Start Up Fund Forecast

	Year #1	Year #2	Year #3	Year #4	Year #5	Total
<b>Production Efficiency</b>	95.00%	98.00%	99.00%	100.00%	100.00%	
<b>Production Efficiency Loss Dollars</b>	\$618,456	\$276,203	\$154,190	\$0	\$0	\$ 1,048,849
<b>Product Yield efficiency</b>	96.00%	97.00%	98.00%	99.00%	100.00%	
<b>Product Yield Loss Dollars</b>	\$ 6,035,567	\$ 4,979,342	\$ 3,651,518	\$ 1,825,759	\$ -	\$ 16,492,186
<b>Sales Capacity Efficiency Loss</b>	17.2%	9.01%	0.0%	0.0%	0.0%	
<b>Sales Capacity Loss Dollars</b>	\$ 450,919	\$ 263,666	\$ -	\$ -	\$ -	\$ 714,585
<b>Grand Total</b>	\$ 7,104,943	\$ 5,519,211	\$ 3,805,708	\$ 1,825,759	\$ -	\$ 18,255,620

## **Section 4 – Facility**

- 4.1 – Total Facility Summary
- 4.2 – Grey Water Development
- 4.3 – Kill and Chill Facility Summary
- 4.4 – Kill and Chill Site Estimate
- 4.5 – Kill and Chill Building Construction Estimate
- 4.6 – Kill and Chill Equipment Estimate
- 4.7 – Kill and Chill Utilities Estimate
- 4.8 – Fabrication Facility Estimate
- 4.9 – Fabrication Building Construction Estimate
- 4.10 – Fabrication Facility Equipment Estimate
- 4.11 – Fabrication Facility Utilities Estimate

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

CFIA Agriculture Canada/USDA Approval

## Section 4.1 - Total Facility Summary

Beef Toll Processing Facility 800 per day Capacity			
1	Kill and Chill Process Estimate	\$	13,983,731
2	Fabrication and Distribution Facility Estimate	\$	9,316,000
3	Section 4.2 - Grey Water Development	\$	2,552,000
<b>Total</b>		<b>\$</b>	<b>25,851,731</b>
5	Engineering/Project Management/Start-up	\$	1,281,485
6	Contingencies @ 10% TBS	\$	2,329,973
7	Start up Costs Management and Fixed	\$	1,446,218
<b>Grand Total Project</b>		<b>\$</b>	<b>30,909,407</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

CFIA Agriculture Canada/USDA Approval

## Section 4.2 - Grey Water Development

Grey Water			
3.10 Process Wastewater Treatment		\$	4,500,000
3.20 Compost	40	\$ 30,000	1,200,000
3.30 Instalation		\$	100,000
3.30 Other		\$	580,000
<b>TOTAL SITE AND SITE IMPROVEMENTS</b>			<b>\$ 2,552,000</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

CFIA Agriculture Canada/USDA Approval

## Section 4.3 - Kill and Chill Facility Summary

1	Site/Site Improvements	\$	970,000
2	New Building Construction	\$	5,712,091
3	Equipment and Furnishings Estimate	\$	3,455,640
4	Utilities/Refrigeration/Steam/Hydro	\$	3,846,000
<b>Total</b>		<b>\$</b>	<b>13,983,731</b>
5	Engineering/Project Management/Startup	\$	769,105
6	Contingencies @ 10%	\$	1,398,373
<b>Grand Total Project</b>		<b>\$</b>	<b>16,151,209</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

CFIA Agriculture Canada/USDA Approval

## Section 4.4 - Kill and Chill Site Estimate

<b>1.10 SITE AND SITE IMPROVEMENTS</b>		
1.11 Purchase of Land (20 acres @70,000/acre)	\$	1,400,000
<b>1.20 SITE IMPROVEMENTS</b>		
1.21 Identity and Directional Monument/Signage	\$	75,000
1.22 Interior Roadway/Parking Lots/Landscaping Site Improvements	\$	600,000
1.23 Site Fencing/Security		
1.24 Underground Services/Drainage	\$	350,000
<b>TOTAL SITE AND SITE IMPROVEMENTS</b>	<b>\$</b>	<b>970,000</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

CFIA Agriculture Canada/USDA Approval

## Section 4.5 - Kill and Chill Building Construction Estimate

Room No.	Space Requirement (Square Feet)	Space Requirement (Square Feet)	Estimated Cost per Square Foot	Estimated Construction Cost
101	VEST.	125	688	\$ 85.00 \$ 58,438
102	MAIN OFFICE	730	4015	\$ 85.00 \$ 341,275
103	OFFICE	149	820	\$ 85.00 \$ 69,658
104	OFFICE	147	809	\$ 85.00 \$ 68,723
105	LAB	121	666	\$ 125.00 \$ 83,188
106	WASHROOM	50	275	\$ 140.00 \$ 38,500
107	WASHROOM	33	182	\$ 140.00 \$ 25,410
108	FILE/STORAGE	108	594	\$ 85.00 \$ 50,490
109	CORRIDOR	290	1595	\$ 85.00 \$ 135,575
110	CFIA COMMON ROOM	166	913	\$ 85.00 \$ 77,605
111	VETS OFFICE	138	759	\$ 85.00 \$ 64,515
112	CFIA LOCKER ROOM	55	303	\$ 85.00 \$ 25,713
113	CFIA WASHROOM	65	358	\$ 140.00 \$ 50,050
114	CORRIDOR	103	567	\$ 85.00 \$ 48,153
115	LAUNDRY	117	644	\$ 100.00 \$ 64,350
116	MENS LOCKER ROOM	142	781	\$ 100.00 \$ 78,100
117	MENS WASHROOM	209	1150	\$ 140.00 \$ 160,930
118	WOMENS LOCKER ROOM	126	693	\$ 100.00 \$ 69,300
119	WOMENS WASHROOM	134	737	\$ 140.00 \$ 103,180
120	LUNCHROOM	407	2239	\$ 100.00 \$ 223,850
121	UTILITY CLOSET	34	187	\$ 85.00 \$ 15,895
122	STORAGE CLOSET	50	275	\$ 85.00 \$ 23,375
123	LAUNDRY	188	1034	\$ 100.00 \$ 103,400
124	CORRIDOR	182	1001	\$ 80.00 \$ 80,080
125	DIRTY LOCKER ROOM	132	726	\$ 100.00 \$ 72,600
126	DIRTY WASHROOM	118	649	\$ 140.00 \$ 90,860
127	STAIRS	104	572	\$ 140.00 \$ 80,080
128	DIRTY LUNCH ROOM	213	1172	\$ 100.00 \$ 117,150
129	LIVESTOCK HOLDING	2527	13899	\$ 70.00 \$ 972,895
130	EVISCERATION	1332	7326	\$ 100.00 \$ 732,600
131	HIDE-OFF AREA	1416	7788	\$ 100.00 \$ 778,800
132	RED OFFAL AND HEAD BONING	270	1485	\$ 100.00 \$ 148,500
133	TRIBE	241	1326	\$ 100.00 \$ 132,550
134	CORR.	627	3449	\$ 100.00 \$ 344,850
135	KNIFE ROOM	106	583	\$ 100.00 \$ 58,300
136	TROLLEY WASH	238	1309	\$ 140.00 \$ 183,260
137	TROLLEY STORAGE	181	996	\$ 100.00 \$ 99,550
138	CARCASS CORR. #1	787	4329	\$ 150.00 \$ 649,275
139	CARCASS CHILL #1	972	5346	\$ 175.00 \$ 935,550
140	CARCASS CHILL #2	944	5192	\$ 175.00 \$ 908,600
141	CARCASS HOLDING #3	2187	12029	\$ 175.00 \$ 2,104,988
142	NOT USED		0	\$ -
143	CARCASS CORR. #2	605	3328	\$ 150.00 \$ 499,125
144	QUARTERING COOLER	300	1650	\$ 150.00 \$ 247,500
145	SHIPPING AREA	452	2486	\$ 125.00 \$ 310,750
146	EDIBLE OFFAL CHILLER	224	1232	\$ 150.00 \$ 184,800
147	SHIPPING OFFICE	211	1161	\$ 100.00 \$ 116,050
B101	CORR.	1405	7728	\$ 60.00 \$ 463,650
B102	INEDIBLE ROOM	1912	10516	\$ 60.00 \$ 630,960
B103	MAINTENANCE ROOM	486	2673	\$ 75.00 \$ 200,475
B104	BOILER/ENGINE ROOM	1415	7783	\$ 80.00 \$ 622,600
B105	MAINTENANCE STOR.	805	4428	\$ 80.00 \$ 354,200
B106	MECHANICAL ROOM	409	2250	\$ 80.00 \$ 179,960
<b>Total</b>		<b>24,488</b>	<b>134,684</b>	<b>233</b> <b>5,712,091</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.6 - Kill and Chill Equipment Estimate

3.00 Equipment and Furnishings			
3.10	Slaughter/Evisceration Process Equipment	\$	9,358,700
3.30	Chill/Holding Coolers	\$	750,000
3.10	Staging/Shipping (Material Handling)	\$	450,000
3.11	Employee Welfare Includes for lockers, washroom furnishings, lunchroom furnishings, shelving, etc. clothing, knives, protective equipment	\$	350,000
3.12	Administrative/Management Offices Furnishings, office equipment, telephone system,	\$	180,000
3.13	Manufacturing Support System Data Collection/Grading System Yield Control and Reporting	\$	1,400,000
3.14	Administrative Systems	\$	1,000,000
<b>Total</b>		<b>\$</b>	<b>3,455,640</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.7 - Kill and Chill Utilities Estimate

4.00 UTILITIES ESTIMATE			
4.10	<b>Process and Sanitation Hot Water</b> 100 HP Oil Fired Hot Water Boiler c/w high pressure pumps, piping and distribution	\$	900,000
4.20	<b>Water Treatment (Softening/Iron Removal)</b>	\$	540,000
4.40	<b>Refrigeration</b> 800 horsepower ammonia refrigeration system, space cooling evaporators, evaporative condensor, water treatment, piping, controls and installation	\$	7,200,000
4.60	<b>Compressed Air</b> 2 X 25 HP Compressed air system, refrigerated air dryer, storage tank, controls, installed.	\$	450,000
4.70	<b>Sanitation System</b> Tanks, piping, controls, distribution, installed	\$	525,000
<b>TOTAL</b>		\$	<b>3,846,000</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.8 - Fabrication Facility Estimate

1	Site/Site Improvements	\$	-
2	Building	\$	4,614,000
3	Equipment and Furnishings Estimate	\$	3,120,000
4	Utilities/Refrigeration/Steam/Hydro	\$	1,582,000
<b>Total</b>		<b>\$</b>	<b>9,316,000</b>
5	Engineering/Project Management/Startup	\$	512,380
6	Contingencies @ 10%	\$	931,600
<b>Grand Total Project</b>		<b>\$</b>	<b>10,759,980</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.9 - Fabrication Building Construction Estimate

<b>NEW BUILDING CONSTRUCTION</b>	<b>Space Requirement (Square Feet)</b>	<b>Estimated Cost per Square Foot</b>	<b>Estimated Construction Cost</b>
Fabrication Room Main Break	6,000	\$ 175	\$ 1,050,000
Fabrication Room #2	4,500	\$ 175	\$ 787,500
Converting Cuts Room	5,000	\$ 175	\$ 875,000
Distribution Assembly	7,500	\$ 175	\$ 1,312,500
Distribution	7,500	\$ 175	\$ 1,312,500
Storage Cooler	5,500	\$ 175	\$ 962,500
Freezer #1	5,500	\$ 250	\$ 1,375,000
Freezer #2	6,500	\$ 250	\$ 1,625,000
Export Assembly	3,500	\$ 150	\$ 525,000
Dry Storage	3,500	\$ 150	\$ 525,000
Employee Welfare #1	2,500	\$ 110	\$ 275,000
Employee Welfare #2	2,500	\$ 130	\$ 325,000
<b>Misc</b>	4,500	\$ 130	\$ 585,000
<b>Total Fabrication and Distribution</b>	<b>64,500</b>		<b>4,614,000</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

## Section 4.10 - Fabrication Facility Equipment Estimate

<b>3.00 Equipment and Furnishings</b>			
<b>3.10</b>	<b>Carcass Holding Cooler Rails</b> 500 lf @ \$125.00/lf	\$	281,250
<b>3.20</b>	<b>Breaking and Boning Equipment</b>	\$	2,400,000
<b>3.30</b>	<b>Vacuum Packaging Equipment including Shrink Tunnel</b>	\$	1,250,000
<b>3.40</b>	<b>Weigh/Print/Apply (Cartons)</b>	\$	300,000
<b>3.50</b>	<b>Metal Detection</b>	\$	112,500
<b>3.60</b>	<b>Carton Strapping</b>	\$	112,500
<b>3.70</b>	<b>Cooler/Freezer Racking</b>	\$	225,000
<b>3.80</b>	<b>Material Handling Equipment</b>	\$	750,000
<b>3.90</b>	<b>Employee Welfare</b>	\$	325,000
<b>3.12</b>	<b>Administrative/Management Offices</b> Furnishings, office equipment, telephone system,	\$	300,000
<b>3.13</b>	<b>Manufacturing Support System</b> Data Collection/Grading System Yield Control and Reporting	\$	900,000
<b>3.14</b>	<b>Equipment Installation</b>	\$	843,750
<b>Total</b>		<b>\$</b>	<b>3,120,000</b>

# BIA Financial Forecast "Facility Scenario 40%"

March 19th, 2010

## PROPOSED BEEF PROCESSING FACILITY

Location: TBD

800 Head Per Day Capacity

### Section 4.11 - Fabrication Facility Utilities Estimate

4.00 UTILITIES ESTIMATE			
4.10	<b>Process and Sanitation Hot Water</b> 50 HP Gas Fired Hot Water Boiler c/w high pressure pumps, piping and distribution	\$	450,000
4.20	<b>Water Treatment (Softening)</b>	\$	135,000
4.40	<b>Refrigeration</b> 250 horsepower ammonia refrigeration system, space cooling evaporators, evaporative condensor, water treatment, piping, controls and installation	\$	2,400,000
4.60	<b>Compressed Air</b> 1 X 25 HP Compressed air system, refrigerated air dryer, storage tank, controls, installed.	\$	240,000
4.70	<b>Sanitation System</b> Tanks, piping, controls, distribution, installed	\$	450,000
4.80	<b>Building Mechanical Requirements</b>	\$	280,000
<b>TOTAL</b>		<b>\$</b>	<b>1,582,000</b>

## Appendix 3 – BIA Analysis of Variance

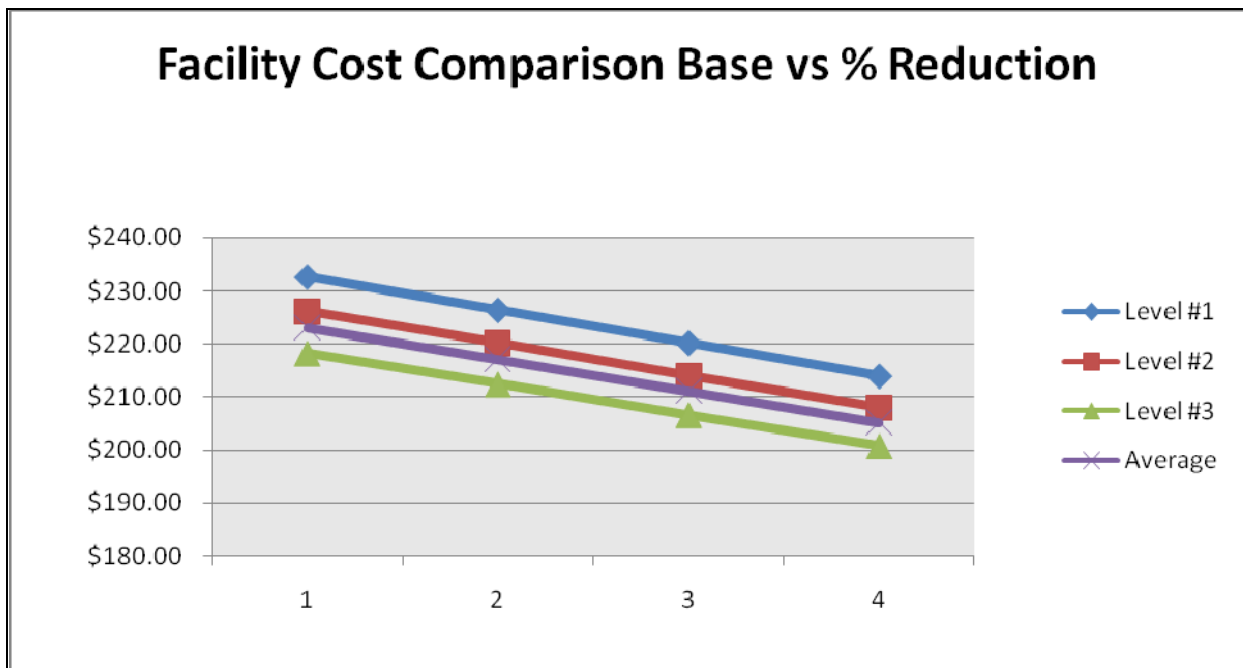
### Section 3.1 Base Case Utility Break Even Pricing Analysis

	Base Charge	Start Up Costs	B/E Charge
Level #1	\$ 232.69	\$ 28.52	\$ 261.21
Level #2	\$ 226.14	\$ 27.72	\$ 253.86
Level #3	\$ 218.28	\$ 26.75	\$ 245.03
<b>Average</b>	<b>\$ 223.10</b>	<b>\$ 27.34</b>	<b>\$ 250.44</b>

### Section 3.2 Facility Pricing Analysis cost per carcass vs. reduced Facility Costs by % of Base by pricing level

Facility Cost vs Base	100%	80%	60%	40%
Level #1	\$ 232.69	\$ 226.47	\$ 220.25	\$ 214.03
Level #2	\$ 226.14	\$ 220.09	\$ 214.05	\$ 208.00
Level #3	\$ 218.28	\$ 212.44	\$ 206.60	\$ 200.77
<b>Average</b>	<b>\$ 223.10</b>	<b>\$ 217.13</b>	<b>\$ 211.17</b>	<b>\$ 205.20</b>

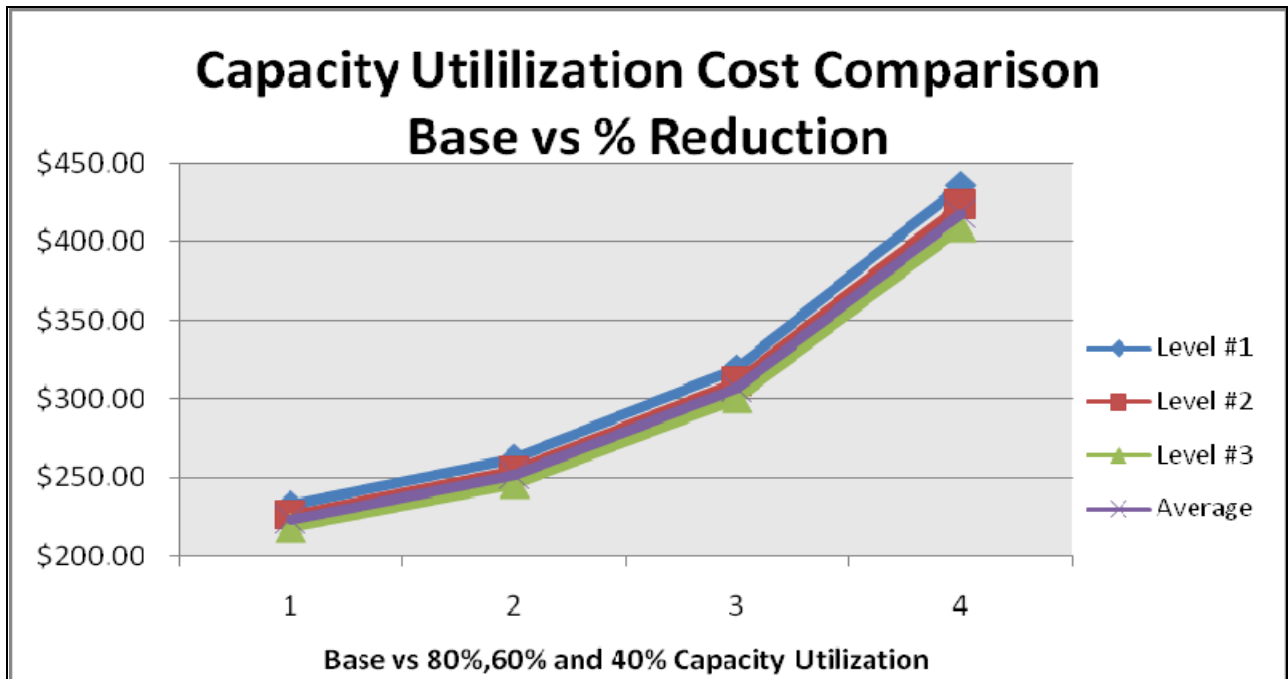
### Section 3.3 Facility Pricing Analysis Graph vs. Reduced Facility Costs by 20% Intervals of Base by pricing level



**Section 3.4 Capacity Utilization Variance Analysis Cost per Carcass Base vs. reduced capacity utilization in 20% Intervals by pricing level**

Capacity Utilization to Base	100%	80%	60%	40%
Level #1	\$ 232.69	\$ 262.32	\$ 319.78	\$ 435.76
Level #2	\$ 226.14	\$ 254.94	\$ 310.78	\$ 423.49
Level #3	\$ 218.28	\$ 246.07	\$ 299.97	\$ 408.76
<b>Average</b>	<b>\$ 223.10</b>	<b>\$ 251.51</b>	<b>\$ 306.60</b>	<b>\$ 417.79</b>

**Section 3.5 Capacity Utilization Variance Analysis Graph Base vs. reduced capacity utilization by 20% Intervals by pricing level**



## **Appendix 4**

### **Report Card to Evaluate the Preparedness of Marketing Companies (Users)**

# Report Card

## Introduction

The success of a Value Based Beef Processor is totally dependent upon the success of Marketing Companies (Users) who will be using the Processing Facility. Thus the preparedness of perspective users specific to a number of management, marketing and financial factors is critical.

The confidential evaluation process to be used by the Processing Facility to assess Marketing Companies as able and capable clients is outlined as follows:

1. **Profile and Business History of the Proponents** – background and resumes of the proponents with a specific emphasis on brand management; marketing capability; financial management and a past record of performance in terms of business experience and success.
2. **Supply Analysis** – a detailed outline of the supply (market weight cattle) commitments that can be delivered to the plant on a daily, weekly and annual basis. The quality of the cattle to be delivered also needs to be considered.
3. **Demand Analysis** – the detailed market analysis that addresses the specific market opportunities, trends, structure and characteristics of the market sector to be developed.
4. **Marketing and Sales Strategy** – the detailed marketing plan that identifies in detail the brand and customer strategy.
5. **The Management Team** – specific emphasis on marketing and brand management capability; also plant management (understanding of processing) and financial management experience will be critical.
6. **The Financial Plan** – the project revenue stream forthcoming from the marketing and sales strategy; the cost plan; the financing plan with specific emphasis on start up and working capital requirements.
7. **The Overall Business Plan** – the overall plan combining the above elements and including the Critical Success Factors as well as the Critical Risk Factors.

Schematically the evaluation process appears as follows:



## Detailed Report Card – For Marketing Company Proponents

The 'Marketing Company' (or User) is defined as a customer of the Processing Facility. As such, it takes (or retains) ownership of the cattle and/or beef products to be processed by the Processing Facility. The Processing Facility itself provides a processing service and charges a fee on a per head slaughtered basis.

Each of the major factors identified in the introductory section will be further broken down into a set of sub-factors against which the Marketing Company will be evaluated and measured.

### 1. Profile and Business History of the Marketing Company Proponents

Names and addresses of the key proponents (list below)

Name	Address	Contact Information

**Business history**

For each proponent listed in the previous table, provide an overview of current on going businesses that the proponent is or has been involved. Also identify those businesses that the proponent has been involved that **have not been** successful. For each unsuccessful business, provide further background and the reasons for the lack of success.

Include References such as bank or financial references; legal; industry peers; suppliers; customers; other.

**Name of Proponent:** \_\_\_\_\_

**Business Experience**

**Current Business(es) – List. Describe the business and the role played by the proponent.**

**Past Businesses That Have Been Successful – List. Describe the business and the role played by the proponent'**

**Past Businesses That Have Not Been Successful – List. Describe the business; the role played by the proponent; and the reasons why the business was not successful**

**References**

Name	Relationship to the Proponent	Contact Information



**Level of commitment**

Provide a sample contract between your Marketing Organization and the Producer.

Describe relationship between the producers of the cattle and the Marketing Company. What measures will you take to ensure that producers who are committed to delivering agreed numbers of cattle will actually deliver the cattle as promised?

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Describe the brand attributes associated with the cattle to be supplied – breed, quality; other production features; and other qualitative variables. What will be your key point of differentiation?

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### **3. Demand Analysis (Market Research & Analysis)**

Describe the following:

**Market research activities conducted either directly or indirectly**

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**Market Segment to be addressed - describe**

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**Size of Market Segment/Relative to Overall Market**

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**Analysis of your target market – who, key characteristics, buying practices**

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**Target Customer – analysis of needs or unmet needs**

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**Summary of Major Trends Affecting Your Target Market**

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**Competitive Review including who you will be competing against; percent of market held by each player; pricing review; Unique Selling Point (USP) strategies employed by each player**

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**Other Opportunities – customer interests; level of commitment; other qualitative factors?**

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**4. Marketing and Sales Strategy**

**Who will lead your Marketing and Sales Efforts and what is this person's specific experience in the field of marketing.**

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**Specific Customers and/or Market Channels to be pursued**

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**Positioning Strategy (Unique Selling Point) – what is it and why?**

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**Brand strategy – objectives; attributes relative to customer needs/interests  
attributes relative to competitive offerings.**

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**Promotion strategies and programs – please describe**

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**Customer programs – please describe**

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## 5. The Management Team

Detail the key leadership positions in the Marketing Company

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For each position, provide a detailed background or resume that includes an outline of jobs held, positions held and description of responsibilities. In addition for those individuals that will have specific responsibility for marketing and sales, detail the following.

- Brand Management Experience and Record of Performance
- Customer Management Experience and Record of Performance

## **6. Financial Plan**

The following financial forecasts are required:

- Five year projects – Revenues, Costs, Net Operating Margin, Capital Plan, Cash Flow
- Financing Plan – Equity; Debt - long term debt for building and equipment; operating capital to finance day to day operations and short term losses that can be expected during the first 3 years.

## 7. Overall Business Plan

In addition to the marketing plan (sections 3 & 4) and the financial plan (section 6) addressed earlier, provide the following analysis:

**Critical Success Factors** – identify what you discern these to be and discuss how you will ensure that these factors are addressed in your business.

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**Critical Risk Factors** – identify what you discern these to be and discuss how you will ensure that these factors are mitigated or avoided in the implementation of your business plan.

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**Contingency Analysis** – identify major potential set backs or traumas that may affect the business. Discuss what these might be and how they would be addressed and/or mitigated.

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## Score Card<sup>1</sup>

Rate each of the following attributes or measures on a scale of 1 to 10 where 1 is very weak; 10 is very strong.

1. Profile and Business History of the Proponents \_\_\_\_\_
  2. Strength and relevance of successful businesses \_\_\_\_\_
  3. Lessons Learned from unsuccessful businesses \_\_\_\_\_
  4. Quality of the supply contracts \_\_\_\_\_
  5. Consistency of supply (seasonal) \_\_\_\_\_
  6. Brand attributes of cattle to be supplied \_\_\_\_\_
  7. Quality of current market research \_\_\_\_\_
  8. Market strategy – focus and clarity of who is to targeted \_\_\_\_\_
  9. Quality of competitive review \_\_\_\_\_
  10. Experience of Marketing & Sales leader \_\_\_\_\_
  11. Soundness of Unique Selling Point \_\_\_\_\_
  12. Quality and thoroughness of the Brand Strategy \_\_\_\_\_
  13. Level of planning regarding promotion and programs \_\_\_\_\_
  14. Relevant Experience of the Management Team \_\_\_\_\_
  15. Quality of Brand and Customer management experience \_\_\_\_\_
  16. Thoroughness of the Financial Plan \_\_\_\_\_
  17. Level of Equity to finance capital requirements \_\_\_\_\_
  18. Level of Equity to finance operating requirements \_\_\_\_\_
  19. Analysis of critical success factors \_\_\_\_\_
  20. Analysis of critical risk factors \_\_\_\_\_
- Total Score:** \_\_\_\_\_/200

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<sup>1</sup> The Score Card is to be used by the Processing Enterprise to evaluate the Marketing Company (or User) based on the responses in the Report Card.