

MCEC NEWS

Manitoba Cattle Enhancement Council

Summer 2011

If you'd like to learn more about MCEC, please visit our website at www.mancec.com.

MCEC Remains Committed to plant

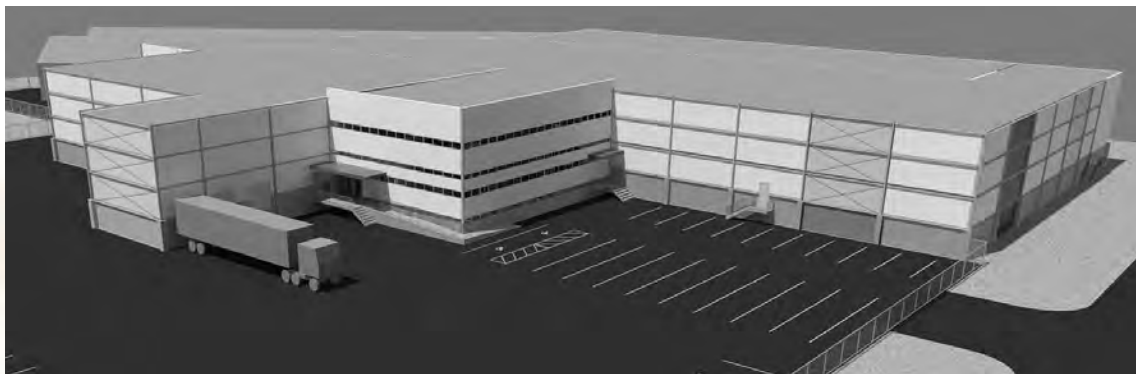
Encouraged by strong support from producers, private sector

MCEC remains committed to completing the deal for a new federally-inspected beef packing plant in St. Boniface. Despite the setback of losing federal funding, it still has most of the funding required for the project committed and has received strong messages of support from producers and the private sector.

What others are saying about the project:

"[This plant] truly represents the opportunity to bring a much needed new business model to the Canadian beef industry... It represents an opportunity to break out from

the prevailing commodity based strategies and structures that limit the capturing of new value and the distribution of this value back to producers." – Jerry Bouma, Toma & Bouma Management Consultants.



Plant management is actively seeking other potential investors to replace the federal government's money. With backing from producers, industry groups and potential buyers, management has been encouraged by the initial reaction and is confident the project will move forward.

"Continued dependence on US based processing puts our producers in a vulnerable position due to currency fluctuations and a thickening US/Canada border. We anticipate that

See **MCEC committed** page 2

Building a solid future for Manitoba's beef producers

MCEC committed *from p.1*

[the plant's] focus on niche markets will provide an opportunity for our beef producers to expand their businesses into higher value halal, kosher and other non-commodity based markets." – Doug Chorney, Keystone Agricultural Producers

"The plant will help the Manitoba beef industry manage risk and ultimately provide a more competitive marketplace for both ranchers and consumers while creating new jobs in the St. Boniface area of Winnipeg." – Dairy Farmers of Canada

"We believe that the Manitoba toll processing facility had all of [the necessary] components and it would be a mistake that would be felt by the entire Canadian beef industry if this venture did not proceed." – Gary Etherington, Beef Industry Alliance

"Canadian Legacy Partners strongly supports [this project] and would like to continue conversations to ensure that we are one of your custom slaughter clients." – David Fiddler, Canadian Legacy Partners

"The project itself is very exciting: it re-invigorates the cattle/beef industry, provides for kosher meat slaughtering according to the highest standards that would allow for the meat not only to provide for the Manitoba Jewish and Muslim communities, but would also export to the US via Centreport." – Shelley Faintuch, Jewish Federation of Winnipeg

"The Chamber believes this project has the potential to be a tremendous asset to not only the City of Winnipeg but also the Province of Manitoba in achieving greater prosperity. We think this project also addresses a key national objective to increase value added processing in Canada." – Dave Angus, The Winnipeg Chamber of Commerce



"The MCEC has assembled an experienced management team for the project and we are excited by the very real prospect of significant additional jobs and economic investment in our community." – Bill Morrissey, Yes! Winnipeg

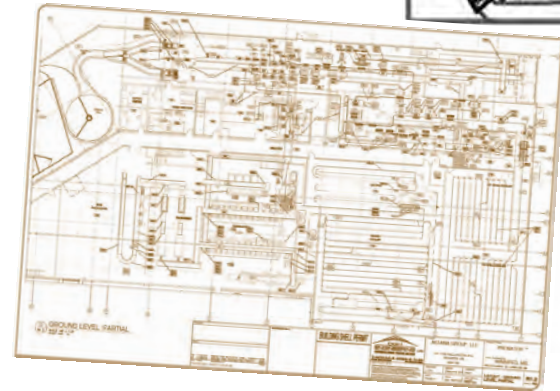
The strong case for toll processing in Manitoba

Federal funding decision based on old business model

Momentum has been building for the proposed new federally-inspected beef plant in St. Boniface. Beyond the land being purchased, critical environmental approvals have been obtained and vital letters of interest from potential buyers have been secured.

The plant was to be backed by a combination of funds coming from MCEC (\$7.5 million), a major private bank (\$18.2 million) and the federal government (\$10 million). That changed in July when the federal government withdrew its previous commitment.

Among the reasons cited was a belief that a toll processing plant would not

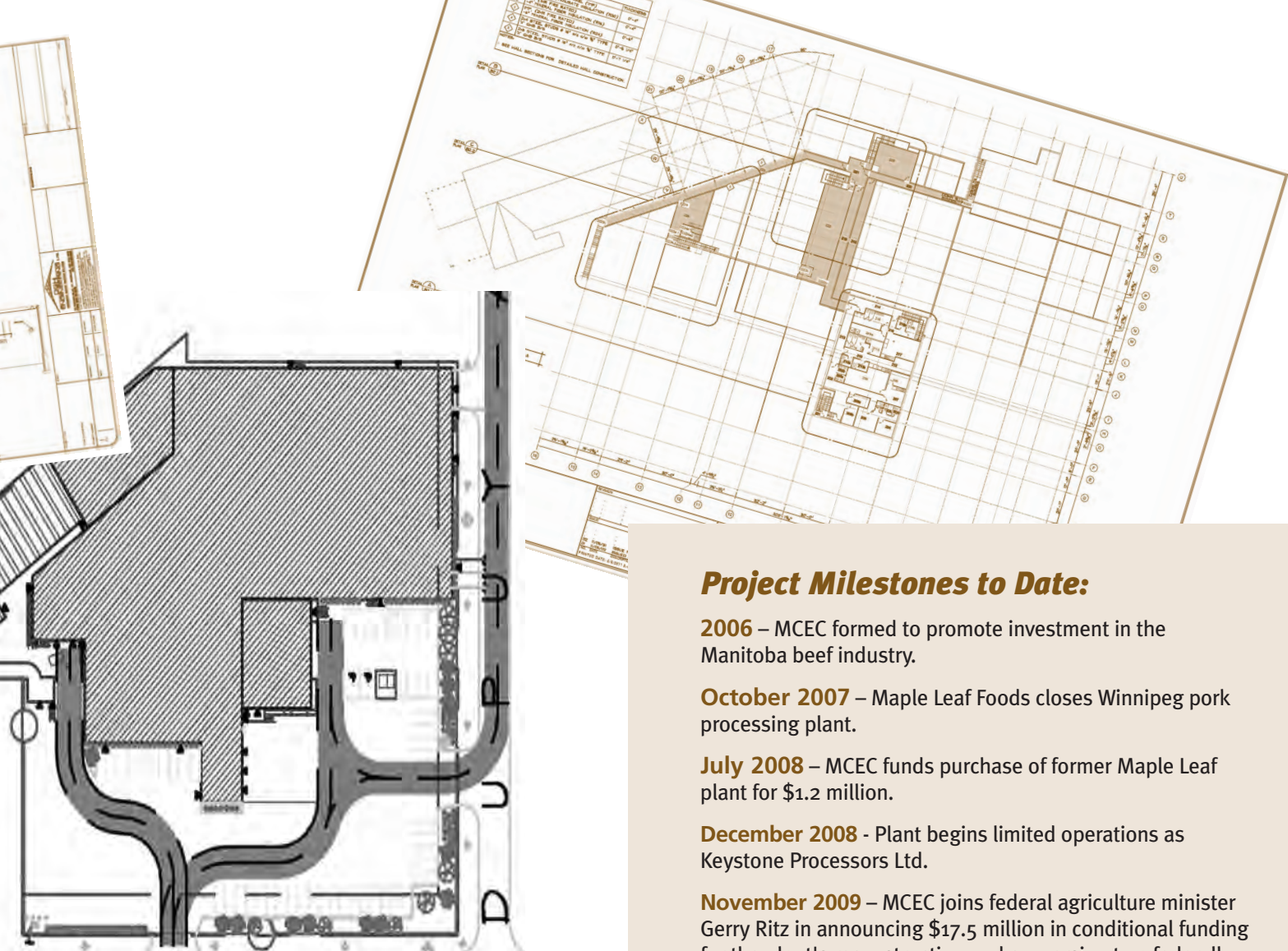


succeed in a market dominated by large commodity players. This was despite the fact that toll processing has proven to be highly successful and profitable in a growing number of jurisdictions around the world including in North and South America.

What is toll processing?

The St. Boniface plant's business plan is based on the philosophy that it's better to find niche markets than to compete head to head in the commodity beef game with the large main line processors. That game requires size and scale to survive.

But a small plant can target areas of the global beef market that aren't served by those large multinationals. That's where the toll processing concept comes in: Rather than



purchase cattle and market beef on its own account, the plant is proposing to sell its services to tollers. Tollers are customers who need the harvest, fabrication and packaging of beef products that they market under their own brands. Tollers typically market niche products such as kosher beef. The plant is paid on a "cost plus" basis for performing the service.

There is no comparable toll processor in Canada today, but there are many around the world that are very successful in tapping into growing international food demand.

The Astana Group has run a number of these plants. Its most recent venture was in Uruguay which it sold after establishing it as a profitable exporter into global markets.

Project Milestones to Date:

2006 – MCEC formed to promote investment in the Manitoba beef industry.

October 2007 – Maple Leaf Foods closes Winnipeg pork processing plant.

July 2008 – MCEC funds purchase of former Maple Leaf plant for \$1.2 million.

December 2008 - Plant begins limited operations as Keystone Processors Ltd.

November 2009 – MCEC joins federal agriculture minister Gerry Ritz in announcing \$17.5 million in conditional funding for the plant's reconstruction and conversion to a federally-inspected beef slaughtering and processing facility.

March 2010 – Federal Environmental Impact Assessment Application submitted.

August 2010 – Approval received for Federal Environmental Impact Assessment.

August 2010 – Astana Group engaged as business advisors to MCEC.

September 2010 – Plant is decommissioned in preparation for reconstruction; ceases operations as Keystone Processors.

January 2011 – Corporate re-organization complete with producer funded MCEC owning 90 per cent of the common shares in the plant as well as a first convertible mortgage.

January 2011 – Final engineering drawings and blueprints complete. Site decommissioning and permitting begins.

March 2011 – Bank financing term sheet finalized for \$18.2 million.

July 2011 – Federal funding withdrawn. Bank financing and MCEC support reconfirmed. Astana Group re-commits to project. Management re-initiates discussions with other potential investors to shore up remaining financing before beginning construction.

Federal decision ignores regional need for beef plant

by *Manitoba Cattle Enhancement Council*

Manitoba cattle producers need the facts about the recent re-allocation of federal funds under the federal Slaughter Improvement Program. They have a right to know what was done and said and draw their own conclusions.

MCEC was pleased when the federal government joined the chorus of support for the proposed CFIA inspected slaughter facility with a promise of \$10 million funding in 2009. At the time the federal government set five conditions: that the plan demonstrate how risks to the operation will be managed or reduced; demonstrate how marketing will be done; provide greater certainty in financial projections; bring margins in line with industry standards (even though it was a niche model); and develop a plan for strong management and labour.

Early in 2010 MCEC determined new management was needed to move the project forward. Experience and connections were needed for a niche concept favoured by MCEC and the management team had run successful operations in North and South America. They had just come to the end of a three year non-compete covenant on the successful plant they had sold in Uruguay. The team knows how to operate a mid-sized plant profitably in this competitive industry. They reviewed the business plan and addressed the remaining conditions including demonstrating how niche markets – such as kosher beef – can deliver higher margins on smaller volumes.

The project also secured financing and enthusiastic support from a major bank for up to \$18.2 million. The bank's term sheet stipulated that

the loan would be executed as soon as the government did the same. We garnered local and international interest, improving this project at every turn.

We moved ahead on the assumption that the federal funding would be more secure, not less, with the stronger plan, stronger management and bank financing on the table. We kept Ottawa informed, sent them everything they asked for even when they weren't clear and we continued to fund the project alone to ensure we met the deadline set by Ottawa – all expenses had to be incurred by March 2012.

The federal government provided three written reasons on July 13, 2011 for withdrawing the funding.

First, they stated the business plan was "not viable." We strongly disagree with that assessment because the plan is based on broad real-world experience proven by this management team. The plan also attracted support from many industry observers. The federal government provided no numbers or detailed rationale for their conclusion.

Second, they said the bank's terms weren't definitive enough because the term sheet remained subject to change and final documentation. One of those final documents was the federal loan itself. So far the bank remains committed for up to \$18.2 million alongside MCEC's \$7.5 million equity commitment.

Third, they declared that the business plan didn't call for the plant to repay the money within 10 years. The first plan from the new management team projected full debt repayment in just five years, which the

consultants hired by the government rejected as "too optimistic." It was stretched to 10 years at their request. Financial scenarios were drawn up to show how the plant could achieve it and where the numbers would fall apart. They then used one of the worst case scenarios (projected at their request) to say the money would not be repaid.

The federal government is saying that the civil servants at the Slaughter Improvement Program reviewed the business plan 10 times. We did send them a lot of data, so there were updates – all of which strengthened the plan. We certainly didn't send them 10 different plans and we have no sense of why 10 reviews would be needed. The bank put its commitment on paper after one review.

We worked in good faith with Ottawa to the end. The management team explained, clarified, and responded to every request, and readied the site for construction on time and on budget with construction scheduled to be underway by the end of this summer.

In the final analysis, it would seem they were looking for something different, perhaps a commodity beef plant? We are not sure. They were not clear during the process in our view and the re-allocation of the funds was shocking. We were disappointed that the government and its consultants simply wouldn't accept the niche business model which we believe stands the best chance for success. They acknowledged a difference of

See *Feds ignore* page 8

What's next for Marion Street plant

There were unmistakable signs of progress this summer at the site of the new St. Boniface beef plant as the former Maple Leaf pork plant was demolished and the site prepared for construction on a mid-sized export-oriented Manitoba beef plant.

MCEC had successfully lined up provincial and federal support alongside a major private bank. Though the federal government withdrew its financial support in July (see page 1), MCEC remains committed to it as does the province and the private bank.

"It's important for everyone to recognize that the federal government's decision came at the 11th hour. This plant was ready to go

and we're confident it will proceed despite this setback," said Kate Butler, MCEC's Executive Director. "There's a demonstrated need for this plant and a strong business case behind it. We have found other investors express interest in the project already."

"We think this plant will be an important milestone not just for Manitoba beef producers, but for the Canadian beef industry," said Doug Cooper, CEO of the Astana Group, which has been managing the plant for much of the past year. "We have signed letters from international buyers who want high quality Canadian beef from this plant. This plant will fill niche markets such as the kosher and halal markets."



Kate Butler & Doug Cooper

Cooper and his team are moving ahead on schedule with plans to begin meeting with Manitoba beef producers starting this fall. The plant will be using traceability and other protocols that will allow it to market into the United States, Europe and Asia. (See story page 6.)



Chuck Gall, cow-calf producer

The last decade was a bad one for Manitoba cattle producers. It was punctuated by the 2003 BSE crisis and US border closure, and plagued with bad weather, volatile commodity prices and rising transportation costs. Everything that happened made it clear that the provincial cattle industry needed new markets if it is going to survive and begin to prosper again.

"Every single producer who lived through the last decade here in Manitoba knows how much this plant is needed. It was our 'lost decade'," said Chuck Gall, a member of MCEC. "We can't compete here without a new plant based on rising

Producers face another 'lost decade' without a plant

transportation costs alone. And it's a matter of when, not if, the US border will close again or something else will disrupt the flow of live cattle."

MCEC is proud to say it has retained an average of approximately 70 per cent of its refundable levy since it was first instituted in 2006. That shows a high level of support for its efforts to invest in export-oriented beef plant capacity.

But MCEC can't do this alone. It never could. In addition to the great support it has received from producers, it also needs support from government and industry

organizations, as well as financial institutions.

"The industry should be united on this," said Gall. "We have the ball on the five yard line and we're driving for a touchdown. Now's not the time to take a bunch of bad penalties or to start arguing with your teammates."

MCEC is the only organization that is actively seeking a long-term solution to the lack of slaughter capacity for Manitoba. It has built an investment pool funded by a refundable \$2 per head levy that is matched by the province, turning each \$2 into \$4.

MCEC is proud to say it has retained an average of approximately 70 per cent of its refundable levy.

Meet the plant management

Doug Cooper and members of the management team for the St. Boniface beef plant will be meeting with producers in the fall to discuss the plant and answer their questions.

The new Marion Street beef plant in Winnipeg is expected to have an initial kill capacity of 250 head per day, expandable to 500 per day. The plant will slaughter finished cattle as well as cows and bulls. It will be a kosher, halal and premium niche market slaughter facility.

A key objective of the plant's management team is to establish market relationships with customers that require exact specifications for their products. These specifications will vary widely depending on the specific "toller." (Tollers are customers who contract with the plant to produce specific beef products, such as kosher beef.) This might include meat destined for the EU, Japan or other countries requiring third-party verification for certain characteristics. It may also include a wide array of specifications that could include breed, diet, hormone and antibiotic protocols, humane handling practices or many other producer-oriented processes.

The plant is designed to cater to customers, whether kosher or other specialized meat purveyors, with narrow product specifications. This modest sized plant is much more suited for this type of work than are the giant commodity plants.

A close alliance between toller, plant and producer will be needed to meet the various protocols of these unique beef programs. Plant management intends to do all that it can to nurture these alliances. The management team has a good deal of experience working with these types of programs and looks forward



With decades of international beef industry experience, the Astana Group is the new management team at the plant. From left: Christopher Heerin, Jack Jones Blengio, Butch Shadbolt, Jim Mitchell, Jim Heerin and CEO Doug Cooper.

to establishing seamless alliances with cow-calf producers, feedlots, third-party verifiers and tollers.

Obviously producing harvest-ready cattle for such programs requires a good deal of lead time.

Management wants to begin establishing close contact with Manitoba producers so that qualified cattle will be available when the plant comes on line.

Interested in the new plant?

Manitoba beef producers can meet directly CEO Doug Cooper along with Butch Shadbolt in a series of meetings starting in the fall. MCEC will advertise meeting dates on its website, in its newsletter and in the Manitoba Cooperator.

To receive information on the new plant, please send the following information to info.mcec@mymts.net or fax 204-452-6356:

- your name
- farm/business name
- address
- phone
- email
- a brief description of your operation

CentrePort and Manitoba agri-business

CentrePort Canada may be one of the most important competitive advantages the Manitoba beef industry will have in the years to come. The 20,000 acre inland port and free trade zone located next to the Winnipeg airport has begun landing deals and expressions of interest from companies here and abroad to expand exports of agri-food products through Winnipeg.

Manitoba Cattle Enhancement Council Executive Director Kate Butler was recently invited to join a trade mission to China led by CentrePort. While there, she outlined MCEC's investment and plans for the St. Boniface beef plant for food importers in Chongqing, a major city of several million people located in southwestern China as well as the larger and quickly growing Shanghai which has a population approaching 30 million by itself.

"The level of interest in receiving verified beef from Canada is extremely high and we received immediate interest," said Butler. "The Chinese are very proud of the distinct differences in their regions.



Centreport Canada will be a 20,000 acre inland port next to Winnipeg's international airport.

Chongqing for example was particularly interested in offal for their spicy 'hot pots' and Shanghai, with it's international business class, is a prime market for our premium beef."

MCEC and plant management are collaborating with CentrePort to ensure the plant can take full advantage of the free trade zone once it is up and running.

Another sign of the international interest in CentrePort was the recently

announced partnership of two Chinese companies with Canadian National Railway and Canadian Pacific Railway. Together they will develop a new containerization project that would increase the export of products such as canola seeds, soybeans and green peas... and perhaps Manitoba beef.



MCEC's Kate Butler (third from left) joined Centreport CEO Diane Gray (fifth from left) and others during their recent visit to Shanghai and Chongqing to discuss opening new beef trade agreements.



Calvin Vaags, of
Plains Processors.

Conditional funding for Plains Processors

In its continued efforts to address the deficit in slaughter and processing capacity in the province, the Manitoba Cattle Enhancement Council (MCEC) has conditionally approved an application for \$920,000 by Plains Processors, a beef processing plant in Carman, Manitoba.

The investment is expected to help transform the provincially-licensed Plains Processors into a Canadian Food Inspection Agency approved abattoir, giving it the ability to reach new markets including other provinces and national grocery chains.

Plains Processors is one part of a family of companies that includes a farm and feedlot outside of Winnipeg and a two-store retail meat operation in the city.

Currently, the plant processes 80 head per week. The expansion, if it proceeds, will add a new building to connect to the existing facility in its upgrade to federally inspected status. MCEC has appointed a dedicated team to work directly with Plains. Key next steps include obtaining critical environmental approvals as well as finalization of all plans and funding such as a conditional loan of \$2.8 million from the federal Slaughter Improvement Program.

Country Meat & Sausage receives conditional funding

The Manitoba Cattle Enhancement Council (MCEC) has outlined terms for an offer of conditional approval of an investment of up to \$565,000 into one of Manitoba's best known and longest established abattoirs Country Meat & Sausage (CM&S).

The investment will help CM&S upgrade its facilities to produce new beef products that conform to Canadian Food Inspection Agency standards, allowing it to expand its business in several ways including new ready-to-eat products in new markets.

Established in the mid-1950s, CM&S is a vertically integrated food processor of beef and pork products through its own retail delis as well as through local meat shops, independent grocers and other food service outlets.

The company also expects to use its new beef line in conjunction with its continuing hog slaughtering and plans to accept a modest but suitable number cattle per week of anywhere between 25 and 300 head.

Feds ignore *from p. 4*

opinion between their 'expert' consultants and our management team but repeatedly refused to meet with management to clarify these essential matters. We continue to trust that the real experts are those who have proven they can do it in the real world.

Regardless of how MCEC and the management team were treated, it is cattle producers who are our focus. With no federally-inspected beef slaughter capacity in Manitoba, producers are dependent on shipping outside the province. Given the oligopoly in beef slaughter, we also remain largely trapped in a commodity model. The federal government has failed to assist in protecting against another crisis like BSE in 2003 and failed to participate in growth in the Manitoba beef industry.

We stand by the management team and their business plan. Many in the private sector have encouraged us to carry on, and we are grateful for their support. We also remain hopeful that the federal government will find an opportunity in the future to assist this vital project. We can't let up now.

For more information, please contact:



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