



**CANADIAN CATTLEMEN
MARKET DEVELOPMENT COUNCIL**

Results Report
2010/11
OCTOBER 31, 2011

2010/11



The Canadian Cattlemen Market Development Council (CCMDC) is a partnership of the Canadian beef cattle industry, the Government of Alberta, and Government of Canada to fund and oversee a 10-year global marketing plan to help the industry recover from BSE.

The vision of the CCMDC is to recover and expand markets for beef and cattle genetics around the world assuring a profitable, sustainable Canadian industry that results in Canadian beef and cattle being recognized as the most outstanding by Canadian and world customers.



**Government
of Alberta** ■



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

Canada ■

Contents

Chairman’s Message	2
Canadian Beef and Cattle Market Development Fund Profile.....	5
Executive Summary.....	8
Market Context	14
Canadian Cattle Inventories	14
Cattle Marketings.....	15
Beef Production.....	16
Prices, Exchange Rate.....	18
Boxed Beef Cutout Values.....	21
Market Access Situation in 2010/11	22
Trade	23
Outlook.....	26
Marketing Activities and Results.....	28
Industry support for value proposition	28
Genetics Market.....	30
Domestic (Canada) Market	38
Commercial Beef Market	45
United States Market	49
Mexico Market	56
China Market including Hong Kong, Macau, Mainland China.....	62
Japan Market.....	67
Taiwan Market	72
South Korea Market	77
Other Markets including Russia, Middle East, EU and the Philippines	82
Alberta – Based Supplementary Marketing Initiative.....	86
Management Representation Letter	87
Audited Financial Statements.....	88

Chairman's Message



DAVID ANDREWS
CCMDC CHAIRMAN

The Canadian Cattlemen's Market Development Council (CCMDC) is pleased to deliver the 2010/2011 annual Results Report on programs funded by the Canadian Beef and Cattle Market Development Fund, commonly referred to as the "Legacy Fund". The Vision of the CCMDC includes this statement: "facilitate bold and innovative approaches to recovering and expanding markets for Canadian Beef and beef cattle".

When the Legacy Fund was established there was a concern that the industry and producers would "buy in" to the concept and that the development of the parameters of the Canadian Beef Advantage (CBA) would drive the necessary industry commitment to make changes and to add value. The Canadian beef and cattle industry has made a huge commitment to supporting the CBA and

Canada Beef brand which seeks to differentiate Canadian beef products and cattle on the basis of a set of brand attributes that include:

- Authentic Canadian
- World leader in beef safety and cattle production
- Superior meat quality and consistency
- Exceptional eating experience
- Healthy and nutritious

Examples of the Canadian industry commitment to the **Canada Beef** brand attributes are described in the Marketing Activities and Results section (pages 28-29) and include:

- The CBA defines and provides the proof points for the **Canada Beef** value proposition.
- Industry Standards are being developed such as the National Beef Cattle Biosecurity Standard and the Beef Cattle Code of Practice for animal care.
- The Beef Cattle Research Council (BCRC) supports research in areas including beef quality, safety and animal health and welfare.
- Producer uptake of Verified Beef Production (VBP) continues to grow with approximately 55-60% of Canada's beef produced at VBP trained operations.
- The industry continues its commitment to work with Government to implement full traceability, considering affordability and evolving technology.
- The industry has streamlined marketing program and service delivery by merging the Beef Information Centre and the Canada Beef Export Federation into one organization called Canada Beef Inc. This provides the opportunity to deliver services more efficiently and more effectively.
- Support for the Canadian Beef Advantage strategy will be provided by the Beef InfoXchange System (BIXS). This voluntary service will be the web based information hub for the national industry designed to capture and exchange data linked to an individual animal's unique electronic ID number.
- The Canadian Cattlemen's Association (CCA) provides leadership in policy development for animal health and welfare, food safety and the environment through the engagement with industry/government structures, including the Beef Value Chain Roundtable.

The CCMDC is pleased with the progress to date measured against its three priority goals: to build awareness of the **Canada Beef** brand promise; to achieve growth in traditional, existing and new markets; and to maximize the total value realized by the Canadian beef and cattle genetics industry. Since the implementation of the Legacy Fund the sector's commitment to the attributes that make up the Canadian Beef Advantage has been strengthened. For example, industry investments in food safety systems and interventions have been effective in greatly reducing the number of e-coli related product recalls thereby positively impacting consumer and customer confidence. This progress has enabled the creation of a much more comprehensive set of messages that are used to define the **Canada Beef** brand. As industry adopts new production practices, it will be important to ensure these gains continue to be reflected in the brand.

Significant progress has been achieved on the **Canada Beef** brand licensing agreements over the past few years. With programs focussing on an estimated 75% of market share in the retail and foodservice sectors, approximately 55% of this segment now holds CBA license agreements. Canadian producers will find the **Canada Beef** brand at major restaurant and retail outlets in Canada and in a growing number of U.S. retail and restaurant outlets dedicated to Canadian beef.

The reduction of supply of high quality beef globally has created the opportunity to shift the focus of the strategy from volume to value. Canadian producers are experiencing the benefits of higher value through much improved cattle prices. In North America there continues to be a reduction in per capita consumption of beef but consumers will continue to pay higher prices as the economic landscape improves and immigration contributes to increased domestic disappearance. International markets for Canadian beef are consistently increasing in volume as high quality Canadian branded beef is more in demand in Asia and around the world.

The CCMDC goal of maximizing total value from each carcass is built around identified cuts that have the potential to realize more value. This allows Canada Beef Inc. to develop specific marketing strategies directed at marketing these cuts to the highest value markets.

This report comes at a pivotal point in time. The Legacy Funds were provided by the Government of Canada and the Government of Alberta to help the industry recover post BSE. In many ways the recovery is accomplished. For the first time since 2003 the Canadian beef industry is optimistic about the future. The various sections of this report do provide us with some sign posts that we need to consider as we make our marketing plans for the future. This is even more significant as Canada Beef Inc. builds its first Strategic Plan and Business Plan.

The most obvious of these indicators revolves around supply and demand. The global recession has caused reduced ability for customers to buy our product on one hand but reduced cattle numbers domestically and among our primary competitors, the U.S. and Australia, has resulted in higher prices. Our strategy has to account for our ability to supply and must therefore be very focused on the most profitable markets. (Analysis and Implications - page 10)

Canada, the U.S. and to some extent Australia are unique in the world as producers of high quality grain fed beef. Canada is the most likely country to have the potential to significantly increase our production of these products. Cattlefax is indicating a herd reduction in the U.S. by 500,000 head in 2012 and a further 130,000 head in 2013. This follows a trend of reduced herd size in the U.S. since 1996. The U.S. may not be able to reverse this trend due to both societal (environmental) and climatic challenges.

Canadian Cattlemen Market Development Council

In spite of the recent economic downturn, increasing global prosperity indicates potential for long term growth in demand for the quality beef products for which Canada is known. For the future we need to focus on leveraging the growing awareness of the Canadian Beef Advantage to build a customer base that is committed to Canadian product domestically and in selected international markets.

Please recognize the dedication of the members of the CCMDC and the staff that supports us including Gloria Jewison and people from the CCA and Canfax that we draw on for support. It is great to see this industry committed to delivering a premium product to customers that value it in Canada and around the world. Canada Beef Inc. is operational now and the industry has every reason to expect success for the future.

A handwritten signature in blue ink that reads "D Andrews". The signature is fluid and cursive, with the first name "D" being particularly large and stylized.

David Andrews, Chairman
Canadian Cattlemen Market Development Council

Canadian Beef and Cattle Market Development Fund Profile

The Canadian Beef and Cattle Market Development Fund was established in 2005 to support long-term market development for Canadian beef and cattle genetics. Also known as the Legacy Fund, the Fund is comprised of \$50 million invested by the Government of Canada and \$30 million by the Government of Alberta.

The Fund was entrusted to the Canadian Cattlemen's Association¹ (CCA) to administer in a strategic manner. The Canadian Cattlemen Market Development Council (CCMDC) was established under the CCA to manage the \$80 million fund, including fund allocation and development of annual results reports for programs supported by the Fund. This funding, matched by industry through the national check-off paid by cattle producers, is expected to provide over \$170 million for the 10-year period 2005 to 2015. A long-term market development plan is part of the Canadian beef industry's BSE recovery plan to recover and expand markets for beef and cattle genetics around the world.

The **vision** of the CCMDC is:

This fund will be managed to facilitate bold and innovative approaches to recovering and expanding markets for Canadian beef and beef cattle around the world assuring a profitable, sustainable Canadian industry that results in Canadian beef and cattle being recognized as the most outstanding by Canadian and world customers.

The **mission** is:

The Canadian beef cattle industry, represented by the Canadian Cattlemen's Association, will utilize the Fund to:

- *Maintain consumer confidence for all markets as a high priority*

¹ The CCA is the national industry association representing Canada's 86,000 cattle producers

- *Build on Canada's comparative advantage to implement innovative market strategies*
- *Increase sales in existing markets (domestic, U.S., and Mexico)*
- *Secure markets for beef from animals over 30 months*
- *Intensify programs to be ready for re-entry into markets such as Japan and South Korea*
- *Develop new markets such as Russia, EU, Philippines, Indonesia and Singapore*

To ensure efficient and effective control of decision-making processes, the CCA reprised the successful model of the Beef Industry Development Fund (1994-1999) to guide the establishment of a governance and advisory process. The CCMDC is comprised of cattle producer representatives appointed by the CCA, non-voting representatives of government (federal and provincial), and external marketing expertise as required.

The Global Marketing Advisory Committee (GMAC) which includes representation from the beef supply chain provided the CCMDC with input and analysis on the strategic approach to global marketing of cattle and beef products. The GMAC was responsible for input in the development of the strategic beef cattle market development plan (10-year).

A strategic marketing plan (July 2006) and the yearly marketing implementation plans are developed through a collaborative process involving funders, the marketing organizations (fund recipients), GMAC, and the federal agriculture minister's Beef Value Chain Roundtable. The 2010/11 fund recipient marketing organizations include:

Canadian Beef Breeds Council (CBBC) - representing the Canadian purebred beef industry and responsible for genetics market development for live breeding cattle, semen

and embryos; **Beef Information Centre (BIC)** - responsible for Canadian beef market development programs in Canada and the United States for fed and non-fed beef (commercial beef); and **Canada Beef Export Federation (CBEF)** - responsible for developing export markets including Mexico, China, Japan, Taiwan, South Korea, and emerging markets such as the Middle East, Russia and EU.

A portion of the Government of Alberta funding has been designated for supplementary Alberta projects from applicants that propose innovative export market development initiatives. The CCMDC is also responsible for soliciting, reviewing and approving these supplementary Alberta market development initiatives.

Market indicators and performance measures

The Canadian Cattlemen Market Development Council through consultation with industry and government funding stakeholders established a standardized set of market indicators and performance measures for fund recipients to use as a basis to report results. As the CCMDC moves forward to establish the most effective means for program evaluation and reporting, these measures have been reassessed. The 2010/11 Marketing Implementation Plan incorporates an outcome-based evaluation framework around three priority CCMDC goals:

- ***Build awareness for a Canadian beef identity/brand built on benefits defined by a strong and clear value proposition***
- ***Achieve growth in traditional, existing, new and emerging markets for Canadian beef or Canadian genetics products***
- ***Maximize the total value realized by the Canadian beef and cattle genetics industry***

through optimization of carcass values or genetics and live cattle values

Due to the difficulty in accurately reporting on some of the originally established performance measures, as well as a desire to establish an outcome-based process more directly aligned with CCMDC's priority goals, certain performance measures have been removed from the reporting process and others have been repositioned to be aligned with a specific goal instead of overall market activities. The market indicators and performance measures outlined in the 2010/11 Marketing Implementation Plan include:

- Volume and value of Canadian beef exports, commercial beef sales and cattle genetics product sales
- Export market share of total exports
- Canadian share of target markets and market segments
- Customer awareness and understanding of the Canadian beef value proposition
- Size of market influenced by the value proposition (and change in size of this segment over time)
- New markets and customers created and maintained by funded initiatives
- Cutout benchmark including cutout value comparison Canada versus U.S.
- Level of completion of funded initiatives

Expected and realized outcomes for each of the three priority CCMDC goals, across each marketing organization, are included in table format in the respective sections of this report. As a credible, independent resource, Canfax Research Services has been contracted to provide market data included in this report.

2010/11 CANADIAN CATTLEMEN MARKET DEVELOPMENT COUNCIL MEMBERS	
Council Chair	David Andrews , Global Marketing Advisory Committee Chair
Voting Members	Marlin Beever , Beef producer, Manitoba
	Darcy Eddleston , Beef producer, Alberta
	Gord Hardy , Beef producer, Ontario
	Art Jonasson , Beef producer, Manitoba
	Dave Solverson , Beef producer, Alberta
	Brad Wildeman , Beef producer, Saskatchewan
	Dennis Laycraft , Canadian Cattlemen's Association Executive Vice President
Ex-officio Non-voting	John Ross , Agriculture and Agri-Food Canada (AAFC)
	Gordon Cove , Alberta Livestock and Meat Agency (ALMA)
	Brad Fournier , Alberta Livestock and Meat Agency (ALMA)
	Kim McConnell , Alberta Livestock and Meat Agency (ALMA)
	Mark Ishoy , International marketing representative
	Willie Van Solkema , International marketing representative

Manager: Rob McNabb, P.Ag., General Manager Operations, Canadian Cattlemen's Association

Executive Summary

Introduction

This report presents the results of the July 1, 2010 – June 30, 2011 Canadian Cattlemen Market Development Council (CCMDC) Marketing Implementation Plan as funded by the Canadian Beef and Cattle Market Development Fund (CBCMDF). The Fund, also known as the Legacy Fund, was established in 2005 when the governments of Canada and Alberta committed \$50 million and \$30 million respectively to support long-term market development for Canada's beef and beef cattle genetics industry. This funding is matched by industry through the national check-off paid by cattle producers and by participating market partners. The CCMDC was established to manage this Fund. Consistent with the requirements of the CCMDC 2006 long-term strategic plan and accepted by the Canadian Cattlemen's Association (CCA), the 2010/11 CCMDC Marketing Implementation Plan was developed in consultation with the Global Marketing Advisory Committee (GMAC) of the CCA, the federal agriculture minister's Beef Value Chain Roundtable and the major fund recipients.

Since the 2010/11 Plan was developed, the Canadian beef marketing organizations underwent a restructuring with the Canadian Beef Cattle Research, Market Development and Promotion Agency, also known as the National Check-off Agency or NCOA. This resulted in the consolidation of the NCOA with the Beef Information Centre and Canada Beef Export Federation. One single, independent national beef cattle marketing organization was created. This new organization, Canada Beef Inc., is responsible for the delivery of all domestic and international marketing and promotion of Canadian beef effective July 1, 2011. As this Report covers programs implemented prior the creation of Canada Beef Inc., the Report was compiled based on information provided by the three original fund recipients, namely Canadian Beef Breeds Council, Beef Information Centre and Canada Beef Export Federation. As well, given the Board structure of the newly formed Canada Beef Inc., which includes broad producer and industry representation, the mandate of GMAC has been consolidated into the responsibilities of Canada Beef Inc. and GMAC has been dissolved. The contribution agreement between AAFC and the CCA was amended to include the Agency (operating as Canada Beef Inc.) as an eligible recipient of the federal funds.

The Value Proposition

The Canadian Beef Advantage (CBA) - the value proposition positioning Canada's beef industry as a world leader in quality beef production - promotes the benefits of choosing Canadian beef based on attributes achieved from farm to fork. The benefits/attributes of the CBA include conscientious production practices, environmental stewardship, beef quality and yield advantages, plus Canada's global animal health status and food safety record. The value proposition is prominent across many facets of the beef industry including leadership provided by the CCA in developing policy or setting industry standards, research and market development, information sharing, and on farm safety practices.

Industry support for the value proposition is growing as a result of the development and implementation of new national standards for on farm biosecurity, codes of practice for animal care and targeted investments in research seeking solutions for enhancing animal health and welfare, food safety, beef quality and environmental stewardship.

The CBA includes a specific focus on food safety, for which on-farm food safety practices are critical. The Verified Beef Production (VBP), Canada's on-farm food safety program for beef, is a HACCP-based auditable program that is recognized by the CFIA and has the potential for international recognition. Uptake of the program has continued to grow with producers identifying VBP as part of the future where industry looks for product differentiation – an integral element of the CBA. VBP participation has grown to over 15,400 cattle operations, with 55-60% of Canada's beef being produced at these VBP-trained operations.

The Beef InfoXchange System (BIXS), a key component of the CBA strategy, is the national voluntary web-based database designed to capture and exchange data linked to an individual animal's unique electronic ID tag number. Through BIXS, herd health management protocols, production practices, and eventually detailed carcass information is shared between all sectors of the beef industry. Having the ability to produce cattle with specific attributes that meet market demands will benefit the entire beef industry. Supported by the AAFC funding, BIXS was launched nationwide to cow-calf producers in October 2011.

Market context

In 2010, larger fed cattle production supported production and consequently export volumes, which were up 8% from 2009. As supplies tightened throughout the year, prices increased to reach their annual highs in December. In 2011, higher cattle prices occurred as a result of tighter supplies in both North America and globally, as well as increasing beef demand in many emerging markets. The combination of smaller Canadian beef production and continued weakness in the North American economy, which has limited demand recovery, has resulted in decreased export volumes since 2010. Exports to U.S. and Mexico are down 27% and 34% respectively in the first half of 2011, while exports to Taiwan are down 71% due to market access issues related to ractopamine residue limits. Meanwhile exports to Russia, Hong Kong & Macau, and Japan are all up 25% in 2011.

The cattle outlook moving into 2012 is for limited supplies and moderate recovery in consumer demand to support higher producer prices. Cattle marketings are projected to be down 17% in 2011 and a continued decline will occur in 2012 with a reduced calf crop coming forward. It is important to note that the level of reduction may be larger if producers increase the number of heifers retained. As we enter the bottom of the cattle cycle while liquidation is mostly done, even smaller marketings will occur as expansion starts to take place. The dramatic reduction in supplies across North America will also mean that packers in Canada and the U.S. are increasingly challenged with shrinking supplies and maintaining utilization of plants at an economically sustainable level.

Results by priority goal

1. *Build awareness of the Canadian beef brand and the Canadian Beef Advantage*

The awareness of the Canadian Beef Advantage and **Canada Beef** brand and/or supporting attributes has been heightened significantly over the past two years. Through various programs, CBA brand license agreements have focussed on 75% of market share in the retail and foodservice sectors. Of that target, approximately 55% are CBA brand license holders. With this increased awareness, the focus moves to building on the commitment by consumers and trade partners to Canadian product. The genetics and beef marketing materials, including print, electronic, and website, incorporated the Canadian Beef Advantage and inherent attributes and resulted in increased awareness. For instance, awareness of attributes associated with commercial beef increased from 85% in 2009 to 90% in 2010. And internationally, heightened awareness and improved confidence in Canadian product were garnered through an increased number of activities and resources incorporating the CBA.

2. *Achieve growth in traditional, existing, new and emerging markets*

As the table on the following page indicates, exports of Canadian beef in 2010 increased 8% over 2009, reaching 407,500 tonnes. Beef exports in 2010 were valued at \$1.42 billion, up 13% from 2009. The value of cattle genetics exported in 2010 totalled \$20.37 million, up from \$15.48 million in 2009. Domestic consumption in 2010 decreased 2% from 2009 with the larger volumes exported. Canadian non-fed beef exports declined 32% in 2010, leading to increased domestic consumption of Canadian commercial beef. Many international partnerships and programs established in the retail and foodservice sectors in previous years were maintained and/or strengthened, and new ones were developed. However availability of consistent supplies of Canadian product at competitive prices continues to be a challenge for partner commitment.

3. *Maximize total value through optimization of carcass, genetics and live cattle values*

The sale of identified priority cuts has been advanced in international markets, including Japan where short plate, hanging tender and outside skirt sales volumes increased in 2010 compared to 2009. In Canada, the price discounts of heavy versus light carcasses were reduced in 2010 compared to 2009. Domestic programs in 2010/11 also focussed on increasing the share of source grinds at retail; although the volume of source grind sales at retail increased 14% over 2009, the overall share of total ground beef sales remained low at 1.6%.

Recognizing that there are numerous market factors outside of the marketing organizations control that drive the North American boxed beef values, the focus has been on the spread between Canadian and U.S. prices. The AAA product that had traded at a \$2.60/cwt premium to Choice in 2009 traded \$3.90/cwt below Choice in 2010. (This spread was partly due to the revised Boxed Beef Model methodology implemented July 2010 - see page 22). This discount has increased in 2011 to a \$4.13/cwt discount. In contrast, AA product typically has a smaller discount or larger premium when compared to select product. In 2009, AA product traded at a \$5.39/cwt premium to Select but in 2010 this narrowed to \$0.18/cwt putting it steady with Select. During the first 3 quarters of 2011, AA product has traded at a \$1.85/cwt discount.

Analysis and Implications

With larger exports in 2010, the proportion of Canadian beef production consumed in Canada declined from 62% in 2009 to 60% in 2010, with 30.5% of production exported to the U.S., 4.4% going to Mexico, 1.9% going to Hong Kong and Macau, 1.4% going to Japan, and 1.8% destined for other international markets. Although beef exports increased in 2010, decreased beef supplies over the next few years will not continue to support this trend unless imports to Canada increase substantially which has not been the case to date. Reduced cattle marketings in 2011 and 2012 will result in less beef available for domestic consumption and/or export. These decreasing supplies make it necessary to focus on maximizing the value of the carcass - meeting customer demands while attaining increased value for a greater portion of the beef carcass is vital in order to strengthen the Canadian beef industry. Specific to funds available for market development, decreased cattle marketings translates to reduced national check-off dollars collected from producers and thus decreased matching industry funds.

Long-term growth in demand for beef globally is evident as populations increase and more importantly a rising middle income class that is increasing their protein consumption emerges in many major development markets. The Canadian beef industry has the capacity and willingness, based upon current heifer retention and cow marketing numbers, to expand to meet this growing demand. At the same

time it will take several years until growth in the herd actually results in a recovery and/or expansion of Canadian beef supplies and this will be contingent upon a competitive production environment.

In the near term tighter supplies will support beef prices and as a result marketing efforts will need to be carefully focused on identifying and concentrating on those markets that derive the highest value for portions of the carcass. Broad-based marketing efforts will be more difficult to justify given tighter supplies that do not allow Canada to ensure the availability of consistent supplies to trading partners across all markets. Moving forward the CCMDC is focused on funding marketing activities that moves from growing awareness of the Canadian Beef Advantage to creating customer commitment to Canadian product, with a particular emphasis on those portions of the carcass that are underutilized or undervalued and our client needs. In the near-term this will maximize carcass values and support price improvements within the industry and in the long-term commitment to Canadian product in high value export markets will support further growth as expansion of beef production becomes evident.

Target reach

CATTLE GENETICS*	2002 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2010 Target
<i>Value (million \$)</i>	--	\$8.47	\$21.49	\$41.01	\$15.48	\$20.37	\$26.75
Live Breeding Cattle	--	--	\$12.00	\$33.10	\$8.92	\$8.00	\$20.00
Semen	--	\$8.03	\$3.98	\$3.89	\$5.46	\$10.30	\$3.00
Embryos (beef only)	--	\$0.44	\$3.60	\$4.02	\$1.11	\$2.07	\$3.75
<i>Volume</i>							
Live Breeding Cattle	--	--	4,843	16,606	4,621	3,387	10,000
Semen	--	548,517	316,275	403,601	111,775	250,038	300,000
Embryos (beef only)	--	2,528	4,823	3,575	1,808	3,391	5,000
DOMESTIC MARKET (MT) carcass weight							
Dom. Consumption of Beef	958,854	972,734	1,007,619	978,339	963,350	944,380	977,266
Disappearance of Cdn Beef	647,531	825,401	805,344	786,136	750,268	739,450	747,660
COMMERCIAL BEEF (MT) boneless weight							
Domestic consumption of Canadian Commercial Beef	36,036	130,981	129,915	115,348	68,748	78,525	56,505
Non-Fed Beef Exported	54,054	1,323	1,312	17,236	40,376	27,590	36,126
BEEF EXPORTS (MT) product weight							
U.S.	363,453	298,604	280,280	300,442	283,395	299,024	299,622
Mexico	77,887	41,647	45,661	47,230	45,484	46,865	53,070
Hong Kong/Macau	625	16,028	17,346	17,438	17,957	20,619	21,150
Japan	23,971	2,521	3,788	5,838	10,506	15,476	13,610
Taiwan	7,971	0	1,150	1,464	2,905	2,349	3,035
South Korea	17,342	0	0	0	0	0	0
Russia	9,469	0	0	2,504	6,300	10,038	7,147
ROW	20,749	13,197	14,328	18,063	11,627	13,143	12,241
Total exports	521,467	371,997	362,553	392,979	378,525	407,514	409,875

*Genetics data unavailable for 2002

Financial

The annual budget and financial summaries of the Canadian Beef and Cattle Market Development Fund (CBCMDF) for 2010/11 and since Fund inception follow. The audited financial statements for 2010/11 are included at the end of this report - page 88.

The total 2010/11 CBCMDF budget was \$14,158,920 of which \$12,499,060 or 88 per cent was expended at June 30, 2011. This compares to \$14,106,813 million CBCMDF expenditures in 2009/10. The 2010/11 Administration expenditures were under budget by \$147,000 or 22 per cent; the commercial beef program expenditures were 36 per cent or \$1.2 million under budget; the U.S. program expenditures were 27 per cent or \$645,000 under budget; the live and genetics program expenditures were 26 per cent or \$660,000 under budget; and the expenditures for the international marketing programs exceeded the \$4.73 million budget by 29% or \$1.4 million. A total of \$144,418 was allocated under the Alberta supplemental program between July 1, 2010 and June 30, 2011.

CCMDC BUDGET SUMMARY

Revenue	<u>2011/12</u>	<u>2010/11</u>	<u>2010/11</u>	<u>2009/10</u>	<u>2008/09</u>	<u>2007/08</u>
	<u>Budget*</u>	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
Legacy Fund - Federal	1,930,600	9,823,948	8,543,180	10,035,698	8,613,094	5,017,258
Legacy Fund - Alberta	3,965,427	4,334,972	3,955,880	4,071,114	3,120,826	2,057,105
Total Revenue	5,896,027	14,158,920	12,499,060	14,106,813	11,733,920	7,074,363
Expenses	<u>2011/12</u>	<u>2010/11</u>	<u>2010/11</u>	<u>2009/10</u>	<u>2008/09</u>	<u>2007/08</u>
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
Administration	453,000	679,223	532,294	662,957	600,059	275,599
Special Projects-Info Exchange	0	0	1,238	260,230	246,194	0
Commercial Beef	321,555	3,432,327	2,190,743	3,250,508	2,893,335	1,588,750
U.S.	588,460	2,313,273	1,668,015	2,397,298	2,548,043	1,817,823
International	734,385	4,734,097	6,122,963	5,387,877	3,496,836	2,392,191
Live & Genetics	798,627	2,500,000	1,839,388	2,147,944	1,949,453	1,000,000
Alberta - Other	3,000,000	500,000	144,418	0	0	0
Total expenses	5,896,027	14,158,920	12,499,060	14,106,813	11,733,920	7,074,363
* Transition Plan budget as approved June 21, 2011						

The following two tables highlight the annual Legacy Fund expenditures in 2010/11 and total Legacy Fund expenditures since Fund inception. Expenditures under the Canada and Alberta portion of the Fund during 2010/11 total \$8.54 and \$3.96 million respectively, with the industry matched funds totalling \$4.20 million or 25 per cent of total expenditures.

Since Fund inception, expenditures under the Legacy Fund total \$52.3 million, with the Canada portion at \$37.26 and Alberta portion at \$15.06 million. Total industry match was \$15.26 million. The total \$30 million Alberta funding advancement was received in 2006, and interest attributed to date is \$3.54 million. The balance of the Legacy Fund as at June 30, 2011 is \$31.2 million, comprised of \$12.74 million from the Government of Canada and \$18.48 million from the Government of Alberta including the \$3.53 million interest.

Canadian Beef & Cattle Market Development Fund Summary

July 1, 2010 - June 30, 2011

	Canada legacy	Alberta legacy	Industry matching funds	Total
Advances Received	\$ 8,435,258.00	\$ -	4,202,741.77	\$ 12,637,999.77
Expenditures				
Admin & operations	332,684.03	199,610.42	-	532,294.44
Special Projects-Info Exchange	773.87	464.32	-	1,238.19
Commercial Beef	2,190,743.42	-	730,247.81	2,920,991.23
U.S.	1,042,509.34	625,505.60	556,004.98	2,224,019.92
International	3,826,851.96	2,296,111.17	2,263,200.00	8,386,163.13
Live & Genetics	1,149,617.21	689,770.32	653,288.98	2,492,676.51
Alberta supplementary	-	144,418.04	-	144,418.04
Total expenditures	\$ 8,543,179.81	\$ 3,955,879.88	\$ 4,202,741.77	\$ 16,701,801.46

Canadian Beef & Cattle Market Development Fund Summary

Program to Date - June 30, 2011

	Canada legacy	Alberta legacy	Industry matching funds	Total
Advances Received	\$ 37,446,629.82	\$ 30,000,000.00	15,265,114.66	\$ 82,711,744.48
Expenditures				
Admin & operations	1,614,911.93	966,947.10	-	2,581,859.03
Special Projects-Info Exchange	317,289.07	190,373.44	-	507,662.51
Commercial Beef	11,931,381.02	-	3,307,778.74	15,239,159.76
U.S.	6,255,409.40	3,753,245.64	3,246,684.60	13,255,339.64
International	12,222,395.85	7,301,103.72	5,967,918.20	25,491,417.77
Live & Genetics	4,923,409.16	2,675,349.62	2,573,079.57	10,171,838.34
Alberta supplementary	-	169,653.55	169,653.55	339,307.10
Total expenditures	\$ 37,264,796.42	\$ 15,056,673.07	\$ 15,265,114.66	\$ 67,586,584.15
Total Advances Remaining	\$ 181,833.40	\$ 14,943,326.93	\$ -	\$ 15,125,160.33
Unadvanced funds	12,553,370.18	-	-	12,553,370.18
Interest attributed	-	3,535,181.82	-	3,535,181.82
Funds Remaining	\$ 12,735,203.58	\$ 18,478,508.75	\$ -	\$ 31,213,712.33

Market Context

Canadian Cattle Inventories

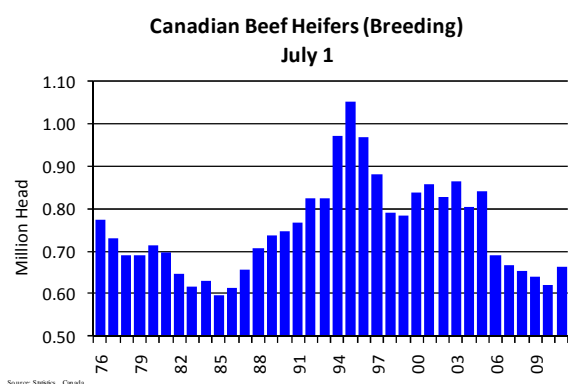
Statistics Canada July 1st Cattle Inventory report saw total cattle inventories in Canada down 0.8% at 13.87 million head. This is the smallest year over year decline since the national herd started shrinking in 2006. Reductions were evident in beef cows (-2.1%), yearlings (-1%) and the calf crop (-0.5%). Although beef cow inventories were down, beef replacement heifers were up 6.7% at 662,200 head as higher calf prices last fall encouraged retention. While up from year ago, this is still 12% below the historic average of 752,000 head. Therefore the increase is not an indicator of expansion but instead stabilization of the cow herd. It should also be remembered that the replacement heifer number is always soft at this point as some of these heifers will be open and be removed from the herd. However the upward trend is encouraging; especially in light of a reduced culling rate and cow marketings, which when combined imply that 2011 is going to be a year of consolidation with liquation being mostly behind us.

Canadian Cattle Inventory July 1 (1,000 head)			
	2010	2011	11 vs 10
Bulls	239.8	235.3	-1.9%
Beef cows	4291.8	4201.8	-2.1%
Dairy cows	981.9	982.0	0.0%
Dairy Hfrs	443.8	447.3	0.8%
Beef Hfrs (brdng)	620.6	662.2	6.7%
Beef Hfrs (sltr)	1138.0	1121.8	-1.4%
Steers	1488.6	1472.1	-1.1%
Calves	4770.5	4747.5	-0.5%
Total	13975.0	13870.0	-0.8%

Canadian beef cow inventories were down 2.1% at 4.2 million head. The decline in beef cow numbers was similar in most provinces - British Columbia (-3%), Alberta (-2.6%), Manitoba

(-2.9%), Ontario (-2.7%) and Quebec (-2.7%), with the exception of Saskatchewan (-0.8%). In contrast, beef heifer replacement numbers continue to be down in the East, while there is a significant increase in the west with B.C. up 0.6%, Manitoba up 2.8%, Alberta up 7.8% and Saskatchewan up 12.3%. The difference in optimism and direction of herd sizes reflects feed availability and relative production costs, as barley continues to be significantly cheaper than corn. Any serious expansion moving forward will depend upon feed availability and costs, credit availability, and producer appetite for risk as market volatility is expected to remain over the near term. The results of increased heifer retention will not show up in beef production until 2013, when calves born in 2012 will be finished.

Looking forward to the fall run, calf numbers (<1 year) are down 0.5% and steers (>500 lbs) are down 1.1%. Using these two numbers we can estimate the supply of beef feeders outside of feedlots which will be placed over the coming six months. This number includes the number of beef calves, beef steers and slaughter heifers less the July 1st cattle on feed number. The feeder and calf supply outside of feedlots is estimated to be down 2% from 2010 and 19% below the peak in 2005.

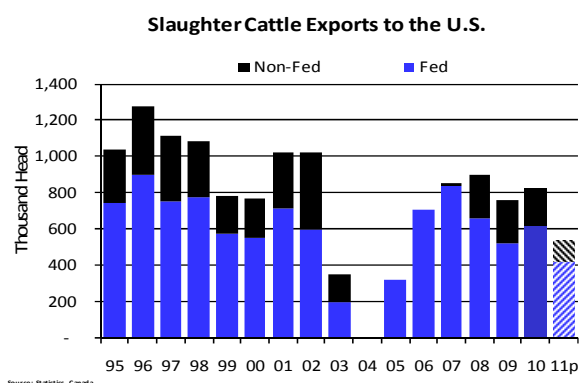


Cattle Marketings

Beef Cattle Marketings (1,000 head)	2002	2006	2009	2010	2011p
Fed Cattle Slaughter	2,968	2,821	2,711	2,782	2,437
Fed Cattle Exports	595	704	523	621	416
Fed Marketings	3,563	3,524	3,234	3,403	2,855
Cow Slaughter	540	754	654	614	522
Cow Exports	372	--	199	183	99
Cow Marketings	912	754	853	797	621

Slaughter Cattle Exports

In 2010 fed cattle exports totaled 620,618 head up 19% from 2009. Larger fed cattle exports were the result of larger fed cattle supplies following the decline of feeder exports in 2009.



In the first half of 2011, fed cattle exports are down 33% with smaller fed cattle numbers and a narrower basis keeping cattle in Canada. Fed exports are expected to be small throughout

the rest of the year as feedlot placements in the first half of 2011 have averaged 13% below year ago. Fed exports are projected to total 415,500 head in 2011, with only 2003 and 2005 when trade was open for only part of the year seeing smaller exports. This is a significant reduction in fed cattle exports.

Non-fed slaughter cow and bull exports totaled 210,994 head in 2010, down 12% from 2009, as supplies have started to tighten. Cow exports were down 8%, with monthly volumes steady around 25,000 head in the first 9 months, but dropping to 10,000 head per month in the fourth quarter as supplies dramatically tightened. In the first half of 2011 non-fed exports are down 42% and projected to total 120,500 head in 2011, which would be the smallest on record (series started in 1995).

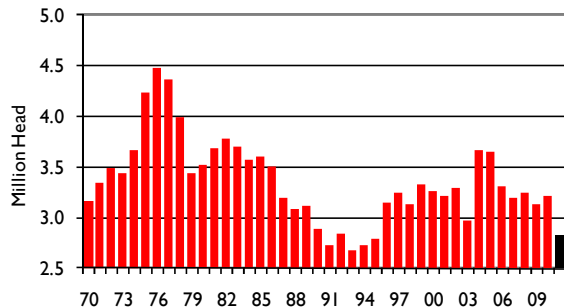
Domestic Slaughter

Domestic Slaughter & Grading	2002	2006	2009	2010	2011p
Canadian FI Slaughter (1,000 hd)	3,298	3,317	3,139	3,210	2,825
Canadian Slaughter Capacity (hd/wk)	n/a	95,200	77,685	76,050	74,383
Utilization of Cdn Slaughter Capacity	n/a	69%	79%	82%	75%

Federally Inspected (FI) slaughter was up 2.3% in 2010 at 3.21 million head. Total slaughter (including federally, provincially inspected and uninspected) was up 1.2% from 2009 at 3.45 million head. Larger slaughter was a result of

increased steer and heifer slaughter, which was up 0.8% and 5.4% respectively. Bull slaughter was also up 21%, while cow slaughter was down 6%.

**Canadian Cattle Slaughter
(Federally Inspected Packing Plants)**



Source: CBGA, Stats Canada, AAFC

From January to June 2011 federally inspected slaughter is down 12%, with steer slaughter down 13%, heifer slaughter down 9%, cow slaughter down 15% and bull slaughter down 5%. Several years of smaller calf crops are being realized in smaller fed slaughter in 2011 and stabilization of the herd is evident with reduced cow marketings.

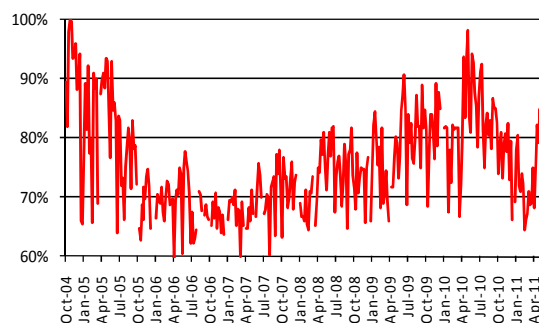
Slaughter Capacity & Utilization

Total cattle marketings (domestic slaughter and exports) were up 2.6% in 2010 at 4.28 million head. Domestic slaughter as a percentage of total marketings was 75%, steady with 2009 and similar to the long term average of 76%.

In 2010, larger fed cattle marketings supported packer utilization levels. Weekly slaughter volumes reached 75,000 head in May for the first time since September 2005 and utilization

rates increased from 79% in 2009 to 82% in 2010.

Canadian FI Slaughter Est Utilization Rate



Source: Canfax Research, CBGA

Higher utilization rates in 2010 had a significant positive impact on packer's operating costs per head and therefore their bottom line and what they were willing to pay for fed cattle. From January to June 2011 utilization rates have averaged 74%, with smaller cattle slaughter numbers. Reduced cattle supplies and utilization levels have resulted in the closure of the XL Calgary cow plant as of May 2011. As marketings and domestic slaughter levels continue to decline packers will be hard pressed to maintain utilization levels and remain competitive with U.S. counterparts. Excess capacity will continue to be rationalized in North America in both the packer and feedlot sectors.

Beef Production

	2002	2006	2009	2010	2011p
Total Beef Production (billion lbs)	3.66	3.52	3.40	3.51	2.88
Fed Beef Production (1,000 lbs)	2,868	2,866	2,658	2,802	2.31
Non-fed Production (1,000 lbs)	708	577	653	615	481

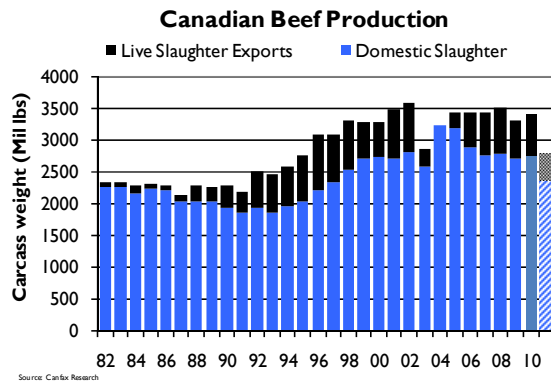
Total Beef Production

Canadian beef production accounts for both domestic slaughter and net live cattle exports. Beef production was up 3.1% in 2010 at 3.51 billion pounds to be back at 2007 levels. This jump in beef production was a one-time event

resulting from significantly reduced feeder exports in 2009.

Domestic beef production was up 1.6% at 2.7 billion pounds, while production from live cattle exports was up 10.2% at 662 million pounds.

The proportion of beef production derived from domestic slaughter was down slightly at 81% compared to 82% in 2009.



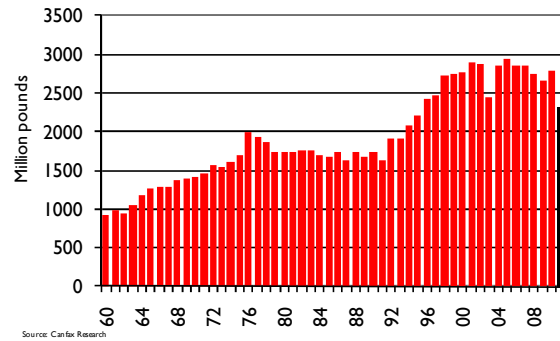
In 2011, beef production is projected to be down 18% to be the smallest since 1995, with domestic production down 14% and live exports down 35%. Given current beef cow inventory levels this is where production would be expected to be apart from large cow slaughter or major swings in live exports to the U.S.. In the first half of 2011, federally inspected slaughter is down 12%, live slaughter cattle exports are down 41% and carcass weights are trending 5 lbs below 2010. The proportion of beef production coming from domestic slaughter is expected to increase back to 80% from 75% in 2009, as live exports decline more than domestic slaughter.

Fed Beef Production

In 2009 fed beef production was down 9.5% from the peak in 2005. With feeder exports down 55% in 2009, fed cattle marketings increased 5.2% in 2010 to 3.4 million head. Domestic slaughter was up 2.6% to 2.78 million head, while exports were up 19%. Steer carcass weights were steady at 846 lbs leaving overall fed beef production up 5.4% in 2010 at 2.80 billion pounds.

In the first half of 2011 fed beef production is down 13% and projected to finish the year down 17.5% with a combination of smaller carcass weights and marketings.

Fed Beef Production



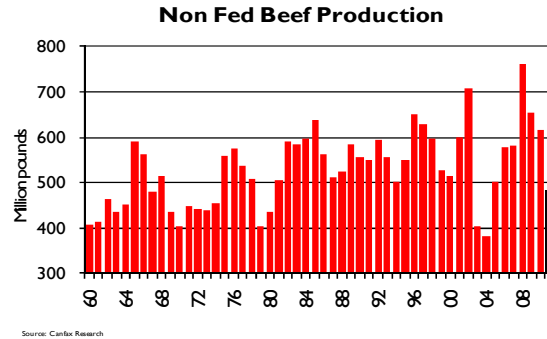
Fed marketings are expected to be down 16%, with a 12% decline in domestic slaughter and 33% decline in exports. At a projected 2.3 billion pounds, fed production is estimated to be 13% below 2009 levels and 21% below the peak in 2005. Compared to the same period in 2010, January to June 2011 fed slaughter is down 6% in the West and 4% in the East. Placements into feedlots are down 13.2% in the first half of 2011 and therefore will continue to limit marketings throughout the rest of the year. As feedlots keep current with smaller marketings steer carcass weights are running 14 lbs below 2010 levels.

Non-Fed Production

Non-fed beef production (derived from cows and bulls) was down 5.8% in 2010 at 615 million pounds. The decline came from both reduced slaughter (-4.4%) and live exports (-12%). Cow marketings were down 6.5%, while bull marketings were down 4%. Of the non-fed beef produced in Canada in 2010, it is estimated that 26% of product was exported down from 37% in 2009. As countries rebounded from the global recession, stronger competition for trim product and higher world prices resulted in Canada importing less grinding beef. Tight domestic supplies resulted in domestic production staying in Canada.

In 2011 non-fed beef production is down 14% in the first half and projected to finish the year 22% below 2010 levels. Cow marketings are projected to be down 22%, with a 15% decline

in domestic slaughter and 46% decline in live exports. Higher calf prices last fall has increased optimism in the cow/calf sector and as a result the beef cow culling rate is projected to drop below 10% in 2011 for the first time since 2001 (excluding 03-06). While producers have reduced cow slaughter, they are still cautious as demonstrated by the heifer slaughter ratio which is still above the 15 year average with 72 heifers slaughtered for every 100 steers.

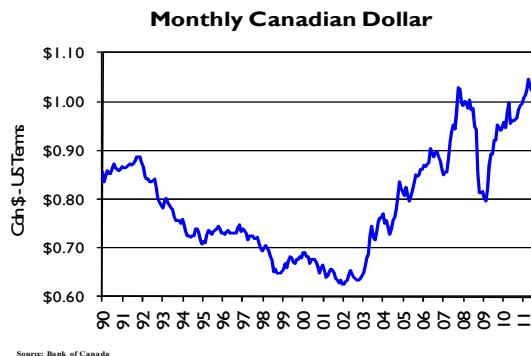


Prices, Exchange Rate

\$/cwt	2002	2006	2009	2010	2011p
Alberta Fed Steer Price	\$97.14	\$86.66	\$85.75	\$88.73	\$104.00
Fed Basis (AB/Nebraska)	-\$6.84	-\$10.42	-\$8.40	-\$8.64	-\$4.61
Alberta 850 lb Feeder Steer Price	\$111.48	\$106.75	\$96.30	\$102.35	\$120.00
850 lb Feeder Basis (AB/NB)	-\$14.14	-\$15.83	-\$13.08	-\$10.86	-\$8.01
Cow Price	\$57.04	\$36.13	\$43.86	\$54.49	\$70.00
Feeder Cattle Exports (head)	574,908	435,349	283,809	217,862	93,700
Exchange Rate	\$0.6373	\$0.8822	\$0.8821	\$0.9654	\$1.0254

Exchange Rate

The Canadian dollar averaged US\$0.97 in 2010 up from US\$0.88 in 2009. The dollar traded in a relatively narrow range in 2010, trading between US\$0.93 and par.



In the first half of 2011 the dollar has ranged between par and US\$1.05 more as a reflection of the weak US dollar than any strength in the Canadian economy. The U.S. economy

continues to struggle and faces questions around the continued uncertainty of its debt ceiling and possibility of the U.S. defaulting on its debt. The U.S. was downgraded to AA losing its AAA rating in August. How this will impact the country moving forward is unknown as the US dollar is still considered a safe haven for investors looking for an alternative from the financial turmoil in Europe.

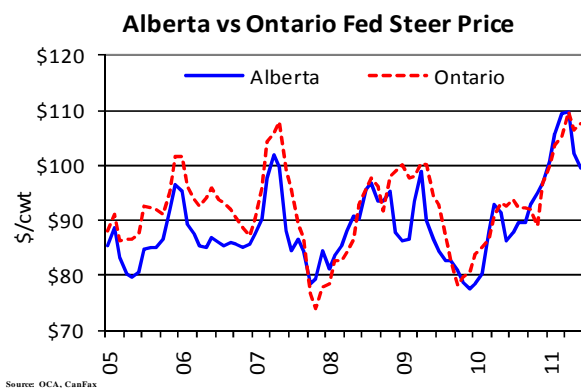
While the Loonie is often referred to as a petro currency, it is also well understood that Canada is heavily dependent on trade with the U.S.. Consequently as the U.S. economy struggles, it limits the ability of the Loonie to independently strengthen as much as one would expect against other currencies. When compared to other currencies we see a different picture of how the Canadian dollar is performing, with the Japanese yen, Australian dollar and Brazilian Real all close to ten year highs compared to the Canadian dollar. The Euro is the exception with

large debt loads and poor economic growth in several Euro zone countries. A strong Japanese Yen supports beef exports as they have more buying power in Canadian dollars. Also a strong Australian dollar reduces buying power here and therefore has a negative impact on imports from there.

The Canadian cattle industry is slowly adjusting to life with a par dollar. Everything from feed costs to labor wages have been impacted, which ultimately weighs upon Canada's competitive standing internationally. While some items adjust rapidly (like feed costs), other items take time (like wage contracts for workers in a packing plant). The wage differential impacts everyone from the cow/calf producer with a hired hand to workers in the packing plant.

Fed cattle prices

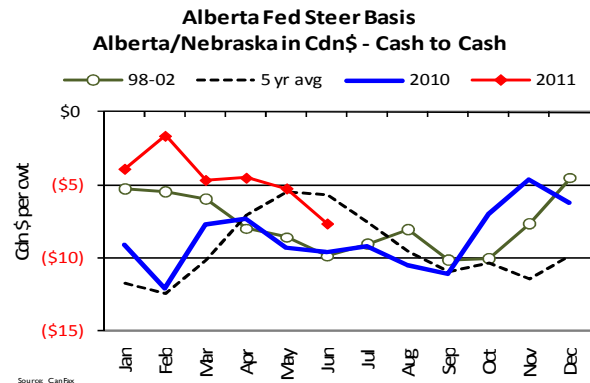
U.S. fed cattle prices averaged US\$95/cwt in 2010, up \$12/cwt from 2009. Prices were higher than 2009 and the four year average from February on, with December prices surpassing the April peak of \$100/cwt on tight supplies and strong export demand.



Alberta and Ontario fed cattle prices averaged \$88.73/cwt and \$90.90/cwt in 2010, up \$3/cwt and down \$0.17/cwt from 2009 respectively. Alberta fed prices were \$8/cwt lower in the first half of 2010, which can be partially attributed to larger fed marketings (+6%). As supplies tightened in the second half of the year, prices increased to be \$13.60/cwt higher than 2009.

Fed cattle prices were supported by strong export demand and higher by-product values. Hide values, which make up the majority of the by-product value, increased by \$10.50 per hide from January to December to be the highest since January 2007. In 2011 from January to June fed prices averaged \$103.60/cwt, up 20% or \$17/cwt from 2010 on tighter supplies and recovering domestic beef demand.

Since 2005 the Alberta to Nebraska cash to cash basis has been driven as much by cow supplies as by fed cattle supplies. The basis has trended narrowest in the summer when cow supplies are the smallest versus being the narrowest in the winter months when fed cattle supplies are the smallest. As cow supplies shrink the basis is moving back to fed supplies being the dominant factor.

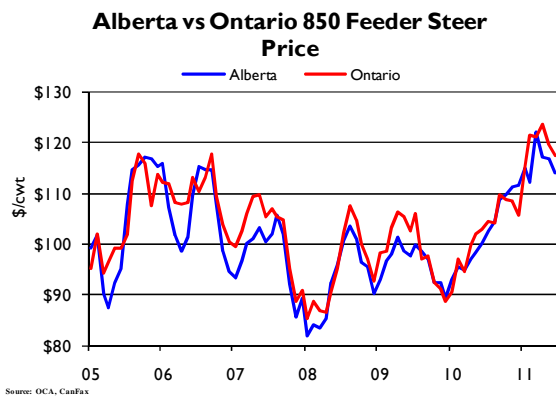


The basis averaged \$8.64/cwt in 2010 steady with 2009. The basis was flatter in 2010 with the summer months wider than the five year average from May through July, but narrowing in the fourth quarter with tighter fed cattle supplies. In the first half of 2011 the fed cattle basis has been historically narrow at -\$3.40 in the first quarter compared to -\$9.60 in 2010 and -\$5.81 in the second quarter compared to -\$8.75/cwt in 2010.

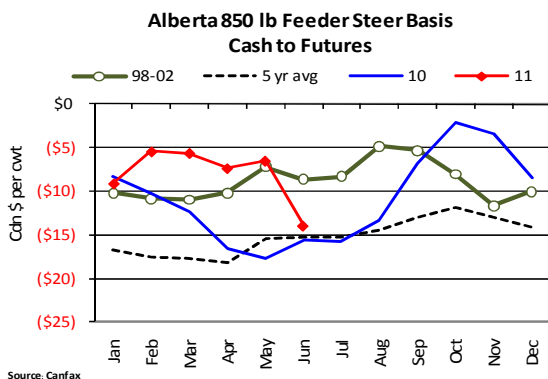
Feeder Cattle Prices

Alberta and Ontario 850 lb feeder steer prices averaged \$102.35/cwt and \$102.39/cwt in 2010, up \$5.75/cwt and up \$3.37/cwt from

2009 respectively. Canadian feeder cattle prices were relatively flat throughout the year, following the four year average before strengthening in the fourth quarter to see their highest prices since 2005. The yearling run was late getting started with ample grass and good gains providing no incentive to move cattle to market. Prices moved higher as fed cattle prices gained ground and a strong futures board offset any increase in cost of gain. In the first half of 2011 feeder prices have been the highest since the first quarter of 2002 averaging \$117/cwt, up 20% from 2010.



The 850 lb feeder basis was -\$10.86/cwt in 2010, \$2/cwt narrower than 2009. After ranging similar to the 98-02 average in the first quarter, the feeder basis widened out in the summer months to trend similar with the five year average before narrowing again in the fourth quarter to be even narrower than the 98-02 average.



The narrower basis in the winter months indicated stronger demand from Canadian feedlots, versus the U.S., as a result of a lower cost of gain and tighter supplies. In 2011 the basis traded in the narrow range from January to May before widening out in June. The January to September 2011 basis has averaged -\$7.85/cwt compared to -\$12.94/cwt in 2010.

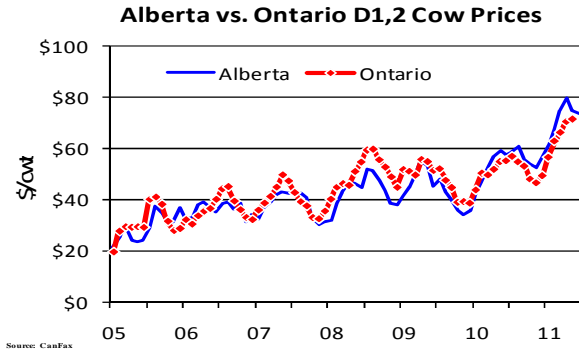
Feeder exports totaled 217,860 head in 2010 down 23% from 2009. This was in line with the 98-02 average of 229,000 head. Lower feeder exports were due to a Canadian feeding advantage in Western Canada with barley prices averaging 5% below corn for the year and 21% lower in the fourth quarter. In the first half of 2011 Lethbridge barley prices averaged 27% below Omaha corn prices.

In October and November 2010 Western Canada actually imported beef feeder cattle from the U.S. for the first time since 2002. Imports occurred over a short period of time when U.S. prices, the exchange rate and feed costs made it advantageous. However there were some difficulties faced by the Canadian feedlots importing U.S. feeders, first with CFIA certification and second when Canadian packers indicated they would not be taking U.S. born cattle due to Product of Canada labeling concerns. These issues have been mostly resolved with more feeder imports reported in the first half of 2011.

Cow Prices

Alberta cow prices averaged \$54.50/cwt in 2010, up \$10.60/cwt from 2009. Ontario cow prices averaged \$51.15/cwt in 2010, up \$3/cwt from 2009. Cow prices were supported by strong 85% trim prices, which were up 3.7% at \$144/cwt.

The Alberta to U.S. cow price spread narrowed in 2010 from -\$10/cwt in 2009 to -\$4.80/cwt in 2010 and \$1.29/cwt in the first half of 2011.



Alberta cow prices were actually at a premium to the U.S. in April and June 2011. The narrower spread reflects the tightening supplies of cows in Canada as the industry has worked through the glut built up when cows were not

being slaughtered from 2003 to 2005 and the liquidation slows now that inventories are at levels similar to the mid-1990s.

From January to June 2011 cow prices have been supported by smaller supplies, with cow slaughter down 15% in the first half of the year. Further support has been a result of a 29% decline in non-NAFTA grinding beef imports and continued strong demand for trim product in North America. In the first half of 2011 Alberta cow prices have averaged \$71.90/cwt up \$19.25/cwt from 2010. Prices reached a high of \$80/cwt in April, which is the highest cow price since July 2001.

Boxed Beef Cutout Values

	2002	2006	2009	2010	2011p
AAA Cutout Values	\$187.90	\$168.75	\$163.04	\$157.60	\$170.00
AA Cutout Values	\$177.88	\$160.08	\$160.38	\$155.66	\$168.00
AAA/Choice Spread	n/a	2.32	2.60	-3.90	-4.13
AA/Select Spread	n/a	9.69	5.39	0.18	-1.85

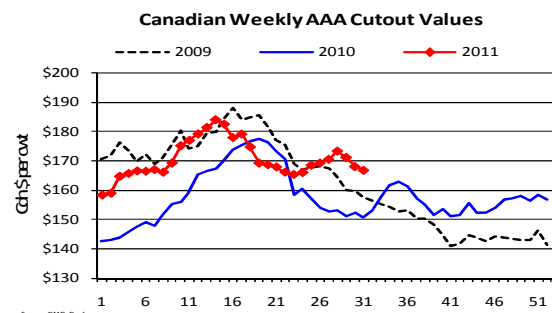
Note: Boxed Beef model was updated July 2010; see AAA/Choice Spread section below

AAA and AA Cutout Values

The AAA and AA cutouts averaged \$157.60/cwt and \$155.66/cwt in 2010, down 3% from 2009. Large fed beef production in the first half of the year weighed on the cutout, with it trending below 2009 from January to August. Smaller beef supplies supported the cutout in the fourth quarter, with it averaging \$10/cwt higher than 2009 from September to October. From January to June AAA cutout prices have averaged \$170/cwt up \$10/cwt from 2010, while AA cutouts have averaged \$9 higher at \$168/cwt.

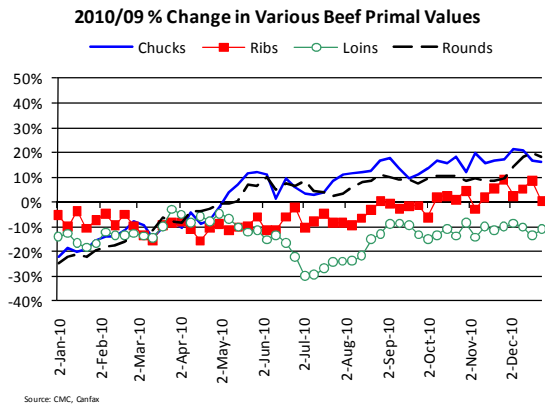
The AAA/AA spread narrowed from \$2.66/cwt in 2009 to \$1.94/cwt in 2010, with the AA cutout rebounding more than the AAA cutout as consumers continued to demand cheaper protein options and supplies of AAA product increased. AAA and prime as a percentage of all A grades made a new annual record averaging

53.8% in 2010 up from 52.2% in 2009. The AAA/AA spread averaged \$8.35/cwt from 2004-07 but has been putting in new lows since the financial crisis in 2008. The spread averaged \$2.59/cwt in 2008-10 with consumers demanding larger volumes of lower priced beef while smaller quantities of AA and larger quantities of AAA beef were produced. Similarly in the U.S. the Choice/Select spread has also been making new lows over the last three years.

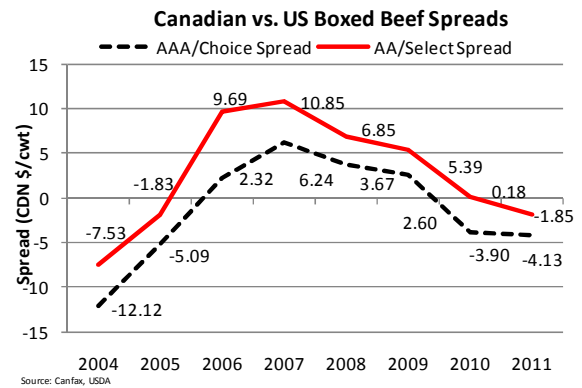


Primal Values

While stronger demand in the foodservice sector was evident in the latter part of 2010, middle meat prices have continued to struggle. Ribs and Loins traded below 2009 levels for most of 2010 with Ribs finally seeing stronger prices in the fourth quarter. Ribs averaged \$2.40/lb in 2010 down 5% from 2009. Loin prices, which stayed below 2009 throughout the year, averaged \$2.47/lb, down 14%. After trending below 2009 levels in the first half of 2010, Chucks and Rounds averaged higher from June through December 2010. For the year, Chucks averaged \$1.18/lb up 3%, and Rounds averaged \$1.35/lb up 1% from 2009. In the first half of 2011, Chucks are up 14%, Rounds up 16%, Ribs are up 2%, and Loins down 4% from the same period 2010.



order to more accurately reflect the cuts being used by industry, as new cuts have been developed and packer cutouts have changed with market access. It was found that the old model put more weight on higher valued middle meats, which resulted in the Canadian cutout being overvalued versus the U.S. cutout. Consequently, the AAA/Choice spread widened from a \$2.60/cwt premium in 2009 to being discounted by \$3.90/cwt in 2010.



In 2011 this has widened to -\$4.13/cwt. Similarly, the AA/Select spread went from a \$5.39/cwt premium in 2009 to a \$0.18/cwt premium in 2010. In 2011 this has turned into a discount of \$1.85/cwt. A more accurate comparison to U.S. cutouts will allow the Canadian beef industry to evaluate marketing priorities and where to best put resources.

AAA/Choice Spread

In July 2010, the Canadian Boxed Beef model was updated for the first time since 2004 in

Market Access Situation in 2010/11

Market access continues to grow in many countries for Canadian beef and cattle genetics. The Canadian government continues to work on market access in markets both large and small to the benefit of the beef industry. In September 2010 government tabled legislation to implement the Canada – Panama Free Trade Agreement which will eventually provide duty

free access for all Canadian beef products. This will eliminate the current 25-30% tariff on high quality beef. While small, this market provides an opportunity to supply the cruise ships taking on provisions at the Panama Canal with high quality Canadian beef.

In November 2010 Canada gained access to the EU through a 20,000 tonne duty free quota for high quality beef shared by the U.S., Australia and now Canada. Completion of the negotiations for a Canada-EU comprehensive economic trade agreement (CETA) this year was specifically noted in the March Budget.

In January 2011 Taiwan started testing beef imports for ractopamine hydrochloride, which it has a zero tolerance policy for despite it being recognized by the Joint FAO/WHO committee on Food Additives as a safe feed ingredient. Canada, the U.S., Mexico and Australia all use ractopamine. Upon finding residue in eight U.S. beef samples and one from Canada in early January all imports were halted. After being next to nothing in the first two months of 2011, exports to Taiwan were small in March representing only 13% of volumes sent in Q1 2010. The U.S. has seen a 9% decline in exports to Taiwan in the first half of 2011 compared to the same period in 2010.

Following the agreement in principal with China in June 2010, Chinese authorities came to Canada in December 2010 to inspect plants. Under a phased in market access agreement, the first stage is expected to provide \$40 million per year in tallow and \$10 million for boneless

UTM beef exports. Once trade is restored it is estimated to represent additional annual exports of \$110 million for the Canadian cattle industry. However technical negotiations have been delayed over concerns with ractopamine. While ractopamine levels in muscle cuts is considered small, there are concerns that this product concentrates in the soft tissue which is of concern for countries with higher levels of offal consumption.

In February 2011 Costa Rica agreed to resume full unrestricted access for Canadian beef. Canadian beef exports to Costa Rica totalled \$235,000 in 2002. The agreement with Costa Rica brings the number of countries that do not place any age restrictions on Canadian beef to 43 (including the 27 member countries of the European Union).

On June 27th South Korea announced it will resume imports of Canadian beef, representing a \$30 million market. The Canadian and South Korean governments reached a technical agreement that will see the country import meat from cattle under-30-months of age (UTM). There are still details to be negotiated before trade starts.

Trade

	2002	2006	2009	2010	2011p
Cdn Beef & Cattle Exports (1,000 MT)	1,025	702	710	753	580
Cdn Beef & Cattle Exports (Billion \$)	\$4.04	\$2.61	\$2.33	\$2.51	\$2.26
Live Cattle Exports (1,000 MT)	504	330	331	345	217
Live Cattle Exports (million \$)	\$1,821	\$1,275	\$1,069	\$1,090	\$763
Canadian Beef Exports (MT)	521,467	371,997	378,525	407,514	317,860
Canadian Beef Exports (million \$)	\$2,2203	\$1,334	\$1,260	\$1,422	\$1,237
% of Beef Production Exported	58%	45%	48%	50%	44%

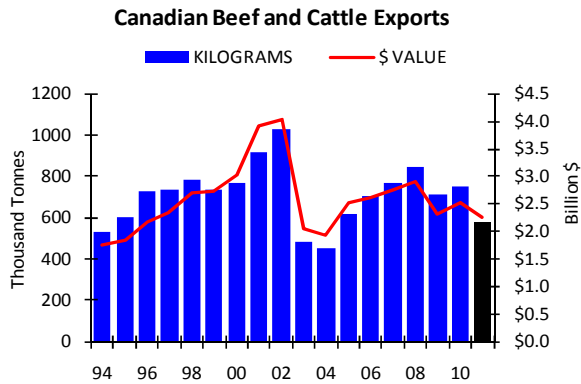
(Volume in Product weight)

Canadian beef and cattle exports

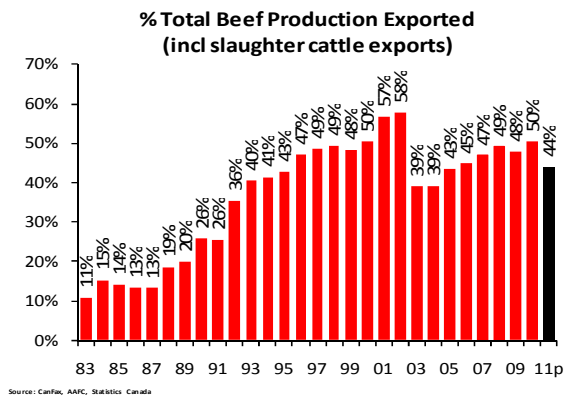
Canadian beef and cattle exports were up 6% in volume and 8% in value at 752,900 tonnes

valued at \$2.51 billion in 2010. Slaughter cattle exports were up 9% while beef exports were up 8%. While total export volumes are similar to

2007 levels, they are 11% below 2008 beef and cattle export volumes. The difference is due to smaller exports (-7%) and significantly smaller feeder exports (-65%) compared to 2008.



In 2010 exports accounted for 50.5% of production (including slaughter cattle exports), up from 48% in 2009. This is steady with 2000 and the highest level historically, except for 2001 and 2002 when exports accounted for 57% and 58% of production respectively.



In 2011 beef and cattle exports are projected to be down 23% in volume and 10% in value with smaller production and a rebounding domestic market keeping proportionately more product at home.

Volume and value of beef exports

Beef exports in 2010 totaled 407,500 tonnes valued at \$1.42 billion, up 8% in volume and 13% in value. Not only were beef export volumes above 2009 levels they were also 4% higher than 2008 levels to be the highest since

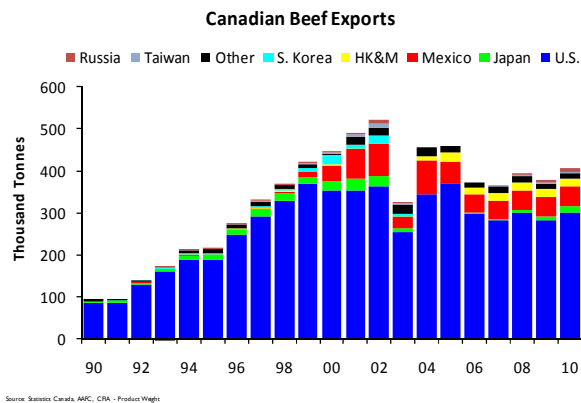
2005 when 458,000 tonnes were exported. Larger beef exports were made possible through increased fed production, with the largest export months corresponding to the largest fed production months in May and June. Monthly volumes declined in the second half of 2010 as production shrank and Canada experienced strong competition from U.S. exports that benefited from a weak U.S. dollar on the global market. Beef exports as a percentage of domestic beef production (excluding slaughter cattle exports) increased to 40% up from 38% in 2009 as growth in exports surpassed growth in production.

Beef exports to the United States in 2010 were up 6% in volume and 8% in value at 299,000 tonnes valued at \$997 million. Like Canada, the U.S. has seen larger exports and tighter domestic supplies as imports from non-NAFTA countries have been limited; particularly imports from Australia. The share of Canadian beef exports shipped to the U.S. was steady in 2010 at 75%. This is an indication of how strong U.S. demand is for beef, as their supplies tighten and demand for trim product continues to be strong. In the first half of 2011 exports to the U.S. are down 27% in volume and 18% in value and are projected to total 218,000 tonnes valued at \$817 million.

Exports to Mexico in 2010 were up 1% in volume and up 9% in value at 46,800 tonnes valued at \$185 million. The share of Canadian beef exports shipped to Mexico was down 1% to 10.8%. In the first half of 2011 exports are down 34% in volume and 20% in value and are projected to total 30,000 tonnes valued at \$148 million.

Hong Kong and Macau represent Canada's third largest export market, accounting for 4.7% of total beef exports. Exports to Hong Kong and Macau were up 13% in volume and 44% in value in 2010 - 20,600 tonnes valued at \$96 million. Annual exports to Hong Kong and Macau have been relatively flat at 17,000 tonnes for the last three years. In the first half of 2011 exports are

up 26% in volume and 22% in value and are projected to reach 26,000 tonnes valued at \$117 million.



Exports to Japan were up 47% in volume and 37% in value; at 15,500 tonnes valued at \$78 million in 2010. This makes Japan Canada's fourth largest export market, accounting for 3.6% of total exports. Monthly volumes increased in 2010 and surpassed 2009 levels in all but two months (July and October). They also surpassed the 98-02 average by 54% in September and 18% in November. The annual volume of 14,500 tonnes is still below the 98-02 average of 22,400 tonnes. In the first half of 2011 exports are up 23% in volume and value and are projected to reach 19,000 tonnes valued at \$96 million.

Exports to Russia were up 58% in volume and triple in value at 10,000 tonnes valued at \$25 million in 2010. This surpasses the peak of 9,500 tonnes exported in 2002 to be the largest volume on record exported to Russia. This makes Russia the fifth largest export destination for Canadian beef, accounting for 2.5% of total

exports. In the first half of 2011 exports are up 25% in volume and over double in value and are projected to reach 12,500 tonnes valued at \$56 million.

Exports to Taiwan were down 19% in volume and value at 2,350 tonnes valued at \$8.98 million. In the first half of 2011 exports are down 71% in volume and 62% in value and are projected to total 681 tonnes valued at \$5.5 million.

Exports to the Rest of the World were up 5% at 13,000 tonnes from 12,500 tonnes in 2009. This is still below the ten year average of 16,400 tonnes going to other markets. Exports to South East Asia have declined from the peak of 9,100 tonnes in 2008 to 2,800 tonnes in 2010, which is still higher than the 2002-2004 average of 2,200 tonnes.

In the first half of 2011 Canada's total beef exports are down 22% in volume and 13.5% in value. Exports are projected to total 318,000 tonnes valued at \$1.2 billion. Exports in 2011 have highlighted the weakness in North American demand; particularly the U.S. and Mexico which account for the entire decline in Canadian beef exports. Exports outside of North America are up 11% with large gains in the EU and MENA and continued growth in Japan, Hong Kong and Russia. The exception to Asian growth is Taiwan due to market access issues. Overall, beef exports will still be 48% higher than 1995 levels despite beef production dropping back to 1995 levels.

Outlook

In 2011 higher cattle prices occurred as a result of support by tighter supplies both in North America and globally, as well as increasing beef demand in many emerging markets. With a dramatic reduction in the U.S. cattle herd, as a result of severe drought in major beef producing regions such as Texas and Oklahoma, supplies are expected to tighten even more dramatically than what has previously been expected. Overall the cattle outlook moving into 2012 is for limited supplies and moderate recovery in consumer demand to support higher producer prices. At the same time these factors will be countered by a continued strong Canadian dollar, which is projected to continue to trade in the \$0.95 to \$1 range, and continued strong feed costs. Expectations are that average margins will hover around breakeven, providing little incentive to move into expansion mode. Higher feed costs and input costs in general will need to be carefully managed as commodity prices increase. The dramatic reduction in supplies North American wide will also mean that packers in Canada and the U.S. are increasingly challenged by shrinking supplies and how they can maintain utilization of plants at a level that is sustainable from a cost standpoint.

Canadian beef exports increased 8% in 2010 compared to 2009, with increased market access and recovery in the economic situation in many countries. Growth in exports, while encouraging, cannot be sustained with a shrinking national herd over the near term without a substantial increase in beef imports. With larger exports in 2010, the proportion of beef processed and consumed in Canada declined from 62% in 2009 to 60% in 2010, with 30.5% exported to the U.S., 4.4% going to Mexico, 1.9% going to Hong Kong and Macau, 1.4% going to Japan, and 1.8% destined for other international markets. During the first half of 2011, beef exports have traded down 22% as a result of tightening supplies and a

relatively strong CDN dollar that has made Canadian product relatively more expensive in the global market. Furthermore imports have not increased significantly in 2011 despite strong prices, as a result of tight global supplies that has resulted in product that would have typically been destined to Canada being diverted to more lucrative markets. Of note is that exports to U.S. and Mexico are down 27% and 34% respectively in 2011, while exports to Taiwan are down 71% due to market access issues related to ractopamine residue limits. Meanwhile exports to Russia, Hong Kong & Macau, and Japan are all up 25% in 2011.

While total Canadian beef production is projected to be down 18% in 2011 at 2.9 billion pounds, a portion of this decline will come from live cattle exports which are down significantly and more animals are processed domestically. In addition, domestic consumption is projected to be smaller, due to both a slow economic recovery and also tightening beef supplies that will see higher beef prices and challenge beef's market share as consumers look for cheaper protein alternatives. The commercial beef market should remain strong, with decreased cow slaughter and continued low imports of Non-NAFTA trim products. Cow prices in Alberta during the first 3 quarters of 2011 averaged \$71/cwt, up from \$54/cwt in 2010 and with April 2011 reaching highs not seen since 2001.

Reduced beef supplies in combination with a slow recovery in beef demand has supported cutout prices, with the AAA cutout most recently at \$174/cwt, which is up \$12/cwt from a year ago. Consumer sentiment in the U.S. remains soft due to ongoing financial concerns and growing uncertainty around the stability of the global economy. This will continue to limit the upside of cutout prices in the near term, despite expected continuing tightening of supplies.

Factors to watch in 2012 include:

1. Heifer retention – Heifer retention is up 6.7% as of the last inventory report, but still remains below levels that would be indicative of expansion. Expectations are that heifer retention will continue to increase, which will reduce beef supplies further over the short term.
2. North American beef demand – smaller supplies and projected higher prices will push up wholesale and retail prices testing consumer resilience. Middle meat demand continues to be weak with strong competition from poultry for the consumer dollar and reduced food service demand.
3. The non-fed cow and bull market – is expected to remain very strong with global manufacturing beef supplies being tight. Expectations are that fewer cull animals are likely to be slaughtered in North America. This in combination with strong local demand for hamburger will be very price supportive.
4. 2011/12 crop conditions – tighter global ending stocks and stronger global demand for commodities has moved feed grain prices higher. Any production shock will be immediately felt and there is a heavy reliance on bumper production in 2011, which is of concern. Large feed supplies in Western Canada have currently provided Canadian producers with a cost of gain advantage compared to their U.S. counterparts, but this is expected to dissipate with shifts in production and strong global demand.
5. International trade – Beef exports are expected to continue to trade lower due to strong domestic demand and reduced supplies, as well as a high dollar. Export markets will continue to shift with exchange rates and product mixes that will bring the most value to the Canadian beef industry.

It is important to note that higher prices do not necessarily translate into profitability as feed and other input costs are also on the rise. It should be remembered that over the short term production is king, with what is produced being consumed. Over the long term demand is king, determining future production through price signals. Global demand for beef continues to

grow and Canada is well positioned to supply a high quality grain-fed market to global consumers. This does not come without its challenges related to market access and our dollar, but expectations are moving forward that growth in export markets will be an important support for the recovery and growth of the Canadian beef industry.

Marketing Activities and Results

Industry support for value proposition

The CCMDC in coordination with the Canadian Cattlemen's Association (CCA) and industry stakeholders strives to position the Canadian beef industry as a leader in animal production, health and welfare and beef safety. This commitment represents the overarching CCMDC performance measure of support for the value proposition – a set of standards and practices adopted by industry designed to achieve recognition by the marketplace (domestic and international) that Canadian beef and cattle are differentiated from competing products, creating a distinct value to customers and a competitive advantage for the Canadian beef industry.

The value proposition is supported by several attributes such as standards in animal health and welfare; food safety on the farm and at slaughter; superior genetics; innovative and environmentally-friendly production practices; beef grading system and product specifications; as well as beef nutrition and health.

The CCA provides leadership in policy development on behalf of the industry through involvement in such endeavours as the **National Farmed Animal Health and Welfare Council** (co-chair); the **National Farm Animal Care Council**; the **Agri-Subcommittee on Food Safety**; and the **Beef Value Chain Roundtable** (co-chair).

The **Canadian Beef Advantage (CBA)**, representing the value proposition, is an industry wide branding strategy developed to achieve differentiation in Canadian beef and genetic products. The branding strategy was supported by the development of visual brand marks or logos which are fundamental to the CBA.



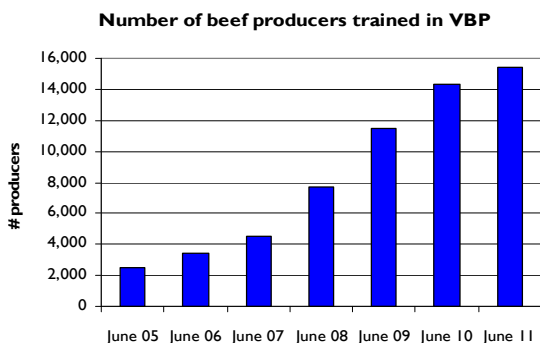
Industry Standards are being developed under a number of initiatives for producer adoption. In collaboration with the Canadian Food Inspection Agency's Office of Animal Biosecurity, the CCA has developed a **National Beef Cattle Biosecurity Standard** for the beef cattle industry. The **Beef Cattle Code of Practice** is in the final stage of revision to provide standard practices to ensure the well being of Canadian raised beef cattle. The CCA will work with the provincial cattle organizations in the awareness and education of these standards for producer implementation.

Research, specifically in the areas of beef quality, safety, animal health and welfare are integral to supporting the value proposition. The **Beef Cattle Research Council**, leveraging producer check-off funds with AAFC's Beef Science Cluster is striving to find solutions for the improvement or enhancement of these important attributes.

Verified Beef Production (VBP) is Canada's on-farm food safety program for beef – a dynamic program to uphold consumer confidence in the sound practices of this country's beef producers. The program has undergone two Technical Reviews by CFIA through the Canadian On-Farm Food Safety Recognition program. This ensures that the program is HACCP-based, auditable, and has the potential for international recognition in the future.

The VBP program outlines industry-sanctioned practices that are credible and affordable. Recording the basic information in the VBP sample records or pocket book helps achieve this. After taking a workshop, producers apply the practices that make sense for their operations.

Some producers are identifying VBP as part of the future where industry begins to differentiate its products – an attitude shift. A side benefit of the VBP program reported by many cattle operations has been improved use of animal health products and improved family communication.



VBP participation has grown to over 15,400 cattle operations taking a workshop, including over 750 taking the online version. The percent of beef production from VBP-trained operations is now 55-60%. The total number of operations choosing the on-farm validation audit is over 700, up from 500 last year.

The program is reaching a threshold of participation to augment use of VBP within

Canadian Beef Advantage market promotions. Canada's international competitors use similar data in promotions.

The **Beef InfoXchange System (BIXS)** is a key component of the CBA strategy. The BIXS website (<http://bixs.cattle.ca/>) is the information hub for the national voluntary web-based database designed to capture and exchange data linked to an individual animal's unique electronic ID tag number.

Through BIXS, producers can use the Canadian Cattle Identification Agency (CCIA) tag's individual animal ID to record herd health management protocols, vaccination records and other production practices, and later, extract detailed carcass information. This type of information will help producers refine production methods to produce cattle with specific attributes that the market demands. All sectors of the beef value chain will benefit by understanding what production enhancing decisions can be made to meet market demands. Packers and marketers will be able to source product that meets their specifications.

The BIXS management team is working with Agriculture and Agri-Food Canada (AAFC) on the project under the Agriculture Flexibility Fund for resources to develop and deliver BIXS to the industry. In March 2011 Minister Ritz officially announced the \$5.36 million funding, which will enable BIXS development and delivery including the placement of computer vision system carcass measurement equipment in large and mid-sized packing plants across Canada by December 2013.

With post beta-testing refinements completed, BIXS moved to a phased launch with BIXS being launched to cow-calf producers across Canada in October 2011. The phased approach enables personnel to deal with issues that may arise without impacting hundreds or thousands of producers, a possibility with a nation-wide launch.

Genetics Market

Market Situation and Indicators

The Canadian beef and cattle genetics industry has established a set of marketing targets for sales over the near to medium term. For this Results Report period, **2010 targets** for genetics were:

Value (million \$)	
Live Breeding Cattle	\$20.00
Semen	\$3.00
Embryos	\$3.75
Volume (units)	
Live Breeding Cattle	10,000
Semen	300,000
Embryos	5,000

CCMDC Marketing Implementation Plan 2010/11

Environment Scan/Market Profile

Value (Million \$)	2006	2008	2009	2010	2011p	10/09
Breeding Cattle	0	\$33.10	\$8.92	\$8.00	\$10.8	-10%
Semen	\$8.03	\$3.89	\$5.46	\$10.30	\$10.7	+89%
Embryos	\$0.44	\$4.02	\$1.11	\$2.07	\$0.204	+86%
Total	\$8.47	\$41.01	\$15.48	\$20.37	\$21.704	+31.5%
Volume						
Breeding Cattle (head)	0	16,606	4,621	3,387	4,370	-27%
Semen (units)	548,517	403,601	111,775	250,038	325,000	+124%
Embryos (units)	2,528	3,575	1,808	3,391	678	+87.5%

*Beef Only from Statistics Canada and CFIA

The following data analysis is based on Statistics Canada and CFIA data for beef breeding cattle, semen and embryos. It is difficult to compare monthly data between Statistics Canada and CFIA. The released date on CFIA database is not based on the date exported, but it is the date of the vet inspection. Therefore animal/semen/embryos could be exported 30 days after this date. The export could also be cancelled, which CFIA does not reflect in its database. Totals have been compared to CBBC member survey data and found to be relatively similar. Therefore it is important to focus on overall trends and not individual data points.

Live Breeding Cattle

In 2010 exports of live breeding cattle were down 27% in volume and 10% in value at 3,387 head valued at \$8 million. This is still below 2008 levels of 16,000 head. In 2010 2,834 head were destined for the United States, 412 head went to Kazakhstan, 78 head went to Russia, 53 head went to Mexico and 10 head went to the United Kingdom. Broken down by breed, the majority (57%) of live breeding exports were crossbred/unknown, Angus (21%), Hereford (7%), or Simmental (5%).

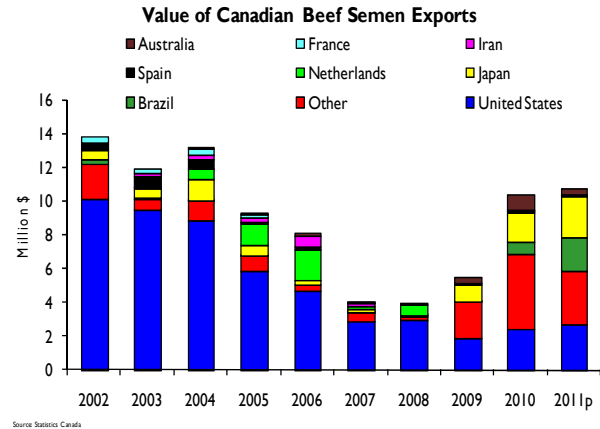
Total Russian imports of live cattle are stable at 40-50,000 head annually valued at an estimated \$150 million. Russia imports pedigree cattle for

domestic breeding stock from Australia, the United States, the European Union, and Canada. In 2009 the United States became the top supplier. In 2010 a 1,400 head Montana ranch, valued around \$7 million, moved to southwest Russia. The project was supported through the national “Development of Beef Cattle Breeding in 2010-2012” program, which is an effort to make Russia more self-sufficient in beef. State subsidies combined with a lucrative meat market due to limited market access at the retail and processing levels is expected to stimulate development of domestic beef production. For the live breeding cattle industry logistics remains a barrier to this market, as boats are too few and airplanes are often too costly.

From January to May 2011 CFIA reported beef breeding cattle exports were at one third of their levels in the same period in 2010. However Statistics Canada is reporting volumes up 29.5% and value up 36%. Therefore, recognizing the significant delay in CFIA reporting, live breeding cattle exports are projected to reach 4,370 head valued at \$10.8 million in 2011.

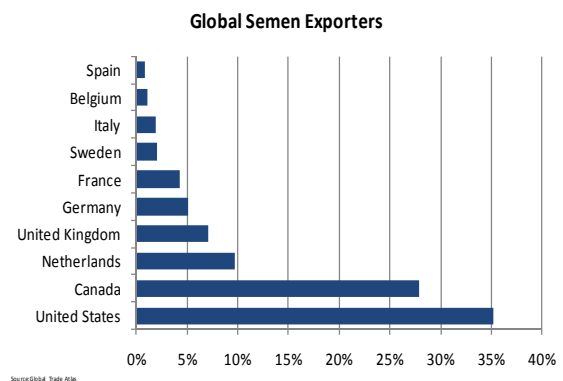
Semen

Statistics Canada reported the value of beef semen exports to be up an impressive 89% in 2010 at \$10.3 million surpassing the \$9.2 million sold in 2005 and just below 2004 levels of \$13.1 million. The United Kingdom was the largest export market in terms of value with sales of \$2.46 million or 24% of total value exported. Exports to the United States were up 28% to 2.36 million representing 23% of total export value. Exports to Japan were up 83% to represent 17% of the total, down from 18% in 2009. The largest increase from 2009 was seen in exports to Brazil that were valued at \$714,000. This is the largest value exported to Brazil on record (series started in 2002). Exports to Australia were up 166%, valued at \$910,000 compared to \$343,000 in 2009 and the largest value exported.



CFIA reports 2010 beef semen volume exported at 250,038 units, up 124% from 111,775 units in 2009. The majority of exports went to Brazil (48%) followed by China (20%), the United States (13%) and Australia (10%). Exports of 119,740 units to Brazil were up from 26,000 units in 2009. Exports to China totaled 50,500 units, up from zero in 2009. Exports to the United States were up 130%, while exports to Australia were up 180%. Broken down by breed the majority of semen exports were Angus (56%), followed by Simmental (19%), Charolais (4%) and Hereford (3%).

From January to May 2011 semen exports were up 30% in volume and 4% in value and are projected to reach 325,000 units valued at \$10.7 million in 2011.



The Global Trade Atlas shows that Canada is the second largest exporter of semen in the world in terms of value. Canada exported 28% of

global semen in 2010, up from 21% in 2009 and 17% in 2008. The largest importers in terms of value in 2010 were the United States (10%), United Kingdom (8%), Brazil (7%) and Mexico (7%).

Embryos

Beef embryo exports were up 88% in volume and 86% in value at 3,391 units valued at \$2.07 million in 2010. The majority of exports went to Australia (21%) followed by the United States (20%), Mexico (8%) and China (8%). Exports to Australia were up 127%, and up 164% to the United States. Units shipped to China totaled 255 up from 50 in 2009, and 262 units were shipped to Mexico, up from zero units.

Canadian embryo exports tend to vary from year to year in terms of export destination and total volume. Since 2005 an average of 2,985 units have been exported annually, with a low of 1,675 units in 2005 and a high of 4,823 units in 2007. Over the last six years the top five destinations have been the United States, Russia, Brazil, Australia and Mexico. Broken down by breed, exports were primarily made up of Angus (23%), Crossbred/Unknown (19%), Speckle Park (18%) and Hereford (15%).

Embryo exports from January to May 2011 are down 80% in volume and 77% in value projected to reach 678 valued at \$204,000 in 2011.

Overview of activities and industry benefits

1. What industry benefits (value, CBA recognition, pricing) occurred as a result of CBBC marketing initiatives implemented?

Industry benefits include heightened awareness of superior Canadian genetics, increased number of requests for quotes on purebred cattle, and increased sales value.

2. What new and innovative initiatives were undertaken in 2010/11?

Collaboration with Canadian Cattlemen's Association (CCA) as well as Canadian Livestock Genetics Assoc. (CLGA) and Market Access Secretariat (MAS) on missions to the EU and China respectively were instrumental in achieving inroads within the cattle sectors and achieving progress on market penetration and growth.

European Union: In addition to the support provided to the leaders of the CCA (Martin Unrau and John Masswohl to support the CETA negotiations), the CBBC met with the leaders of the livestock genetic sector of France and Spain. As a result of a meeting with Pierre Louis Gastinel, the director of France Génétique

Elevage in Paris, he confirmed the interest of ICAR (international committee for animal recording) to collaborate on the development of a genetic evaluation system for beef cattle. The minutes of the meeting of Interbull in France confirm the conclusions about the decision to collaborate with BIF on genetic evaluation. The CBBC is consistently delivering a message regarding the importance of our beef genetics for the production of high quality beef. From the technical standpoint, this mission created the opportunity to be part of a process of building a bridge between ICAR - Interbull and BIF because if our goal is to network with key international organizations for the benefit of our members then this is a good and innovative way to do it. The next step in the EU outreach initiative is to attend meetings in Brussels during the week of November 21, alongside of the CAFTA meetings. We have confirmation from John Masswohl that "there is good synergy for CCA and CBBC to continue to work together on this outreach." The Eighth Round of Canada-European Union Trade Negotiations were conducted in Brussels on July 11-15, 2011 during which Sanitary and

Phytosanitary (SPS) Measures and Technical Barriers to Trade were discussed. As reported in the Summary Report: “The next round may see deeper discussions in “sensitive” areas such as beef and pork...”

China: At the 2011 International Beef Cattle Improvement and Industrialization Congress led by Dr. Zan Linsen, the following conclusion is presented: It is necessary to develop the beef cattle breeding industry by improving the reproduction system as well as breeding the specialized beef herds. Also, it is imperative to expand the production and improve the quality of the beef. China has the resources, the power and the willingness to develop the beef sector and to improve their productivity as well as the quality of their beef they need genetics from the best suppliers. Canada is certainly capable of supplying the best beef genetics to China. On the other hand, China needs to improve their productivity (quantity) and the value of their beef (quality). The opportunity to meet with Dr. Zan Linsen, Director of the recently created “National Beef Cattle Improvement Center” of China offers a good potential for increased exports of breeding cattle. He was invited to come to Canada and he had planned to be here in September 2011 but his mission has been postponed until next year.

The development of the good relationships with the Chinese leaders of the beef sector will be very helpful and this project requires flexibility, patience, persistence and above all: adaptability to respond to the needs of this market because they need food security but they want to develop their own model with the use of imported beef breeds but also with the use of their own “Yellow cattle” on cross breeding programs. According to the recommendations of the researchers of the cattle and beef industry in China, the Yellow breeds offer resistance and adaptability to the environment.

A joint promotional brochure entitled “The Power of Canadian Genetics” was produced in collaboration with Canadian Livestock Genetics

and Canadian Swine Exporters Association. Articles including the “Power of the Pedigree” and “Genetic Improvement” were contributed by CBBC. It is intended to be produced on an annual basis with advertising and current topics from various sources, including genetics organizations. This publication will be distributed worldwide to Canadian embassies and posts, and will be posted electronically via the CBBC website.

CBBC also completed a revamp of its website with all pages available in English, French, Russian and Spanish. The Canadian Beef Advantage and its attributes are promoted including access to the CBA Brand Toolkit.

3. What were CBBC’s three most effective/important initiatives?

Golden Autumn Livestock Show - this annual show in Moscow was opened by Prime Minister Vladimir Putin and included exhibitors from all over the EU and Eastern Europe, as well as North America. CBBC’s booth was manned by two members of Canadian Hereford Association, one member of Hawkeye Land and Cattle, one member of Alta Exports and two CBBC staff and resulted in excess of 30 contacts for future business opportunities. Other outcomes include a corresponding Canada-Russia Forum and Canada-Russia Intergovernmental Economic Commission which was held in Ottawa on June 1, 2011 and attended by Minister Ritz and First Deputy Prime Minister Victor Zubkov, as well as many industry participants. In a joint ministerial statement, Minister Ritz and Minister Zubkov witnessed the signings of commitments that will increase bilateral trade, and commercial and scientific collaboration between Canada and Russia.

A Mission to China with CLGA included attendance at the International Beef Cattle Improvement and Industrialization Congress at the Northwest A & F University of China as well as participation in meetings with Fred Gorrell,

Market Secretariat and visits to the Beef Cattle Improvement Center of China; on the second part of the mission with other stakeholders (Market Access Secretariat, AAFC, Alberta Agriculture and CLGA). Specific to market access for live cattle, the Canadian delegation visited the show case dairy facility set up by the provincial government that would (hopefully in the future) welcome Canadian dairy cattle. The barn operates with 700 head of cattle, sophisticated manure handling facilities and bio-digester to handle manure and generate energy and solid waste for local nurseries and vegetable farms. At the meeting with the Ministry of Agriculture of China, the Canadian delegation made reference to the meeting with Director General Yang (and Wuhan), emphasizing the demand and need for Canadian genetics (live cattle) in China. A memorandum of understanding (MOU) is currently being developed between officials of Canada and China. The organizations involved on this process need the support and the resources to continue on this process to obtain trade access in China and to create future opportunities for the development of that market. Three projects have been proposed in the MOU presented by AAFC to the Chinese: Project #3: Alta-Agricorp – Alta Genetics (Robert Watson), Project # 4 ABS Global (sent a separate email to Jane's replacement, Jerry Thompson, with some background on the mission) and Project #5: CBBC (Mauricio Arcila)

A Joint Mission with CCA to EU included meetings with government representatives to clarify Canada's position within the Free Trade Agreement negotiations.

European Union: Another positive result is the opportunity to further develop the relationship with the interprofessional association of livestock and beef production of France (Interveb) and the Spanish Association of Cattle producers (Asoprovac). Building on past relationships, a Canadian delegation has been invited to the World Meat Congress 2012 where

future projects on technical cooperation would benefit the whole Canadian livestock and beef sector. The development of these professional relationships offer intangible or immediate results but there is a valuable opportunity to deliver the message in Europe about the Canadian Beef Advantage and the contributions of our genetics.

4. Briefly outline what impact the current results will have on your 2011/12 strategy or future strategy development in 2012?

CBBC has been re-evaluating its market priorities and focus with a view to concentrating on those markets with the greatest potential for sales as well as future growth. The new free trade agreements being concluded between Canada and various Latin American countries such as Colombia, Peru, Panama, the future modernization of the FTA with Costa Rica; the ongoing negotiations on the FTA with the EU; as well as the progress market access in Asia (including the recent access for live cattle in Vietnam and the good signs for future access in China) have brought a greater emphasis on these countries for collaboration and promotion. When re-evaluating the new priority markets for Canadian genetics the CBBC considers the potential for growth of their cattle/beef sector and their increasing demand for superior beef genetics. The case of Latin American countries with a growing cattle sector where the CBBC has established relationships in the past are signing free trade agreements with Canada and this process facilitates trade when there is increased access for live cattle (Costa Rica, Panama, Colombia and that will be the case in the near future in Peru). Our activities on those countries in 2008 (Panama, Colombia), 2009 (Colombia) and also in the new fiscal year 2011/2012 in Colombia are instrumental to identify the key organizations and individuals demanding high quality beef genetics. The funding of these activities in livestock show and outgoing / incoming missions need continuity and consistent support to deliver satisfactory results to our sector.

Outcomes and Performance Measures:

Goal 1: Build awareness for a Canadian beef brand

Expected outcome	Realized outcomes
1. Utilization of CBA messaging and brand by potentially the 19 breed association members of CBBC and several thousand of their producer members.	The inherent qualities of Canadian leadership in animal health and food safety are the focus and undercurrent messages in all of CBBC international marketing activities. The CBBC has included the CBA brand and the delivery of the message about the contribution of Canadian beef genetics for the production of high quality beef on every presentation and exchange at the outgoing (Russia, China, EU) and incoming missions (Farmfair, Agribition and Mexican delegation in Alberta). Each breed association focuses on these qualities in both their domestic and international marketing strategies.
2. Exposure of the CBA messaging and brand through print, electronic media including video to domestic audience, and to international delegates; during trade shows, inbound and outbound missions.	CBBC's newly launched website includes translation into French, Spanish and Russian and provides domestic and international audiences with information as to the Canadian Beef Advantage and its inherent qualities. CBA messaging and brand was utilized in promotional items including the "The Power of Canadian Genetics" brochure which will be distributed to Canadian Embassies and Posts worldwide. The 4 p's messaging: Performance, Predictability, Profitability and Pedigree proclaim the qualities inherent within superior Canadian purebred genetics.

Performance Measure: Customer awareness and understanding of Canadian Beef Value Proposition

Q: What advancements were achieved regarding awareness and understanding of the CBA brand & attributes? What are the reported increases in awareness? The CBBC continues to deliver a consistent message supporting the Canadian Beef Advantage proposition in the international markets. The CBBC raises the awareness and understanding about the contribution of our superior beef breeds and how this is a key element on the production of high quality beef. Also, when we promote our genetics we are also promoting high quality Canadian beef. This strategy has allowed us to receive requests from international customers interested in buying Canadian beef in China, the EU and Colombia. The CBBC has emphasized to the international customers why the beef value chain in Canada is accomplishing better results for the producers, processors and exporters. Our beef genetics are highlighted and the funding of the CCMDC brings to our attention the urgent need to complement the message with a comprehensive description of the attributes of the Canadian Beef Advantage, including the quality of the people, our animal health, our food safety system, our grading (quality), our industry and doing so we close the loop to remark the accomplishments of our beef value chain in Canada.

Performance Measure: Size of Market Influenced by the value proposition

Q: What market segments is CBBC present in? What percent of the total genetics market do these segments represent? What growth has been achieved in these segments? CBBC is present in the market of semen, embryo and live cattle in: North America, including U.S. and Mexico; South America, including Argentina, Colombia and Brazil, the EU-27 including Austria, Denmark, Ireland, France, Czech Republic, Italy, Netherlands, Scotland, Sweden and the UK; Eastern Europe including Russia, Kazakhstan; Asia including China and Thailand; Oceania, including Australia, and New Zealand. According to CBBC members, growth was achieved with respect to exports of live cattle to Russia, Kazakhstan and Mexico. Exports of embryos have remained consistent and semen sales have exceeded 2009.

Goal 2: Achieve growth in traditional, existing, new and emerging markets

Expected outcomes	Realized outcomes
1. Increased sales of breeding cattle to Mexico and the U.S., as well as ongoing shipments to Russia	Exports to the US were down in 2010 at 2834 head vs 3895 head in 2009. Exports to Mexico were up at 53 head vs. 37 head in 2009. Exports to Russia were down at 78 head vs. 689 head in 2009. The recent opening of Colombia and the 60 head of Jersey exported in 2010 offer new opportunities for increased trade with beef genetics, particularly in light of the fact that the US has not finalized their free trade negotiations. As a result of the recently obtained trade access for live cattle in Colombia and the activities planned (Agroexpo 2011) we have new concrete leads for future business with live cattle, semen and embryo. An incoming mission with Colombian buyers is being scheduled for November 2011.
2. Advance current successful relationships and ultimately garner sale of Angus, Hereford, Galloway and other breeds in Russia Tver Region, Zabaikalsky Krai Region and Kazakhstan	The Canadian Hereford Association as well as exporter members including Alta Exports, and Xports International have successfully concluded sales of breeding cattle and genetics to Kazakhstan. (400 head valued at \$2.1 mil in 2010)
3. Secure assistance in enhancing, building and formalizing strategic relationships to advance the sale of Canadian genetics	CBBC has been engaged with Export Development Canada (EDC), which also holds a membership within CBBC, in ongoing discussions with respect to coordination and finalization of sales of genetics. A new program entitled “EDC Solutions for Livestock, Meat and Genetics Exporters” has been introduced; EDC was directly engaged with the shipment of live cattle to Mexico as a result of an inbound mission to Farmfair.
4. Increase awareness and relationship development in support of future business/potential exports	Several missions have been conducted to follow up on potential new clients and projects to be conducted in both Russia and Kazakhstan. Requests for paid project management staff with animal husbandry expertise were received by representatives of Russian farm projects. An example is the project conducted by Alta Exports International in the Taraslav Region, Russia. See link: http://originals.farm.tv/post/115/russian_angus_cattle.html
5. Drive ongoing collaborative pre-sale business planning and post-sale support strategies between established Russian and Kazakhstan contacts and Canadian exporters	A Memorandum of Understanding was signed with the government of Kazakhstan to implement a purebred registry for Hereford genetics in Kazakhstan during a mission to attend a livestock show. Follow up missions will be conducted and representatives of the Canadian Hereford Association will be engaged to implement the system.
6. Participate in collaborative projects to utilize and showcase Canadian expertise and prowess to advance and/or expand involvement either through diversifying services provided, length of involvement or referral to others	Collaborative missions with CCA and Canadian Livestock Genetics Association (CLGA) to China and the EU were instrumental in heightening awareness of free trade access issues. A collaborative project with the CLGA and the Canadian Swine Exporters Assoc. to jointly promote Canadian expertise was undertaken. The resulting brochure includes additional support as obtained through advertising by genetic organizations. The “Power of Canadian Genetics” brochure will be distributed worldwide including Canadian embassies and posts. A copy has been provided for review.

Performance Measure: New Markets and Customers created and maintained by funded initiatives

Q: Were the markets/customers established in 2009/10 or earlier retained? What value do they bring? The positive results of our missions in 2010/2011 allowed us to create favourable conditions based on contacts with members of beef breeds associations interested in Canadian genetics for market growth in Mexico, the EU, Colombia and to prepare the ground in China for the future when market access conditions are available. These contacts with key individuals of beef breeds associations allow us

to deliver the message about the Canadian Beef Advantage and the contribution of our genetics on the production of high quality beef.

Q: What new markets or market segments were established in 10/11? What value do they bring?

New markets for live breeding cattle were developed in Mexico and Colombia. These countries have a big potential for increased value since their cattle and beef sector is growing and they need superior beef genetics. The strategy moving forward with these markets is to develop incoming missions with buyers who will come to Canada to see and evaluate the cattle and do business with our exporters. Projects of technical cooperation between the Canadian and the international breed associations is our priority in emerging markets.

Performance Measure: Canadian share of target market and market segments

Q: Was Canadian genetics market share increased/decreased/maintained within specific target markets and segments? Identify reasons for change or status quo.

Canadian market share was increased as a result of broader outreach and emphasis on newly opened markets for genetics,(eg Colombia). In 2010 a lot of 60 Jersey heifers were exported to Colombia . On the beef side there have been multiple exchanges for doing business with live cattle and for that reason the participation of the CBBC in Agroexpo 2011 (July) to support the integration of the Canadian Angus and the Canadian Simmental Association with the corresponding Angus-Brangus and Simmental-Simbrah of Colombia. We obtained access for live cattle after a trade ban was imposed in 2003. Also, Canada and Colombia signed a free trade agreement which came into effect August 15, 2011. Looking forward the CBBC needs to continue working on the development of that market which offers excellent opportunities for trade with Canadian genetics as shown in the import statistics report of the Colombian authorities. It proves that Canada is a leader as a supplier of semen and embryo in Colombia but still needs to work on programs to maintain and grow its share of the market or else risks losing it to other strong competitors such as the USA or Argentina.

Goal 3: Maximize value through optimization of carcass value

Expected outcomes	Realized outcomes
1. Build CBBC best practices and adaptable models to be utilized across various international markets	The request to the Canadian Angus Association and Canadian Hereford Association to collaborate in the implementation of breed registry systems in Kazakhstan demonstrates usage of Canadian models which demonstrate best practices by Canadian purebred breeders and associations.
2. Support future sales opportunities through increased knowledge and competence among customers	Rebuilding relationships at various domestic and international trade shows enhances opportunities for future sales. The provision of training in calving procedures, nutrition, AI and other aspects of beef cattle management including technical knowledge transfer such as conducted in the Agrofirma project in Russia (supported by Alta Exports International) help to solidify sales opportunities for future growth.
3. Enhanced recognition of Canada as a full-service provider delivering quality genetics and pre and post-sales support which in turn positively advances sales development activities	Missions including after sales support and technology transfer were conducted by Alta Exports International, Davis-Rairdan Embryos International, and Xports International. A three month project conducted by Alta Exports in the Yaroslav Region included the calve out of 150 Angus heifers. To view the video see link: http://originals.farm.tv/post/115/russian_angus_cattle.html Requests have been received for additional experienced managers to assist with livestock projects being developed in Russia.

Level of completion of funded initiatives

The CCMDC budget for genetics marketing programs was \$2,500,000 of which CBBC expended \$1,839,388 or 74%.

Domestic (Canada) Market

(Although the domestic market is ineligible for funding from the Canadian Beef and Cattle Market Development Fund, program results are included in this report. This supports the industry reporting requirements and the direct linkages and synergies between the domestic, commercial and U.S. marketing programs).

Market Situation and Indicators

The Canadian beef and cattle genetics industry has established a set of marketing targets for sales over the near to medium term. For this Results Report period, the **2010 targets** for the domestic market were:

Domestic Consumption of Beef (MT)	977,266 MT cwt
Disappearance of Canadian Beef (MT)	747,660 MT cwt

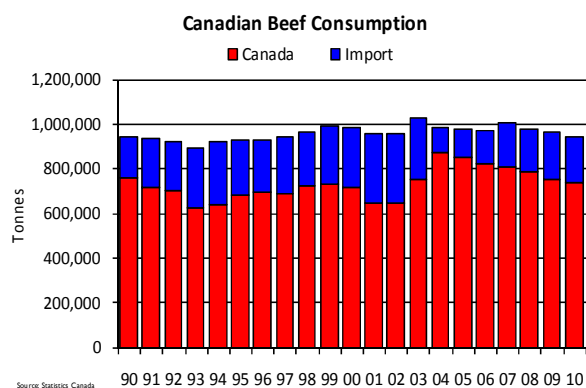
CCMDC Marketing Implementation Plan 2010/11

	2002	2006	2009	2010	10/09
Domestic Consumption (MT)	958,854	972,734	963,350	944,380	-2%
Disappearance of Cdn Beef (MT)	647,531	825,401	750,268	739,450	-1%
Imports % of Consumption	32.5%	15.1%	22.1%	21.7%	-2%
% of Consumption that is Cdn Beef	67.5%	84.9%	77.9%	78.3%	+1%
Disappearance as a % of Domestic Production	51.4%	63.9%	61.7%	59.8%	-3%
Beef Consumption (kgs/person, retail wt)	22.3	21.8	20.86	20.21	-3%
Canadian Retail Beef Prices (\$/kg)	\$10.93	\$11.58	\$12.86	\$12.70	-1%
Canadian Beef Demand Index (1980=100)	67.08	64.06	65.99	62.76	-5%

(Volumes in carcass weight)

Canadian Demand & Consumption

Canadian per capita beef consumption in 2010 declined for the third consecutive year to 20.2 kilograms per person down 3% from 2009 and down 10% from the previous peak in 2007.

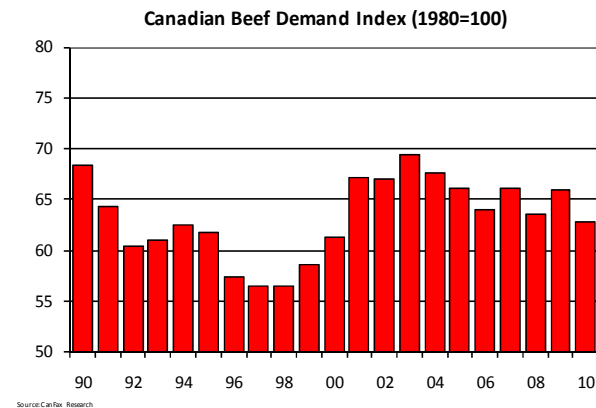


U.S. 2010 per capita consumption at 27.5 kilograms per person was down 1.5% from 2009 and is now 8% below their 2006 levels. Declines in per capita consumption have been occurring in North America as net beef supplies shrink with smaller production, limited imports and growing exports in combination with weaker consumer demand. This is evidence that the North American consumers are unwilling to pay as much as the international consumer for the same product.

Total beef consumption was down 2% to 944,380 tonnes in 2010; this is the smallest Canadian consumption since 1997 when 940,718 tonnes was consumed. At the same time the proportion of beef consumed from domestic production continues to be maintained at the high level of 78% while 22% is derived from imported product, which is steady

with 2009. Domestic consumption of Canadian beef at 739,450 tonnes is down 1.4% from 2009 and the smallest since 2002.

While declines in beef consumption are important to monitor, the dynamics between consumption and retail beef prices also need to be considered. The beef demand index is calculated using Statistics Canada's retail beef prices. This index evaluates consumer willingness to pay for beef. Deflated retail beef prices were down 3% in 2010 compared to 2009, at \$7.16/cwt. Lower retail prices combined with lower consumption resulted in lower beef demand with the index down 5%. This continues the opposite trend to what has been seen in the U.S. where beef demand increased 1% in 2010.

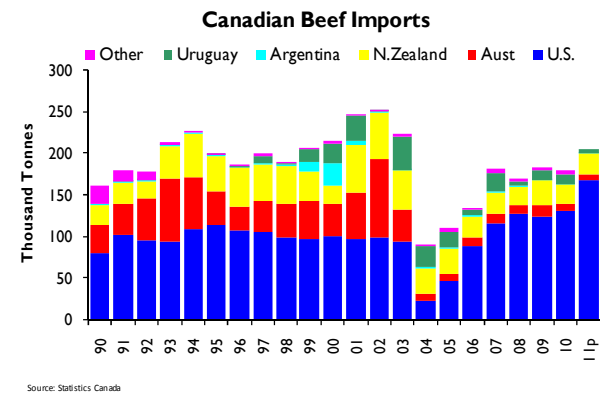


Total Canadian protein consumption fell another 3% in 2010 after a 1.6% decline in 2009. Pork was the worst hit with consumption down 7%, while poultry consumption was down only 1%. Consumers continue to be cautious with spending. Willingness to pay for protein was down with total expenditures for protein down 4%. Expenditures on beef were down 5%, expenditures on pork were down 9% and poultry expenditures were steady.

Beef Imports

Beef imports into the Canadian market were down 2.5% in 2010, totaling 179,000 tonnes. Smaller imports are the result of significantly smaller non-NAFTA imports, which were down

19%. Stronger demand for lean trim from other international markets has seen product from non-NAFTA countries drawn away from North America. The largest decline in imports was from Australia (-30%), followed by New Zealand (-25%). Both the exchange rate and price spread encouraged exporters in these countries to move product into other markets that were more attractive when compared to Canada. Imports from Uruguay were down 6.6%. Meanwhile imports from the U.S. were up 5.2% to reach a new record high of 131,000 tonnes, with a strong Canadian dollar and tight beef supplies in Canada making it a relatively attractive market for U.S. exporters since 2008.



With tighter domestic beef supplies total beef imports in the first half of 2011 are up 10.5%. Reduced global beef supplies have seen strong competition from other international markets for non-NAFTA product, with exports to Canada down 22% January to June 2011 compared to the same period 2010. So far in 2011 beef imports have not increased enough to offset the decline in production and as a result domestic beef supplies are down. Beef available to Canadian consumers is expected to be down 3% in 2011 supporting cutout values and retail beef prices.

Disposition of Canadian beef

With larger exports in 2010, the proportion of beef processed and consumed in Canada declined from 62% in 2009 to 60%. The portion of production exported to the U.S. increased to 30.5% up from 29%, to be the highest since

2005. The proportion going to Mexico was down slightly at 4.4%, while product going to Hong Kong and Macau was steady at 1.9%. The proportion of production going to Japan increased to 1.4% from 1%.

Domestic consumption and disappearance are difficult to project and as a result are not provided for 2011. However some observations can be made. With domestic production down 14%, imports up 4% and exports down 23% net

beef supplies available for consumption are expected to be smaller in 2011. Nominal retail beef prices are slightly higher and are expected to come in steady when adjusted for inflation. Reduced supplies and relatively steady prices imply lower retail beef demand yet again in 2011. Even if higher cutout values in the second half push retail prices up, retailers and consumers are going to resist further increases in light of continued economic concerns and rising energy costs.

Overview of activities and industry benefits for domestic and commercial beef:

1. What industry benefits (value, CBA recognition, pricing) occurred as a result of the BIC's domestic marketing initiatives implemented?

The Canadian beef brand was developed to provide a meaningful and differentiated brand position for Canadian beef. The consumer brand positioning is leveraged in all direct to consumer initiatives and focused on the nutritional benefits of beef supported by taste and convenience messages. The trade directed brand positioning focuses on communicating and leveraging the 'Canadian Beef Advantage' (CBA) – which are the attributes of Canadian beef and the supply chain that support the value proposition and positively position Canadian beef against alternative choices.

Canadian consumers were reached over 30 million times with positive beef messages during the 2010/11 fiscal year through consumer public relations programs including news releases, media tours and social media outreach.

Domestic trade marketing efforts centered on communicating the CBA to trade customers. CBA attributes include: animal health systems; safety assurance systems and meat quality systems; and the positive perceptions of Canadian beef with the consumer. Awareness and understanding around key CBA attributes

averaged over 85% or higher with trade customers.

BIC has now signed 89 Canadian beef brand license agreements with domestic trade customers. The licensees span all trade sectors and represent many of the industry leaders and market influencers. The licenses allow trade partners to leverage the Canadian beef brand mark with consumers for use with Canadian beef promotions, contributing to increasing the overall value of the Canadian beef brand.

2. What new and innovative initiatives were undertaken in 2010/11 for the domestic market?

BIC has continued to become more sophisticated in its use of social media and web-based marketing and communication tools. The Make It Beef Club monthly e-newsletter targeted at consumers grew by 57% to over 26,000 subscribers. On its website, BIC has made extensive use of contests to grow MIB membership and web traffic. BIC has also begun using Quick Response codes (QR codes) on POS resources to allow consumers to scan the QR code with their smart phones linking them directly to a number of new culinary and nutrition themed cooking videos on the BIC website. These videos are a further expansion of BIC's web strategies. Over all web traffic to the BIC sites was up 17% to over 265,000

unique visitors. BIC's Canadian Beef Facebook page grew by 12% to 4,500 friends and there are now over 1,200 followers of the Canadian Beef Twitter account. As part of BIC's social media strategy, a 'beef community' section was launched on the BIC website which includes the Facebook fan page, Twitter feed, the Flickr photo pool, beef blog and the Canadian beef YouTube channel.

The development of the CBA marketing website was completed in 2010/11 to now include content for the domestic market. The site is intended for trade customers and features visual elements and marketing content that support the attribute claims and points of differentiation of the Canadian beef advantage. Images and technical content is available in downloadable formats for use in marketing brochures, websites, meat case POS and corporate advertising. Initial uptake has been strong with two major packers and the Government of Canada having accessed the visual elements and content for corporate branding and marketing programs positioning Canadian beef as a premium product. Over 3,000 images of all aspects of cattle production, scenic images of Canada's natural environment and resources, beef processing, food safety, and beef product images are available to trade partners. All content is easily adaptable to export markets.

Another innovative and cost effective initiative that was launched was the new BIC E-Learn program. This year the program was revised utilizing the latest web based technology to deliver consistent Canadian Beef Advantage messaging in a format that educates trade customers and enables the information to be used as a sales enhancing professional development tool. Since the re-launch in this fiscal, 48 companies have 131 sales related employees enrolled in the program.

3. What were BIC's three most effective/important domestic market initiatives?

Enhancing Trade awareness around the Canadian Beef Advantage:

BIC continued to develop strong partner-based relationships with major market leaders and influencers to build awareness of the CBA – the quality and food safety attributes that set Canadian beef apart from its competitors and to provide programs and services that grow Canadian beef sales based on quality and value. BIC participates in major national trade shows and company-specific shows and seminars, and research and development sessions with key clients, numerous desk side meetings, expanded the CBA marketing website and E-Learn program to reach targeted trade partner audiences.

Partner-Based Relationships with Market Leaders:

BIC has very strong relationships with major market leaders and influencers in all trade market sectors. Canadian beef branded initiatives are targeted to market leaders who represent the highest volumes of purchases and influence in each sector. Brand license agreements are focussed on the top 75% of market share leaders in the retail & foodservice sectors. Of that target, BIC has brand license agreements with leaders that represent an estimated 55% of total market share. In total 89 brand licenses have been signed in Canada with another 29 more in the U.S. and over one billion Canadian beef brand mark impressions through avenues such as consumer flyers, product packaging, point of sale material, and advertising.

Maintaining Consumer Confidence:

BIC takes an active role in defending beef's positive image in the hearts and minds of Canadian consumers. Activities focus on reaching health professionals and key influencers on a regular basis through print and electronic education resources, programs and liaison meetings ensure dissemination of continuous positive, evidence - based, credible information on Canadian beef's role in a healthy diet and the brand position. From an Issues

management perspective, BIC initiatives include: ensure awareness and preparation for external issues that have potential to significantly impact Canadian beef consumption; maintaining issues preparedness; monitoring existing and emerging issues and events; and providing communications counsel. Despite ongoing food safety and nutrition challenges to the industry, consumer confidence remains very high with 89% of Canadians expressing confidence in the safety of Canadian beef. Industry investments to food safety systems and interventions have been effective in greatly reducing the number of e-coli related product recalls which positively impacts consumer and customer confidence.

4. Briefly outline what impact the current results will have on your 2011/12 strategy or future strategy development in 2012?

These results would suggest that strategies designed to segment key markets and sectors provide the best opportunity to identify targeted key customers who align with the value proposition of Canadian beef. Continuing to build and communicate the Canadian beef advantage is integral to building demand and adding value for Canadian beef.

Trade partners have been very receptive to the development and launch of the Canadian beef brand identity with 89 brand licensed partners in Canada. Canada Beef Inc. will need to

continue working with key retailer and foodservice partners who demonstrate a strong commitment to Canadian beef.

Retail and foodservice brand marketing is key to expanding use of Canadian beef and the brand mark in the marketplace. Continuing to increase the differentiation of Canadian beef in a competitive marketplace will increase the trade’s ability to value attributes, systems and processes unique to Canada. To optimize the value of Canadian beef, product priorities for each market should continue to be identified to provide the greatest impact on increasing overall carcass values.

It is likely that there will continue to be a concentrated effort to reduce delivery costs for both consumer and trade audiences by favouring the production and distribution of electronic resources versus paper-based resources. Related to this is a continued focus on growing web and social media consumer and trade strategies.

Leadership of the new Canada Beef Inc. will be reviewing the results from the domestic, U.S. and international markets as part of its strategic planning process through the fall of 2011. A new overarching strategic and business plan will be developed through this process.

Outcomes and Performance Measures:

Goal 1: Build awareness for a Canadian beef brand

Expected outcomes	Realized outcomes
1. Increase or maintain trade awareness and comprehension of the specific attributes of the CBA at a minimum of 85%	Overall trade partner awareness across all sectors was consistently above 2010 levels. In the foodservice sector, awareness of the specific attributes of the CBA was 86%; in the retail sector 88%; and in the processing sector 94% for an industry average of 89%. The ability to increase industry’s awareness around the unique attributes of Canadian beef is the foundation of the Canadian beef brand differentiation strategy.
2. Enhance trade partner ability to increase Canadian beef sales based on key points of	Initiatives to enhance trade partner’s ability to increase sales based on the key points of differentiation achieved the desired outcomes. In the foodservice sector, 69% of trade partners surveyed agree “that the information on Canadian beef that BIC

differentiation.	delivered enabled their organization to grow sales of Canadian beef based on the unique points of differentiation”; in the retail sector, 70% of respondents agreed; and in the processing sector 59% of respondents agreed.
------------------	--

Performance Measure: Customer awareness and understanding of Canadian Beef Value Proposition

Q: What advancements were achieved regarding awareness and understanding of the CBA brand & attributes? What are the reported increases in awareness?

In trade customer surveys of 102 industry decision makers in the retail, foodservice and processing sectors, BIC measured the awareness and levels of agreement that “services provided by BIC enabled your company to better understand seven distinct categories as they relate to differentiating Canadian beef versus USDA equivalents”. In 2010 BIC has seen the highest levels of awareness and understanding on average compared to a four year rolling average

	Average all segments by benefit
Canadian beef is graded using a more stringent grading system than is used for U.S. beef?	74%
Canada permits no "dark cutters" in Canadian beef's top four grades	84%
Canada has strict meat and fat colour requirements, (bright red meat color, no yellow fat permitted)	88%
Canadian beef production systems require mandatory individual animal identification, for tracking and traceability	93%
Canadian beef is produced using principles of HACCP (HAZARD ANALYSIS CRITICAL CONTROL POINTS)	96%
Canada has abundant feed grains and natural resources for beef cattle production	82%
Canadian consumers have a strong preference for Canadian beef.	88%
Average	89%

Performance Measure: Size of Market Influenced by the value proposition

Q: What market segments is BIC present in? What per cent of the total beef market do these segments represent? What growth has been achieved in these segments?

The domestic market is the most unique market since Canadian beef is the major market share leader in all markets, all market segments and virtually every Canadian retail foodservice and processor is a primary customer of Canadian beef. BIC is active in all of these sectors and in all regions across Canada. BIC trade directed initiatives specifically target the major market leaders and market influencers in each region and sector. The retail, foodservice and processing sectors represent 100% of the market for Canadian beef marketed in Canada.

Goal 2: Achieve growth in traditional, existing, new and emerging markets

Expected outcomes:	Realized outcomes:
1. Maintain positive attitudes towards the Canadian beef brand position, Canadian beef as nutritious and lean.(need to establish relative benchmark)	NPD data reports positive attitudes regarding the Canadian beef brand position were up to 83% from 78% a year ago.
2. Maintain at least 70 annual beef eatings per capita, consistent with the Canadian beef consumer brand position.	The goal of maintaining at least 70 annual beef eatings per capita was achieved.
3. Implement initiatives featuring Canadian	Retail Initiatives were completed with market leaders and influencers

beef with at least three market influencers, Eastern and Western Canada, with tonnage as the primary motivator; consistent with Canadian beef brand position.	Costco, Sobeys and Loblaws in Eastern Canada that leveraged the Canadian beef brand mark co branded with their premium branded programs intended to maximize volumes and brand awareness. In the foodservice sector, branded initiatives were completed with Sysco and Montana's nationally to maximize volume and value of Canadian AAA branded beef.
4. Mitigate the risk of erosion of consumer and customer confidence, including key influencers, while maintaining consumer confidence at 85%.	Consumer confidence remains very high with 89% of Canadians expressing confidence in the safety of Canadian beef.

Performance Measure: New Markets and Customers created and maintained by funded initiatives

Q. Were the markets/customers established in 2009/10 or earlier retained? What value do they bring?

All major market leader customers that were established over the past years have been maintained in this fiscal year. Brand licensee partners have increased over this past fiscal year. Due to decreased funding, a multi-media marketing campaign targeting consumers in Ontario and Alberta was not continued. Efforts were made to continue to reach consumers across Canada through public relations and consumer culinary outreach – particularly through web-based initiatives. Efforts also continued with key stakeholder audiences such as health professionals and related non-governmental organizations.

Q. What new markets or market segments were established in 2010/11? What value do they bring?

Due to the maturity of the domestic market, new markets or segments are rare. Canadian beef is extremely well established in the domestic market including all sectors, and virtually every major market leader or innovator is a well established customer of Canadian beef.

Performance Measure: Canadian share of target market and market segments

Q. Was the Canadian domestic beef market share increased/decreased/maintained within specific target markets and segments? Identify reasons for change or status quo.

Overall share of the domestic market increased by 0.4 to 78.3% compared to imports, up from 77.9% in 2009. Conversely imports represented 21.7% of beef consumption in Canada in 2010, down from 22% in 2009.

Goal 3: Maximize value through optimization of carcass value

Expected outcomes	Realized outcomes (all data sourced from Canfax Research Services)
1. To increase the demand and value of Canadian AAA middle meats.	Middle meat values were down in 2010 over 2009 - the AAA Rib Primal was down 13 cents/lb and the AAA Loin Primal was down 39 cents/lb. With Canadian beef demand down 4.9% in 2010, middle meat prices were depressed.
2. Reduce price discounts of heavy versus light carcass	Discounts were reduced over the fiscal year. The discount on heavy Striploins decreased from 56 cents/lb in 2010 and is 54 cents/lb in the first half of 2011. The discount on heavy Bone-in Lipon Ribeye decreased 30 cents in 2010 and is 21 cents in the first half of 2011. The discount on heavy Boneless Lipon Ribeye's went from 13 cents in 2010 to five cents in 2011. The discount on heavy Top Butt has been zero in 2009, 2010 and 2011. Overall the discount on heavys, particularly Striploins and Bone-in Lipon Ribeyes were decreased in 2010.
3. To increase demand and value of thin meats	Thin meat values all increased in 2010/11. Flap-\$2.99/lb in 2010, \$3.46 in 2011; Tri Tip -\$2.68/lb in 2010, \$3.03 in 2011; Outside Skirt - \$3.06/lb in 2010, \$3.98 in 2011; Ball Tip \$1.85/lb in 2010, \$2.30 in 2011.

Commercial Beef Market

Market Situation and Indicators

The Canadian beef and cattle genetics industry has established a set of marketing targets for sales over the near to medium term. For this Results Report period, the **2010 target** for commercial beef was:

Domestic Consumption of Non-Fed Beef (MT)	56,505
Non-Fed Beef for Export (MT)	36,126

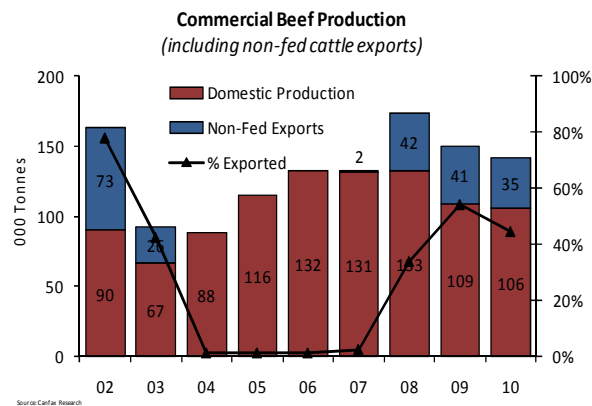
CCMDC Marketing Implementation Plan 2010/11 - Volume in boneless weight

	2002	2006	2009	2010	10/09
Commercial Beef Market (MT)	188,927	177,707	127,399	126,066	-1%
Domestic OTM Beef Production (MT)	90,090	132,304	109,124	106,115	-3%
Domestic Utilization (MT)	36,036	130,981	68,748	78,525	+14%
Non-Fed Beef Exported (MT)	54,054	1,323	40,376	27,590	-22%
Non-NAFTA Imports (1,000 MT)	152,891	46,726	58,651	47,541	-19%
Canadian Market Share of Comm Beef	19.1%	73.7%	54.0%	62.3%	+15%
85% Trim Price (\$/cwt)	n/a	\$130.81	\$138.61	\$143.86	+4%
OTM Beef Value (million \$)	n/a	\$381.54	\$333.45	\$336.54	+1%

(volume in boneless weight)

The domestic commercial beef market consists of all domestically produced non-fed beef (less exports) plus non-NAFTA beef imports, which is typically product considered to be similar to Canadian commercial beef. Total commercial beef production (domestic slaughter plus live exports) was down 5.6% to 141,000 tonnes boneless with domestic production down 3% and live exports down 13%. Total non-fed exports (live and beef) were down 22% to 63,000 tonnes boneless and represented 44% of production. This was down from 54% of production being exported in 2009. The proportion of production derived from non-fed animals slaughter domestically increased from 73% in 2009 to 75% in 2010, with a larger decline in live exports than domestic slaughter.

Smaller exports offset the 19% decline in non-NAFTA imports to keep the market size relatively stable, with only a 1% decline. Consequently consumption sourced from domestic product (aka domestic utilization) was up 14%.



In 2011 total commercial beef production is expected to be down a further 22% to 111,400 tonnes boneless. This is a result of domestic cow slaughter being down 15% and exports of cows and bulls for slaughter in the U.S. also being down 46%. In combination with lower domestic production smaller non-NAFTA imports are projected, which will result in overall commercial beef utilization being down significantly in 2011.

Over-30-Month Beef Values

As a proxy for OTM beef values, 85% lean trim prices are used given the majority of product derived from cows is lean trim. The annual average price of 85% trim was \$144/cwt in 2010, up 3.5% from \$139/cwt in 2009 but still below the 2008 high of \$149.50/cwt. In the first half of 2011 85% trim prices have averaged \$173.50/cwt surpassing the highs reach in fourth quarter 2008.

Canadian 85% trim averaged \$12/cwt higher than Australian/New Zealand product in 2010. This premium was four times larger than the 2009 spread of \$3/cwt. This spread has been

steady in 2011. A spread of \$12/cwt would have historically been wide enough to encourage imports of beef from non-NAFTA countries. The fact that non-NAFTA imports were down 19% in 2010 and down another 22% from January to June 2011 shows how strong international demand is for beef product.

Canadian prices averaged \$9/cwt higher than U.S. product in 2010 steady with the 2009 spread. This encouraged imports, which were up 8% from the U.S.. So far in 2011 Canadian prices have been \$8/cwt higher with imports from the U.S. up 28% from January to June.

Outcomes and Performance Measures:

Goal 1: Build awareness for a Canadian beef brand

Expected outcomes	Realized outcomes
1. Increase or maintain trade awareness and comprehension of the specific attributes of the CBA to a minimum of 85%	Awareness of the attributes most associated with Canadian commercial beef averaged 90%, an increase from 85% in 2009.
2. Enhance trade partner ability to increase the value of Canadian commercial beef sales based on key points of differentiation	Initiatives to enhance trade partner’s ability to increase sales based on the key points of differentiation achieved the desired outcomes. In the foodservice sector 69% of trade partners surveyed agree “that the information on Canadian beef that BIC delivered enabled their organization to grow sales of Canadian beef based on the unique points of differentiation”; in the retail sector 70% of respondents agreed; and in the processing sector 59% of respondents agreed.

Performance Measure: Customer awareness and understanding of Canadian Beef Value Proposition

Q: What advancements were achieved regarding awareness and understanding of the CBA brand & attributes? What are the reported increases in awareness?

As reported in the domestic market section, CBA attributes have a strong awareness with trade partners across all segments. Awareness of the attributes most associated with Canadian commercial beef averaged 90%, an increase from 85% last year. Other results for awareness of commercial beef CBA attributes are:

Canadian beef production systems require mandatory individual animal identification for tracking and traceability - 93%; Canadian beef is produced using principles of HACCP (HAZARD ANALYSIS CRITICAL CONTROL POINTS) -96%; Canada has abundant feed grains and natural resources for beef cattle production - 83%; Canadian consumers have a strong preference for Canadian beef - 88%.

Performance Measure: Size of Market Influenced by the value proposition

Q: What market segments for Commercial beef is BIC present in? What per cent of the total Commercial beef market do these segments represent? What growth has been achieved in these segments?

Commercial beef is an important product in all market segments in Canada. It penetrates both retail and foodservice with fresh and further processed products. The processing sector utilizes commercial beef for value-added convenience-based products which add value to carcasses. At retail, the focus is to increase market share of source grinds which offers a value-added opportunity for trimmings. BIC consumer directed initiatives focus on educating consumers on premium source grinds creating a pull in the market place. Significant volume users in the foodservice segment are quick service restaurant chains. A year-round commitment to Canadian supply is sometimes a challenge given normal supply dynamics. BIC partnered with over 31 trade partners in initiatives that maximize value of Canadian commercial beef.

Goal 2: Achieve growth in traditional, existing, new and emerging markets

Expected outcomes:	Realized outcomes:
1. Maintain attitudes towards Canadian ground beef as nutritious and lean, while reinforcing convenience and taste.* Increased focus on source grinds.	Attitudes regarding the nutritional value of ground beef increased from 51% in 2010 to 64% in 2011.
2. Implement initiatives featuring Canadian commercial beef with at least two market influencers, Eastern and Western Canada, with tonnage as the primary motivator consistent with Canadian beef brand position.	Initiatives were completed with national restaurant chains Arby's, Lick's Hamburgers, Panago Pizza, national retailer Sobeys and Cargill on long term promotional programs to maximize volumes of commercial beef.
3. Mitigate the risk of erosion of consumer and customer confidence, including key influencers, while maintaining consumer confidence at 85%.	Consumer confidence remains very high with 89% of Canadians expressing confidence in the safety of Canadian beef.
4. By 2011, increase # of annual beef eatings to 81.5 per capita, a five% increase over 2008	Annual beef eatings per capita since 2008 has decreased to 72.6%.
5. Shift light beef eaters from 69% to 65% by 2011	The percentage of light beef eaters increased from 69% to 72%.

Performance Measure: New Markets and Customers created and maintained by funded initiatives

Q. Were the markets/customers established in 2009/10 or earlier retained? What value do they bring?

The priority for BIC was to develop longterm relationships with trade customers based on the quality and value that Canadian commercial beef represents versus imports. Customers that have identified Canadian beef as having high quality and safety standards versus import alternatives have continued as customers, although procuring a consistent supply has been challenging in the past year. BIC continues to target health and nutrition professionals as well as government on Canadian ground beef's role in a healthy diet; and to maintain science - based knowledge of current and potential issues relevant to Canadian beef, nutrition and health.

Q. What new markets or market segments were established in 2010/11? What value do they bring?

Since the domestic market is extremely developed for commercial beef in all segments, establishing new markets or segments is not realistic.

Performance Measure: Canadian share of target market and market segments

Q. Was the Canadian commercial beef market share increased/decreased/maintained within specific target markets and segments? Identify reasons for change or status quo.

The Canadian share of the commercial beef market increased. As well, domestic utilization was 62% in 2010, up from 54% in 2009. Conversely non-NAFTA beef imports had a smaller market share at 37.7% in 2010 versus 46% in 2009.

Goal 3: Maximize value through optimization of carcass value

Expected outcomes	Realized outcomes
1. Optimize the value of priority whole muscle Canadian commercial beef production through 170 tonnes of new products	Branded Canadian beef Initiatives with Major quick service restaurant operators such as Arby's, The Meat Factory and Mountain Top Foods surpassed the 170 tonnes of whole muscle volume.
2. Increase kg market share of source ground beef at retail to 5% by 2012.	The volume of source grinds increased by 14% in 2010 but overall share is still low at 1.6%.
3. Increase % of premium grinds of total burgers at foodservice to 8% by 2012.	Initiatives were completed with major market leaders included McDonald's and Boston Pizza which focused on premium burgers. Market share for 2010 was stable at six%.

Level of completion of funded initiatives

The CCMDC budget for commercial beef initiatives was \$3,432,327 of which \$2,190,743 or 64% was expended.

United States Market

Market Situation and Indicators

The Canadian beef and cattle genetics industry has established a set of marketing targets for sales over the near to medium term. For this Results Report period, **2010 target** for the U.S. was:

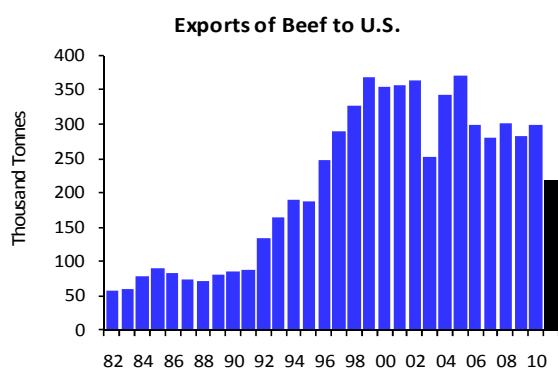
Exports (MT)	299,622 pwt
--------------	-------------

CCMDC Marketing Implementation Plan 2010/11 - Volume in carcass weight = 352,497

United States	2002	2006	2009	2010	2011p
Cdn Beef Exports (MT)	363,453	298,604	283,395	299,024	218,000
Cdn Beef Exports (million \$)	\$1,678.18	\$1,081.06	\$927.02	\$997.05	\$814
Canadian Share of Import Market	33.9%	27.4%	30.9%	37.5%	33.4%
Beef Exp to the U.S. as a % of Cdn Prod.	35.0%	28.7%	28.7%	30.5%	--
U.S. Beef Cons. (kgs/capita retail wt)	30.7	29.9	28.0	27.5	--
U.S. Beef Demand Index (1980=100)	55.4	57.5	54.2	54.3	--
Cdn Imports as a % of U.S. Consump.	3.88%	2.98%	3.01%	3.24%	2.43%

(Volume in product weight)

The United States remains the world's largest beef importer representing 16.4% of global trade in 2010, which was down from 17.8% in 2009. The U.S. is Canada's largest export market for beef and live cattle. Beef and live cattle exports to the U.S. in 2010 totaled 652,000 tonnes valued at \$2.06 billion – a 6% increase in volume and 3% increase in value.



Source: Statistics Canada, CdnFax

The proportion of live cattle exports as a percentage of the total volume decreased from 54% to 53% in 2010. Feeder cattle exports declined 23% to 218,000 head, while slaughter cattle exports were up 9% at 832,000 head. The

increase in slaughter exports came from fed cattle (+19%), while non-fed exports were down 12%. Year-to-date slaughter cattle exports in 2011 are down 35% and are projected to be as low as 540,000 head, with strong local packer demand seeing cattle remain in Canada to be slaughtered.

Beef export to the U.S. represented 30.5% of production in 2010 up from 29% in 2009. Volumes to the U.S. were up 6% at 299,000 tonnes (product weight), while values were up 8% at \$997 billion. Larger exports were due to increased fed production combined with economic recovery in the U.S. and smaller protein supplies. Canada maintained its position as the largest beef supplier to the U.S. in 2010 accounting for 37.5% of total imports, up from 30.9% in 2009. Import share from Australia fell to 25% of total imports, down from 30% in 2009. The composition of Canadian beef exports to the U.S. in 2010 saw trim down to 48%, boneless cuts up to 31%, and bone-in cuts up 2% to 7%. In the first half of 2011 Canadian beef exports to the U.S. are down 27% in volume and 18% in value and are

projected to reach 218,000 tonnes valued at \$817 million. Canadian beef made up 3.2% of the beef consumed in the U.S. in 2010, up from 3% in 2009.

U.S. beef production has been declining since 2006 and is expected to continue to decline in 2011 as the national beef herd shrinks with severe drought in Southern States bringing more cows to market. As domestic production declines and exports grow, per capita

consumption has been falling. As production continues to decline, per capita consumption is expected to fall as well. Despite per capita consumption being down 1.5% in 2010 to 27.5 kgs per person, U.S. beef demand stabilized with economic recovery and job stability as layoffs slowed. The U.S. beef demand index (1980=100) made a low of 54 in 2009 (54.3 in 2010) which is well above the previous low of 50 in 1998.

Overview of activities and industry benefits

1. What industry benefits (value, CBA recognition, pricing) occurred as a result of the BIC's U.S. marketing initiatives implemented?

The growing understanding about the distribution systems and quality of the beef from Canada has led to a strong recognition and in many cases uptake of Canadian beef as part of a strategic purchasing option particularly by large retail distributors that has allowed for momentum around the adoption of Canadian beef by a growing number of retailers as well. Industry surveys conducted by BIC point to continued development of the understanding around Canadian beef and the CBA throughout the trade and a strong recognition of the inherent quality of Canadian beef. The ethnic markets (Hispanic) that BIC has been able to influence have shown particular interest and understanding around the inherent value and in many cases now have been willing to pay more for Canadian beef than similar USDA product based on the positive quality and yield performance beef from Canada has been able to generate with this important segment.

2. What new and innovative initiatives were undertaken in the U.S. in 2010/11?

Over the course of 2010/11, BIC focused on the further development of branded programs that have helped to secure market share and returns that help to build long term sustainable volumes and provide a strong platform from

which to expand market share in key market segments. Case in point would be the development of the High River Angus program that utilizes high quality AA Angus beef that is targeted to midsized independent retail markets in the U.S. Southeast. This region's demographics are well suited for a program of this nature and offers the retailer a competitive Angus program with quality attributes through the CBA that goes beyond what domestic products can offer. The uptake around this type of well-positioned brand has been excellent and has resulted in upwards of 6.5 million lbs placed in the first year at an average to USDA Select pricing. Growth for this program is set for the longterm as long as supply is readily available from the packer partner.

Another initiative that was of focus was around the further development of the volumes through the further alignment of retail distribution opportunities to the large and growing Hispanic market place. The development of strategic relationships with Canadian packer U.S. sales and distribution centers has developed a new distributor customer with Los Angeles-based Rancho Foods. Rancho Foods is now one of the key distributors for Canadian beef in the Southern California Marketplace. The alignment has allowed Rancho to take a strong position around the "Canadian brand" and feed off the

growing recognition about the quality and consistency of Canadian beef amongst the Hispanic retail trade that goes beyond a strictly “price only” equation. In the first year of this relationship, Rancho was able to grow its Canadian volumes from a relatively small quantity to over 1.2 million lbs (544 tonnes). BIC was able to contribute to this effort through sales training, sales collateral development and have assisted in branding their delivery fleet with logos and graphics helping to solidify Rancho’s position as the “go to distributor” for Canadian beef in Southern California.

3. What were BIC’s three most effective/important U.S. initiatives?

The development and launch of the High River Angus branded line that is now a cornerstone of the Colorado Boxed Beef Company’s (CBBC) branded portfolio and has been BIC’s largest volume project to date. The combination of the product value it drives for AA Canadian beef coupled with the strong brand platform correctly targeted and commitment on behalf of CBBC has been a winning combination that will allow for longterm growth going forward.

Second would be **the development of additional strategic relationships within the Hispanic retail distribution** which has helped to grow Canadian content within this important sector. The fact these initiatives have helped to positively influence beef cuts Canada does not have strong markets for domestically, and that BIC’s efforts have helped to evolve a market that previously was only interested in “price” to in many cases understanding and choosing Canadian due to the quality and consistency of product has provided a solid basis for future growth.

The third important initiative has been the **successful transition of the Pennfield Farms brand that was carried by Ritter Foodservice after the sale of Ritter to U.S. Foods**. In many cases when a large broad line distributor like U.S. Foods purchases a smaller foodservice distributor, all the existing house brands are dropped in favour of the national brands. In this case, the U.S. Foods team, with the assistance of BIC, has come to recognize the strong brand equity this program has developed and the elements that the CBA has added to the brand offering that creates a unique and competitive offering. The protein team at U.S. Foods has now embraced the program and has worked with the Canadian packer to ensure continuity of supply. This adoption of Canadian beef by U.S. Foods has now offered opportunities to approach other divisions to understand and potentially adopt supply from Canada to again strategically expand the reach, volume and value.

4. Briefly outline what impact the current results will have on your 2011/12 strategy or future strategy development in 2012?

Creating and growing awareness around the CBA has been the key strategy in the United States. The uptake of the unique points of differentiation the CBA represents with trade partners continues to be positively impacted through that strategic focus and is the basis for all customer relationships with U.S. trade partners. These results would suggest that a continued effort be placed on growing the brand. The strategies employed in this fiscal year also focus on working closely with Canadian packers and U.S. sales offices to identify targeted customers in key markets and segments that best align with the value proposition of Canadian beef, and offer the highest potential returns.

Outcomes and Performance Measures:

Goal 1: Build awareness for a Canadian beef brand

Expected outcomes	Realized outcomes
1. Increase or maintain trade awareness of the specific attributes of the CBA at a minimum of 85%	U.S. trade survey reports awareness of six key Canadian beef attributes related to quality and safety remains high at 85%, consistent with 2010. The U.S. trade survey indicated that overall trade understanding and recognition of the CBA and the inherent value perceptions of Canadian beef continues to improve – 33% of respondents rated Canadian beef as offering a better overall value proposition based on quality and value than USDA product; 52% rated Canada’s overall grading standards as superior to the U.S. standards. No respondents stated beef from Canada was worse than USDA.
2. Positively influence 70% of targeted customers to purchase Canadian beef	Seventy-one per cent of respondents in our annual trade customer survey agreed that BIC services better enabled them to “Grow your sales of Canadian beef based on quality and value” – 86% of Canadian packers/distributors sales professionals agreed with the same statement; 79% of customer respondents agreed that Canadian promotional support is better than U.S., up from 69% a year ago. Simulated meat case studies were implemented in the California (2009), Texas (2010,) and Pacific Northwest (2011) markets. One hundred interviews were conducted in each region in a quantitative and qualitative study. Bold visuals of the point-of-sale materials were successful at elevating many of the perceived environmental attributes of Canada, reinforcing the consumer brand positioning for Canadian beef in the United States. The POS leverages the Brand Canada tagline, “Quality is in our Nature”. Studies revealed the meat displayed with the Canadian merchandising point-of-sale was significantly more impactful and would drive consumers’ desire to buy Canadian beef.

Performance Measures: Customer awareness and understanding of Canadian Beef Value Proposition

Q: What advancements were achieved regarding awareness and understanding of the CBA brand & attributes? What are the reported increases in awareness?

The understanding and recognition of the CBA and the value it drives has improved substantially. Eighty-six per cent of respondents are aware of the attributes that define the CBA. That has increased from 81% in 2010 survey; 88% of the same customers also agree that information provided to them by BIC enabled their organization to better understand the attributes and the benefits they provide, up from 81% in 2010. The U.S. team successfully completed over 27 large scale trade events and presentations to U.S. buyers.

Performance Measure: Size of Market Influenced by the value proposition

Q: What U.S. market segments is BIC present in? What percent of the total market do these segments represent? What growth has been achieved in these segments?

BIC has worked extensively with the Canadian packing community and the wholesale distribution network in the United States to identify opportunities within U.S. retail, foodservice, and further processors as well as opportunities with strong ethnic markets particularly with the Hispanic sector and markets where Canadian beef can obtain strong returns. BIC has worked within these segments to leverage a stronger understanding around the Canadian beef advantage working to build confidence and identifying strong opportunities for growth.

The U.S. retail marketplace represents the largest opportunity for Canadian beef volumes and BIC has identified the subsectors within this category that offers the strongest opportunity for growth. Within this sector is the small to mid-sized retail operation (6-20 stores) that offer the best opportunity as they are seeking beef products that offer clear points of difference from the U.S. commodity offerings and a high degree of consistency that they can in turn leverage to capture consumer interest. These retailers have been primarily reached through the development and execution of specific branded programs sold by large retail distributors with whom BIC has developed strong relationships.

The brands offer the opportunity to build strong points of difference to commodity products while maintaining a price equivalency or better to USDA pricing. BIC achieved significant growth in key retail sectors having established a strong retail branded line, High River Angus which is distributed by the Colorado Boxed Beef Company throughout the retail segment in the U.S. Southeast and Texas. The results have been good and have surpassed initial launch sales targets moving over seven million lbs. of high valued Canadian beef into this region over the last 14 months.

The other major segment of focus on the retail front has been the Hispanic markets. The Hispanic demographic represents over 40 million U.S. consumers and is expected to reach 25% of the total U.S. population by 2020. They consume roughly twice as much beef as the average U.S. consumer and the primary method for retail merchandizing is through the fresh meat case. This has helped to strongly position Canadian as a preferred item given our strong grading criteria for meat and fat colour and is a strong point of leverage when outlining Canadian beef to these buyers. The availability of cuts that appeal to this market has been another reason for focus as there are limited opportunities in Canada to market chucks and thin meats. This has meant an opportunity to build value through the education and adoption of Canadian beef by this sector. On the Hispanic front, BIC was able to successfully leverage both new and existing accounts despite a challenging economic environment creating over 12 new projects driving over 14 million lbs. (6,350 tonnes) of Canadian beef volume and clearly establishing Canadian beef as part the purchasing strategy for a majority of distributors and retailers particularly in the California market.

Goal 2: Achieve growth in traditional, existing, new and emerging markets

Expected outcomes:	Realized outcomes:
1. Growth in traditional, Hispanic and other ethnic markets for priority Canadian beef products	Twelve new branded partners were developed in the Hispanic market segment this fiscal resulting in over 14 million lbs. (6,350 tonnes) of new volumes with a focus on priority cuts identified through the Canfax cutout model.
2. Maintain or increase customer confidence in Canadian beef, based on benchmark established in 09/10 fiscal	On average, U.S. stakeholders have a high degree of confidence in Canadian beef (8.55 out of 10, virtually unchanged since 2010); 98% rated it a six or higher; 50% rate their confidence to be nine or 10 out of 10.
3. Establish market initiatives utilizing 3,000 tonnes of Canadian beef	Market initiatives under this goal exceeded expectations by a wide margin. Volumes exceeded 11,339 tonnes in the programs implemented this fiscal. These initiatives are focused on long term strategic customers implementing branded programs in targeted markets.

Performance Measure: New Markets and Customers created and maintained by funded initiatives

Q: Were the markets/customers established in 2009/10 or earlier retained? What value do they bring?

Our efforts with clients established during the 2009/10 have for the most part matured. In the majority of cases the clients continue to assess strong volumes of Canadian beef and most of the volumes with these clients have been maintained. With some clients like Stauffers of Kissel Hill (a four store retailer in central Pennsylvania that is currently purchasing 100% of its beef from Canada with last year's volumes in excess of 850,000 lbs. or 386 tonnes), the relationship has continued and this retailer continues to grow volumes through the implementation of unique volumes growth opportunities such as the introduction of a source grinds program that is expected to add an additional 120,000 lbs. or 55 tonnes of Canadian beef volume per year.

Other client situations offered new opportunities to expand the reach of Canadian beef. Such is the case with Ritter Foodservice, when this independent foodservice distributor was purchased by U.S. Foods, BIC worked with U.S. Foods to build an understanding around their branded beef program "Pennfield Farms" which was 100% Canadian and had driven over 1.5 million lbs (680 tonnes) since its launch. The net result has been that U.S. Foods has kept this popular beef program. BIC has now had interest from other U.S. Foods divisions around Canadian beef and is currently working to initiate interest from Canadian packers to engage in a supply discussion.

BIC's work in helping to establish branded programs such as the High River Angus program has been a focus over the last year as it has been able to grow Canadian beef volumes in the U.S. Southeast under a program that goes beyond a typical commodity relationship. This AA program and its brand platform that BIC was able to develop with Colorado Boxed Beef is well targeted and delivers on a premium message that has resonated with consumers across a wide spectrum of demographics. The program is projected to grow to excess of 10 million lbs. (4,500 tonnes) per year if supply is available. CBB is committed to the High River Angus program and there is a strong desire in this company to reach this target.

Performance Measure: Canadian share of target market and market segments

Q: Was Canadian market share increased/decreased/maintained within specific target markets and segments? Identify reasons for change or status quo.

BIC believes it has been able to grow volumes with clients in most market segments over the last year. With the introduction of strong retail branded programs, and additional programs aimed at the strong Hispanic market, and the distribution network that services it, the numbers on the retail front are strong. On the foodservice side, the difficult economy and challenges faced by potential clients accessing consistent supply of middle meats from Canadian packers has dampened growth in this market segment. While clients who have established supply and programs in place have seen some growth, initiating new foodservice clients has been challenging under these market conditions. BIC has reached out to the processing sector and has received a positive reception despite supply challenges. Projects that are looking to access undervalued cuts like tri tips continue to move forward and should see implementation in the coming months if the supply situation allows.

Goal 3: Maximize value through optimization of carcass value

Expected outcomes	Realized outcomes
1. Maximize uptake of priority products in key markets	BIC utilizes a targeted approach that aligns priority products with targeted customers in key markets. In the Hispanic markets, thin meats and chuck cuts value are maximized through premium product positioning and competitive analysis versus USDA product that demonstrates value advantages of Canadian products on a customer by customer basis.
2. Enhanced ability to prioritize markets, key markets, market segments and targeted customer base with Canadian supply	Through a targeted approach with Canadian packers and U.S. sales offices, key customers are identified and products matched to customers by segments. This process has enabled Canadian beef suppliers to strategically identify priority customers in key markets whose product requirements can most effectively be met while delivering the highest possible returns. Eight key customers were identified through this approach this year.

Goal 4: Achieve resilience in light of potential future industry events through expanded and/or more secure market access and greater market diversification

Expected outcomes	Realized outcomes
1. Growth in volume and value of Canadian beef utilizing a minimum of 900 tonnes of Canadian beef in the foodservice sector	The economic situation in the United States has been a factor in declining sales volumes overall in the foodservice sector. However, the better/more focused distributors are still seeing some growth. Total beef volume in the foodservice distribution sector for the fiscal year was 1,296,218 lbs. (588 tonnes).

Level of completion of funded initiatives

The CCMDC budget for U.S. marketing programs was \$2,313,273 of which \$1,668,015 or 72% was expended.

Mexico Market

Market Situation and Indicators

The Canadian beef and cattle genetics industry has established a set of marketing targets for sales over the near to medium term. For this Results Report period, the **2010 target** for Mexico was:

Exports (MT)	53,070 pwt
--------------	------------

CCMDC Marketing Implementation Plan 2010/11 - Volume in carcass weight = 62,436

Mexico	2002	2006	2009	2010	2011p
Beef Exports Volume (MT)	77,887	41,647	45,484	46,865	30,000
Beef Exports Value (million \$)	\$289.66	\$158.70	\$166.69	\$185.81	\$148.00
Canadian Share of Import Mkt.	14.9%	11.7%	14.7%	17.9%	--
U.S. Share of Import Market	--	80.9%	79.6%	76.5%	--
Mexico Exports % of Cdn Prod.	7.30%	3.87%	4.52%	4.40%	--

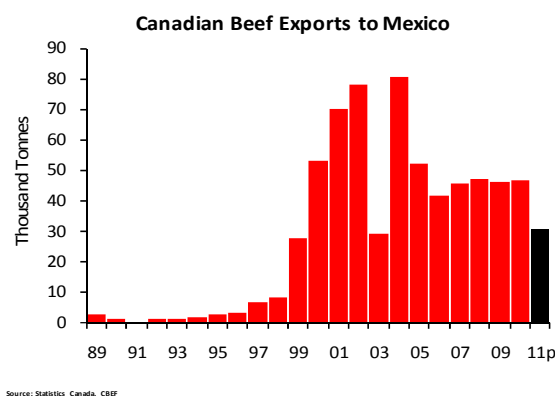
(Volume in product weight)

Mexico is the world's sixth largest importer of beef with 4.9% of global trade in 2010. Beef production was up 2% in 2010 with larger than anticipated carcass weights. Consequently beef imports were down 6% from 2009.

Canadian beef exports to Mexico were down 1% in volume and up 9% in value in 2010 at 47,000 tonnes valued at \$185 million. Mexico's share of Canadian exports was down from 12% in 2009 to 10.8% in 2010. Canadian beef exports to Mexico represented 4.4% of Canadian production down only slightly from 4.5% in 2009.

After experiencing the worst recession of any country in Latin America in 2009 (GDP -9%) economic growth was 5% in 2010 and is projected to be 3% in 2011. However, consumer demand remains weak with inflation at 4%. Beef consumption stabilized in 2010 and is expected to increase only slightly in 2011. Beef demand faces strong competition from cheaper poultry and pork. Beef consumption will be hindered by higher prices despite the better than expected recovery in the economy. Higher domestic production combined with

steady consumption is expected to reduce demand for imports in 2011.



Production is projected to be up 2% in 2011 as a result of smaller calf exports to the U.S. On June 24, 2011 the Government of Mexico declared a disaster citing excessive heat and continued drought that is affecting millions of hectares of farmland. Sources indicate that this is the most severe drought since 1941 resulting in cattle being brought to town, increasing production and reducing imports in the short run but reducing production and increasing the need for imports in the long run. Exports to Mexico in the first half of 2011 are down 34% in volume and 20% in value and are projected to total 30,000 tonnes valued at \$148 million.

Overview of activities and industry benefits

1. What industry benefits (value, CBA recognition, pricing) occurred as a result of the CBEF marketing initiatives implemented in Mexico?

One of Mexico's largest industries is foreign tourism along with high end domestic tourism. With the industry recovering since 2009, CBEF continues to focus on educating the Mexican chef community on the advantages that Canadian beef provides. CBEF Mexico is very clear that the products such as offal, hip and chuck cuts are very important, and need to be promoted in a particular way, mostly among importers, distributors and retail chains. But a special scheme is being implemented for the foodservice sector for the promotion of middle cuts (especially AA and AAA grades), which are the best value-profit generators.

Mexico conducted 65 promotional activities, including 24 retail and foodservice promotions, a VIP Mexico-Canada mission, hosting of a differentiation seminar in Puerto Vallarta, booths at EXPOCARNES (largest bi-annual show) and ANTAD and ABASTUR HRI shows at Exphotel Cancun, EXPROTUR Vallarta.

2. What new and innovative initiatives were undertaken in Mexico in 2010/11?

In Mexico, as in other markets, the development of networks and relationship-building is critical to market development success. Importers such as Soriana, S-Mart and Arteli are contacted frequently with many promotions being conducted with them, as well as others, to ensure their loyalty to Canadian suppliers is rewarded. New distributors are constantly sought. In addition, hotel chains and restaurants are pursued to highlight Canadian products in the major centres such as Mexico City, Monterrey, and Guadalajara, as well as the tourist destinations such as Puerto Vallarta. CBEF deepened its collaboration with Mexico's two largest foodservice distributors ComNor and XO de Chihuahua. The result has been an

increase in foodservice activity, with 15 of the 36 Mexican promotions held with high profile restaurants, further resulting in greater visibility for Canadian product in Mexico's largest population centres and its major tourist destinations. Promotions incorporated the CBA brand logo and promise and enhanced exposure and recognition of Canada's brand and the qualities it exemplifies.

3. What were CBEF's three most effective/important initiatives in Mexico?

One of the most effective initiatives continues to be the implementation of the CBA brand in all active markets. Secondary to that was a focus on solidifying the foodservice distribution system/channel carrying Canadian beef, which contributed to the increase in the sale and distribution of high quality middle meats; in addition to (more) traditional hip cuts/offal, resulting in increased visibility of Canadian beef.

The third most effective initiative continues to be expansion into the retail sector, again subsequently increasing retail sector results at a time when Canada's major competitor (United States) lost substantial ground in the Mexican market. The increased retail market share gained from the reduction in supply from the United States subsequently increased the range of beef products (hip and shoulder cuts, and thin meats) supplied from Canada.

With respect to the foodservice sector, efforts continued to focus on anchoring usage (consumption) of high-end quality beef products in restaurants, resulting in image and profile gains as well as expanded sales.

4. Briefly outline what impact the current results will have on your 2011/12 strategy or future strategy development in 2012/13?

According to the IPSO Reid 2010 Performance Review, Six Country Report, Canadian beef is viewed most positively in Mexico where it is

considered to ‘substantially outperform’ beef from all other markets on all rated criteria. Specifically, the survey found Canadian beef rated as substantially outperforming domestic beef, American beef, Australian beef and New Zealand beef in all areas of quality, safety, consistency and reliability of supply and Canadian animal health inspection system.

The current results confirm that CBEF has been successful in their efforts to promote and increase sales of Canadian beef in Mexico. However, as a result of an extensive independent performance review of CBEF conducted by IPSOS Reid, areas to intensify our efforts were identified. These areas include: providing consumer research indicating the

current level of acceptance of Canadian beef in the Mexico market; more resources dedicated to the promotion of Canadian beef at the consumer level; technical comparisons of Canadian beef with other imported beef products; and greater availability of printed materials outlining merchandising strategies.

Leadership of the new Canada Beef Inc. will be reviewing the results from the domestic, U.S. and international markets as part of its strategic planning process through the fall of 2011. A new overarching strategic and business plan will be developed through this process.

Outcomes and Performance Measures

Goal 1: Build Awareness for a Canadian beef brand

Expected outcomes	Realized outcomes
1. Increased awareness and comprehension of Canadian Beef Advantage attributes with trade partners and their clients	Closer ties with the trade sector continued to increase the number of potential and current partners for sales, brand and awareness-raising promotions. CBEF Mexico leveraged its network of relationships to conduct mutually-beneficial promotions with partners in the retail, distribution and HRI sectors to further increase awareness and comprehension of the CBA brand and its attributes. Promotional materials incorporating the CBA brand reached increased audience numbers.
2. Sectors better understanding the importance of points of differentiation between Canadian and competing product	The successful imparting of knowledge on the quality of Canadian beef, how beef grades are used to compare Canadian and U.S. product, Canadian regulatory food safety programs in meat plants producing beef, etc., have increased the confidence level of export partners and clients (distributors / suppliers) who buy the product and distribute it within the diverse sectors of the Market. This increased confidence has supported increased Mexican imports of Canadian beef and has further increased each supplier’s ability to ‘sell’ the advantages of using Canadian beef to the retail and foodservice sectors. CBEF plans to continue its efforts to educate industry participants and consumers. It can be said for sure that in all the sectors where CBEF has a presence (retail, foodservice, HRI, importers – distributors, further processors, etc.) a solid idea of what makes Canadian product superior in comparison with our closest competitor (U.S. product) is there.
3. Positively affect purchasing decisions in the Mexican market	Canadian product continues to earn day after day a better reputation among beef consumers in Mexico. Our product is a reference of high quality. People start to ask for Canadian product when visiting a restaurant or store due to the successful promotions and advertising campaigns implemented in order to enhance the CBA brand. The same thing happens of course with importer clients who ask their suppliers (Export Partners) for Canadian product on a regular basis to cover the needs and demand of product of well defined clients. The sustained level of exports from Canada to Mexico (not being higher due to a lack of product or the preference for

	temporarily selling to emerging markets) will continue hand in hand with the increase in demand and sales of Canadian beef in the Mexican market. The result is that Canada will have to increase its promotional activities and materials to maintain the conquered market share while the exporters will have to make an effort to allocate more product in Mexico instead of the United States where many times discount prices are paid for Canadian product.
4. Successful launch and integration of all branding elements such as POS material, website and new logo in the Canadian beef branding effort.	The Canadian beef brand elements have been fully implemented in all materials developed by the Mexico office, including web site and POS material, and is gaining brand awareness with consumers. The increased demand for Canadian beef is further increasing the value of the brand.

Performance Measure: Customer awareness and understanding of Canadian Beef Value Proposition

Q: What advancements were achieved regarding awareness and understanding of the CBA brand & attributes? What are the reported increases in awareness in Mexico?

The 2010 Ipsos Reid CBEF Performance Survey found that Canadian beef substantially outperforms domestic beef, U.S. beef, Australian beef and New Zealand on all attributes. Eighty-eight per cent of respondents said CBEF has been successful at imparting knowledge on the quality of Canadian beef including the Canadian beef grading system; 86% had a better understanding of purchasing specifications and regulations for importing Canadian beef into Mexico; 85% had a better understanding of how Canadian beef grades compare to U.S. grades; 82% say they have a better understanding of the competitive advantages of using Canadian beef versus other imported beef; 82% say they have a better understanding of food safety programs and interventions used in Canadian farms producing cattle; and 82% say they have a better understanding of food safety programs and interventions used in Canadian meat plants producing beef.

Performance measure: Size of Market Influenced by the value proposition

Q: What Mexican market segments is CBEF present in? What percent of the total market do these segments represent? What growth has been achieved in these segments?

CBEF is active in the retail/wholesale, foodservice, further processing and importer-distributor segments in Mexico. Percentage total market share for each segment is 50%, 10%, 15% and 25% respectively. It is difficult to locate data in order to specify the increases in value and volume for each segment, however, CBEF has established a process known as the sales promotion recommendation system, or SPR. Through the SPR system, retail and food service promotions are developed and executed. The system provides a number of value-added benefits to the promotion of Canadian beef and veal, including the local initiative, identification of new clients and partners, rewarding loyalty, head office monitoring and oversight, and performance measure. The SPR system tracks a number of important promotional categories including the type of promotion, retail/food service partner, export partner, product type, promotional materials, cost, partner contributions, base volumes of products, and estimated sales lift as a result of the promotion. For example, a regional retail promotion with the largest retailer in Mexico, along with other important partners, promoted the sale of 3600 kgs of branded marinated inside skirt through 13 retail outlets. A review of all our SPR forms for 2010/11 reveals that it was an extremely active and effective year for CBEF Mexico in terms of promotions and growth. CBEF Mexico held 24 retail promotions in 2010/11 including such retail giants as Soriana (560 stores) and Wal-Mart (650 stores), regional retail leaders such as S-Mart (50 stores) and Arteli (30 stores), 13 promotions within the foodservice sector and six more in the importer – distributor sector. CBEF also participated in seven food shows and completed 11 seminars.

Goal 2: Achieve growth in traditional, existing, new and emerging markets

Expected outcomes:	Realized outcomes:
1. Strengthening of the CBEF clients-export member relationship	CBEF assisted export partners in identifying product demand (cuts breakdown). CBEF will continue analyzing in detail its current sales promotion request process to explore avenues to assist export partners and clients (as requested) in identifying product demand by cut - something that has already been proven to be possible. CBEF Mexico further plan to maintain - increase integration of export partners and clients in food shows, increase information sharing and joint participation at seminars will continue. Export partners and clients will now also be involved earlier in the VIP mission planning process. Export partners have agreed to provide updated key client lists to allow CBEF Mexico the opportunity to provide promotional support where possible.
2. Increased loyalty of existing accounts	COMERCIAL NORTEAMERICANA, Mexico's nationwide number one foodservice company dedicated to the distribution of high quality imported meat is now a close ally of CBEF. While a relationship between the two organizations already existed, the business level was far from acceptable. This has changed dramatically over the last year and a half. COMNOR's beef purchase levels from Canada have increased remarkably, as has the exchange of information and openness to conduct promotions with their clients. Canadian beef clients of COMNOR are also participating in joint big scale food shows letting the clients know that Canadian product is sold. In the case of other very important foodservice companies with which CBEF has partnered successfully for years, XO DE CHIHUAHUA have once again proved their pro Canadian attitude. In the case of the retail sector, Soriana remains fundamental for the current level of exports while Wal-Mart continues to grow, gradually but steadily. Other regional retail chains (Arteli and S-Mart) must continue to be pampered because of their commitment within the Canadian Industry. In the further processing sector, there are excellent clients – Bafar, Sigma and Qualtia (top three further processing companies in Mexico).
3. Increased activity and growth of Canadian beef in the HRI sector,	One of Mexico's largest industries is foreign tourism along with the high end domestic tourism. With the industry recovering since 2009, CBEF Mexico continued to focus on educating the Mexican chef community on the advantages that Canadian beef provides. CBEF Mexico is very clear that cuts such as chuck, hip and offal products are very important, and need to be promoted in a particular way, mostly among importers, distributors and retail chains. However, a special scheme is being implemented for the foodservice sector for the promotion of middle cuts (especially AA and AAA grades), which are the best value-profit generators.
4. Growth of Canadian beef business with major retail accounts	Relationships with the major retail chains continued to strengthen and develop, resulting in multiple Canadian beef promotions being held in multiple outlets nationwide - but most importantly, in bigger volumes of Canadian product within the Mexican market.
5. Acquisition of dedicated shelf space to Canadian beef	Although significant advances have been achieved on this task and since every CBEF promotion with a retailer (i.e. Soriana, Arteli, S-Mart, etc.) demands exclusive shelf spaces for Canadian product only, this continues to be one of the hardest challenges in Mexico, especially within the retail sector where consistency in supply (large volumes) is crucial. CBEF Mexico staff adapted their approach in order to achieve consistent dedicated shelf space with retailers for particular and well defined periods of time. The new approach requires three parties – CBEF, the export partner and the retailer – to seriously commit to and perfectly execute a promotion. Each party, forming the whole, agrees that simultaneously providing promotional support, supply and dedicated shelf space will ensure a successful promotion. Further, the parties also agree that a strict regionalized product focus is crucial (consumption habits), as it also provides opportunity to educate the end-users.

Performance Measure: New Markets and Customers created and maintained by funded initiatives

Q: Were the markets/customers established in 2009/10 or earlier retained? What value do they bring? Most customers were retained; those who survived the H1N1 crisis and the 40% devaluation emerged stronger and in close relation with CBEF. The value they provided was remarkable support in

favor of the Canadian industry. CBEF conducted a record number of promotions for both the retail and foodservice sectors.

What new markets or market segments were established in 10/11? What value do they bring?

The “institutional market” was the new segment where CBEF has dedicated a good share of time and efforts since July 2010. CBEF convinced current client “Palacio de Hierro” (Mexico’s highest end Department Store chain) to not only buy Canadian beef for their restaurants and cafeterias/bistros but also for their employees “dining rooms”; the latter represents thousands of beef serves per week meaning a bigger volume generation for our industry. Value comes along with the volume. One more strategic alliance that CBEF established recently was with the National Chamber of Restaurants (CANIRAC). This chamber represents approximately 75% of the formal foodservice offerings in Mexico.

Performance Measure: Canadian share of target market and market segments

Q: Was Canadian beef market share increased/decreased/maintained within specific target markets and segments? Identify reasons for change or status quo.

Canada’s market share was successfully maintained from 2009 to 2010, representing about 50,000 MT’s (considering those volumes of Canadian product re-exported from the United States to Mexico and that for fiscal purposes are recorded as U.S. exports even when the product is Canadian). Canada maintained 18% market share of Mexico’s total beef imports in 2010. Five years ago the figure was 10%. Until October 2010, the trend in exports of Canadian beef to Mexico looked promissory, however, the Russia factor changed some key export partners’ business schemes and had a negative effect which slowed down (and in some cases decreased) the pace of exports to Mexico.

Goal 3: Maximize value through optimization of carcass value

Expected outcomes	Realized outcomes
1. Increase in sales of cuts identified as priority cuts	Except for one particular product (cheek meat), CBEF and its export partners have successfully advanced the sale of cuts identified as priority in Mexico by defeating taboos on quality and yield via cutting and cooking demos. There is still a lot to do on this but Canada is gradually moving on. A close interaction with export partners to promote more aggressively the consumption (purchase) of specific items is a must.
2. Long-term reduction in pricing spread between Canadian and U.S. product in Mexican market	There are still some clients who intend to pay a discount price for Canadian product in comparison with U.S. product, but the number is declining. It can be stated that Mexico’s market today pays the same (and in some cases more) for Canadian product than for U.S. The recognition of the CBA is starting to pay dividends.
3. Increased industry awareness in Mexico for use of priority cuts	CBEF is still working on this via seminars that show the Industry how to cut and merchandise certain cuts identified as priority for export partners. In several cases, CBEF tries to convince clients to change their purchase habits (i.e. from Inside Rounds to Goosenecks) because the rounds are sold at much better prices in Canada than in Mexico and the lack of product becomes a problem for conducting promotions.

Level of completion of funded initiatives

The CCMDC budget for Mexico marketing programs was \$870,922.00 and \$926,719.41 was expended.

China Market including Hong Kong, Macau, Mainland China

Market Situation and Indicators

The Canadian beef and cattle genetics industry has established a set of marketing targets for sales over the near to medium term. For this Results Report period, **2010 targets** for China were:

Hong Kong/Macau Exports (MT)	21,150 pwt
------------------------------	------------

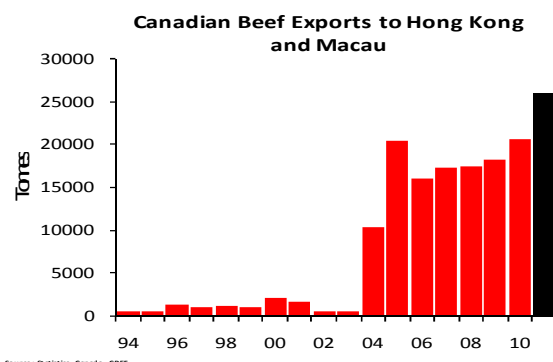
CCMDC Marketing Implementation Plan 2010/11 - Volume in carcass weight = 24,882

Hong Kong & Macau	2002	2006	2009	2010	2011p
Cdn Beef Exports Volume (MT)	625	16,028	17,957	20,619	26,000
Cdn Beef Exports Value (million \$)	\$2.94	\$58.96	\$66.96	\$96.47	\$117
Canadian Share of Import Market	--	16.4%	6.8%	8.5%	9.0%
U.S. Share of Import Market	--	7.5%	31.4%	27.6%	30.0%
HK & Macau Exp as % of Cdn Prod.	0.0%	1.5%	1.8%	1.9%	--

(Volume in product weight)

While the Government of Canada reached an agreement in principle with China regarding the renewal of beef trade in June 2010 product has not moved due to delays in finalizing technical agreements. Delays have been around the use of ractopamine and associated residual levels, which tend to concentrate more in the soft tissue and has been a concern for countries with a higher consumption of offal products.

Canadian beef exports to Hong Kong and Macau were up 13% in volume and 44% in value at 20,600 tonnes valued at \$96 million. Exports to Hong Kong and Macau represent 4.7% of total exports and 1.9% of total production steady with 2009.



In the first half of 2011 exports to Hong Kong and Macau are up 26% in volume and 22% in value and projected to reach 26,000 tonnes valued at \$117 million. If achieved this would surpass the previous high of 20,403 tonnes exported to this market in 2005.

Overview of activities and industry benefits

1. What industry benefits (value, CBA recognition, pricing) occurred as a result of CBEF marketing initiatives implemented in China?

Canadian beef is now more extensive and highly visible in almost all major retail chains in Hong Kong and Macau. Moreover, the number of retail and foodservice promotions increased from 31 projects (2009/10) to 50 projects (2010/11). The premium grain-fed, quality feature supported by grading, safety and

breeding of Canada beef has been communicated and greatly appreciated. Canadian beef brand is perceived to be of high quality at competitive price.

2. What new and innovative initiatives were undertaken in China in 2010/11?

In China, the major initiative for CBEF was the two seminars. One was held at World Expo in Shanghai in 2010 and the other one was held in Beijing during the Canada Day. Both had drawn a close network with potential customers from all levels.

In Hong Kong, besides working closely with retailers and foodservice outlets, more Canadian beef advertising was posted at in-store level and at distribution truck. This helps to create brand visibility. In Macau, CBEF pioneered work with Macau Culinary Association and local importers to organize public relations activities to increase Canadian beef's awareness in the hotel sector.

3. What were CBEF's three most effective/important initiatives in China?

On June 24, 2010, Canada announced it had secured a breakthrough agreement with China to allow staged access for beef and tallow, becoming the first country to resume trade with China following a case of BSE in 2003. As a result of the agreement, **China permitted CBEF to coordinate a special shipment of Canadian beef into China**, for use (and promotion) for Canada Day celebrations. CBEF was given permission to promote Canadian beef during

the World Expo held in Shanghai and CBEF seminars in Beijing.

In November 2010, **CBEF participated in FHC, a major food trade show in Shanghai**. It was a breakthrough that Canada beef was specially allowed to be displayed and sampled during the show. Canada beef also sponsored the gala lunch event organized by the organizer.

In January 2011, **a technical seminar was held in Hong Kong**. It was a two-day seminar targeting two segments – importers/distributors and end-users such as retailers and foodservice outlets. During the seminar, CBEF arranged both cutting and cooking demonstration. The audience was highly impressed with the program content and had learnt a great deal on the uniqueness of Canada beef.

4. Briefly outline what impact the current results will have on your 2011/12 strategy or future strategy development in 2012/13?

Given the recent staged market opening for supply of Canadian beef into China, programs addressing end-users' need on both retail and foodservice will be developed to optimize sales once the market is opened. The current results confirm that CBEF has been successful in its efforts to promote and increase sales of Canadian beef in Hong Kong and Macau and these efforts will continue.

Canada Beef Inc. will undertake market reviews and adapt its marketing strategy for each marketplace where necessary and in line with market changes.

Outcomes and Performance Measures:

Goal 1: Build Awareness for a Canadian Beef Brand

Expected outcomes	Realized outcomes:
1. Increased awareness and comprehension of CBA attributes with trade partners and their clients through point-of-sale material	POS materials such as the Canada beef and veal handbook are used frequently to educate trade partners and their clients about the product knowledge of Canada beef. It also increased their understanding of the advantages of purchasing Canadian beef versus its other competitors.
2. Sectors better understanding the importance of points of differentiation between Canadian and competing product	CBEF expanded resources dedicated to increasing consumer awareness and understanding via production of printed materials for industry outlining merchandising strategies and information about the quality and safety of Canadian beef. Unique attributes such as premium grain-fed and high traceability are emphasized consistently.
3. Positively affect purchasing decisions in the Chinese market	Renewed market access provided increased awareness of the return of Canadian products and the Expo exposure was highly visible and successful. The CBEF website also utilized CBA brand messaging to help positively drive consumer purchases. Efforts will continue with multiple strategies to further re-introduce the safety and quality of Canadian beef.
4.CBEF consumer website become useful and productive tool to raise awareness for CBA	The website continues to inform the consumers about Canadian beef and the CBA.
5.New POS material is received well and becomes useful tool to raise awareness for CBA	The development and distribution of new Point of Purchase materials including the Handbook, International Marketing Guide, Variety Meat Merchandising Guide and Import Guide and new premiums helped to increase brand awareness. They help to build a regular communication with key clients and communicate the knowledge of the Canadian beef industry and advantages to clients.

Performance Measure: Customer awareness and understanding of Canadian Beef Value Proposition

Q: What advancements were achieved regarding awareness and understanding of the CBA brand & attributes? What are the reported increases in awareness in China?

Premium grain-fed is the key message conveyed, supported by the story of the Canadian grading, safety and feeding systems. Canadian beef is promoted as high-quality, in direct competition to U.S. beef. People recognize Canadian beef for its exceptional marbling, texture and color, in addition to its strong 'beefy' flavour. CBEF is making significant progress in converting trials to regular usage on both the retail and foodsector fronts.

Due to continue promotional support to end-users, the awareness of Canada beef and its benefits is generally increasing in both retail and foodservice sectors. People have become more receptive in accepting Canada beef as a high-quality product. The major barrier, however, is still the high perceived image of U.S. beef, which leads to the relatively low pricing of Canada beef versus U.S. beef.

Performance Measure: Size of Market Influenced by the value proposition

Q: What Chinese/Hong Kong & Macau market segments is CBEF present in? What percent of the total market do these segments represent? What growth has been achieved in these segments?

Canadian beef is being sold and the Federation is active in all sectors in Hong Kong and Macau. On the other hand, Canadian beef is still banned from the Mainland China market. There is no statistical data available to clearly determine the segment share.

The Federation maintains a network of friends and partners active in all sectors of the industry. The ongoing information exchange allows the Federation to appraise the situation in various sectors. It is estimated that overall, activity with its top retail accounts remained stable. In the foodservice sector, the number of outlets exposed to Canada beef keeps increasing. CBEF has essentially been able to defend and largely maintain its position in the both sectors. And the demand for chilled Canadian beef keeps increasing across all sectors.

Goal 2: Achieve growth in traditional, existing, new and emerging markets

Expected outcomes:	Realized outcomes:
1. Strengthening of the CBEF clients-export member relationship	CBEF had successfully encouraged its exporter members to participate in trade shows and seminars. CBEF also facilitated regular meetings with importers/distributors and export members. This has strengthened their working relationship and ties.
2. Increased loyalty of existing accounts	Besides regular contacts and meetings with existing accounts, CBEF has been providing regular promotional support to build their loyalty of carrying Canada beef.

Performance Measure: New Markets and Customers created and maintained by funded initiatives

Q: Were the markets/customers established in 2009/10 retained? What value do they bring?

Previously-established Canadian beef importers/distributors remained loyal as their Canadian beef network grew steadily with extended distribution to both high-end and volume-driven end-users. Retailers have also increased the sales space for Canada beef cuts due to the regular funding support from CBEF. Retailers continue to fulfill consumers demand for a complete range of beef products. Foodservice outlets tend to be more price sensitive due to their operational model. U.S. beef is still perceived as premium over Canada beef, but the recognition of Canada beef is becoming more positive among restaurants. Many of the promotional outlets continue to use Canadian beef even after CBEF-funded promotions. Their chefs have become our "word-of-mouth" channel for Canada beef.

Q: What new markets or market segments were established in 10/11? What value do they bring?

The staged, full market access agreement with China is among the most significant new market opening. In Hong Kong, entry into the medium-high end steak/western/fusion restaurants has been gained via menu promotions supported with advertising. The value of this breakthrough will attract similar outlets and encourage the listing of Canadian beef on the regular menus of the restaurants. Having medium-high end restaurants list Canadian beef serves as a recognizable benchmark as high-quality product.

Performance Measure: Canadian share of target market and market segments

Q: Was Canadian beef market share increased/decreased/maintained within specific target markets and segments? Identify reasons for change or status quo.

The market share of Canada beef in Hong Kong & Macau increased in 2010 to 8.5% of the total imported beef market versus 6.8% in 2009. Chilled, frozen beef and offals also recorded incremental growth.

Canadian beef is active in both chilled and frozen segments. Chilled beef segment occupied about 1.5% of the total imported beef market while frozen beef dominated another 34.5%. Chilled beef has increased (+18%) over the whole market and Canada beef's incremental volume (+24%) outweighed the growth in this segment as a whole. For frozen beef, the whole market dropped 6% versus 2009 but frozen Canada beef increased 53%, which is far over the industry growth. Obviously, the share in the high-end retailers has increased in terms of sales space and number or listing items. And since there are additional distributors dealing directly with end-user outlets, the supply to these outlets has become consistent. But the majority of Canada beef sold is still frozen. The volume of chilled beef is yet to build

over time, particularly at retail level. As Canadian beef is ahead of the United States in having gained access for offering bone-in beef to the market, this has further assisted in boosting Canada beef market share in both the foodservice and retail market segments.

Goal 3: Maximize value through optimization of carcass value

Expected outcomes	Realized outcomes
1. Increase in sales of cuts identified as priority cuts	Primal cuts and chilled beef, especially the Prime grade, are still under limited supply. Therefore, some demand from high-end outlets has not been fully fulfilled. In terms of secondary cuts, they are being promoted to be used at medium-high end outlet food chains and Chinese restaurants. Bone-in items are unique, which are our signature items to promote at both retail and foodservice level.
2. Long-term reduction in pricing spread between Canadian and U.S. product in Hong Kong, Macau and China market	In general, U.S. beef is still marketed at 10-15% premium over Canadian beef at a wholesale, foodservice and retail level.
3. Increased industry awareness in Hong Kong, Macau and China for use of priority cuts	As a whole, trade awareness of Canada beef is high. Importers and distributors involved in the meat business are generally aware of Canadian beef and they understand its benefits as CBEF continues to conduct many VIP missions, educational seminars, technical materials sharing and training over the years. Chefs in general have also heard of Canadian beef, yet many still perceive that U.S. beef is of higher quality than Canadian beef although Canadian beef is considered better quality than Australian beef. More work needs to be done to increase Canadian beef trials in an effort to convert them to regular Canadian beef users. On the retail level, purchasers and buyers are aware that Canadian and U.S. beef are of similar quality. Canadian beef easily acquires shelf space at retail outlets however CBEF is constantly faced with consumer perceptions that U.S. beef is of higher quality and that Australian beef is better value for money. Fortunately, product awareness and the perceived image of Canadian beef among the general consumer has generally improved due to increased promotional and advertising activities (i.e. tasting, advertising incorporating the CBA, etc.) conducted by CBEF.

Level of completion of funded initiatives:

The CCMDC budget for marketing programs in China, including Hong Kong, Macau and mainland China was \$794,508.45 and \$1,056,306.81 was expended.

Japan Market

Market Situation and Indicators

The Canadian beef and cattle genetics industry has established a set of marketing targets for sales over the near to medium term. For this Results Report period, the **2010 target** for Japan was:

Exports (MT)	13,610 pwt
--------------	------------

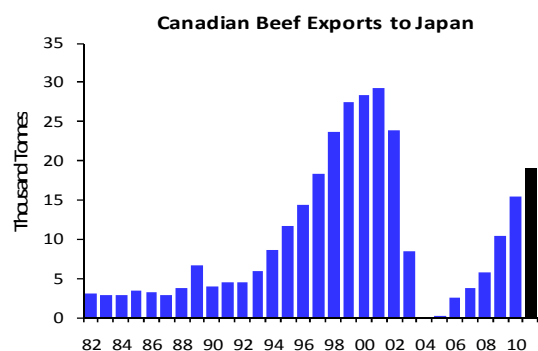
CCMDC Marketing Implementation Plan 2010/11 - Volume in carcass weight = 16,012

Japan	2002	2006	2009	2010	2011p
Cdn Beef Exports Volume (MT)	23,971	2,521	10,506	15,476	19,000
Cdn Beef Exports Value (million \$)	\$96.09	\$18.50	\$57.31	\$78.60	\$96.70
Canadian Share of Import Market	2.2%	0.4%	1.1%	1.3%	4%
U.S. Share of Import Market	48.7%	3.3%	17.1%	18.3%	22%
Japanese Exports as % of Cdn Prod.	2.43%	0.21%	1.04%	1.44%	--

(Volume in product weight)

Japan is the world's third largest beef importer accounting for 10% of global trade. Japan is heavily reliant on imports, which account for 58% of the beef they consume. Overall the Japanese market continues to be sensitive to prices as deflationary trends persist and the economy bears signs of a prolonged recession. Consumers are generally keeping their spending to the minimum.

economic conditions due to trading down from domestic Wagyu to imported product. Increased competition was seen from poultry as H1N1 concerned diminished. Beef imports were up 3% in 2010. Imports from the U.S. increased 32% and are projected to increase another 5% in 2011 as the weak U.S. dollar makes it a favourable choice over Australia in price sensitive Japan.



Source: Statistics Canada, CBEF

Japanese protein consumption grew in 2010 with increases in beef, pork and poultry. Beef consumption was up 2.3% in 2010 and is expected to increase another 0.4% in 2011. Beef consumption was maintained despite poor

The strong Australian dollar and high prices allowed the U.S., Canada and Mexico to gain market share with Aussie beef share of total imports falling to 70%, down 6% from 2009. Japan consumers prefer highly marbled corn fed beef similar to their domestic Wagyu product. Australia has been successful in increasing feedlot production with expansion supported by investment by Japanese meat companies. As a result Australia is expected to be able to maintain a portion of the market share they have gained in the market. Despite increase supplies from Australia and gains by the U.S. in recent years, total Japanese beef imports remain below their 2001 levels of 885,000 tonnes at just 731,000 tonnes in 2010.

In 2010 Canadian beef exports to Japan were up 47% in volume and 37% in value at 15,500 tonnes valued at \$78.6 million. North American beef exports continue to be constrained by the under-21-month age requirement. The Japanese market as a percentage of total exports was up from 2.8% in 2009 to 3.5% in 2010, putting it solidly behind Hong Kong and Macau as Canada's fourth largest market. Exports to Japan represented 1.4% of production, up from 1% in 2009.

On March 11, 2011, the biggest earthquake on record in Japan struck the country's northeast coast. The quake unleashed a 10-metre tsunami that hit the coast, damaging the Fukushima nuclear power plant. The damaged plant leaked radiation contaminating the surrounding area

and raising consumer concerns about food contamination in the region. The March disaster left more than 20,000 people dead or missing. The government estimates that damage at 16.9 trillion yen. Japan's economy shrank for the second straight quarter as the disaster disrupted supply chains and output, and depressing consumer spending. Concerns over contamination, in combination with reduced domestic agriculture production as a result of the damage, has resulted in increased demand for imported product. Beef exports to Japan from the U.S. are up 47% in the first half of 2011 while Canadian beef exports are up 23% in volume and value and are projected to reach 19,000 tonnes valued at \$96.7 million.

Overview of activities and industry benefits

1. What industry benefits (value, CBA recognition, pricing) occurred as a result of CBEF marketing initiatives implemented in Japan?

The Japan office strategy of growing demand for Canadian beef through a focus on end users continues to be successful. End users are either approached directly – or through the Japan office's established relationships with distributors (such as Super Inageya, Super Maruyoshi, Aeon Kimisawa, Origin Toshu, Super Hanamasa and other middle sized supermarkets). These contacts also provide valuable insight into consumer trends and the level of interest in Canadian beef.

In 2010, 10 new end users were added to the Japan office customer list – which now numbers over 100 individual such clients with which the Japan office has held promotions since the resumption of trade.

The Japan office has been delivering the message of the Canadian Beef Advantage to this steadily expanding list of end users, and

Canadian beef is now being recognized as being competitive with U.S. beef in terms of quality and food safety. The taste of Canadian beef is now also being regarded as very desirable among consumers as well as industry.

According to the 2010 Ipsos Reid CBEF Performance Review, Canadian beef continues to outperform Australia and New Zealand on quality, and is viewed as being the same as U.S. beef. The safety of Canadian beef is viewed as much better than U.S. beef, and on par with other competitive sources.

2. What new and innovative initiatives were undertaken in Japan in 2010/11?

The Japan office initiated new promotional items (including supermarket meat case dividers) specifically designed to support its end-user strategy and consumer focus.

In the wake of Japan's earthquake and tsunami disaster, on June 2, 2011, the Japan office in conjunction with the Canadian Embassy held an event to boost moral of Japanese people left homeless by the disaster. Held in Tagajou City in the Miyagi Prefecture, an evacuation point

located 30 km from the hard-hit coastal city of Sendai, the event saw the cooking and distribution of approximately 1,000 rice bowls, each topped with a Canadian beef strip loin steak. The event received wide media coverage.

3. What were CBEF’s three most effective/important initiatives in Japan?

a. The issue of food safety and in particular contaminated beef is currently a major concern of Japanese people. The Japan office made it a priority to take every opportunity to educate and inform Canadian beef clients and end users about Canada’s animal health and food safety systems and standards.

b. Canadian beef seminars held in collaboration with distributors and importers (Super Nishizawa, Matsuya, Osaka-ya, Sunshine and resort hotels) were valuable initiatives in greatly expanding potential end user contact. Through direct contact with end users – and through soliciting end user input – the Japan office has been able to develop a consumer-based approach in its programs to increase their success. For example, in a cooking seminar held for homemakers, the Japan office used the opportunity to direct homemakers to supermarkets where Canadian beef is available for purchase.

c. The exchange of knowledge and ideas between the Japan office and suppliers such as promotional companies and advertising agencies was very useful in generating new approaches to marketing and promotional materials. This engagement with several different companies and agencies, each with a different price and product strength, is important to keeping the Japan office at the forefront of promotional and marketing initiatives targeted at the consumer segment.

4. Briefly outline what impact the current results will have on your 2011/12 strategy or future strategy development in 2012/13?

The Japan office’s current 2011 strategy of growing demand for Canadian beef through a focus on end users is providing dividends in terms of increasing awareness and sales for Canadian beef. It will be important to continue the momentum of this strategy in the next fiscal. At the same time, Canada Beef Inc. will undertake market reviews and adapt its marketing strategy for each marketplace where necessary and in line with market changes. Canada Beef Inc. will continue to promote the CBA brand and its attributes, and further, as strategies are anchored on the CBA brand promise, this will naturally work to continue to rebuild client confidence in the Japan market.

Outcomes and Performance Measures:

Goal 1: Build awareness for a Canadian beef brand

Expected outcomes	Realized outcomes
1. Increased awareness and comprehension of CBA attributes with trade partners and their clients through point-of-sale material	Clients reported that implementing the CBA brand strategy and the resulting appearance of the CBA logo on all marketing materials, assisted CBEF clients in their business dealings with their clients, increasing awareness and comprehension of the CBA brand and its attributes. The resulting increased confidence in Canadian beef increased sales to the Japanese market.
2. Sectors better understanding the importance of points of differentiation between Canadian and competing product	The Japan office continued to hold seminars to support acquisition efforts and to maintain or expand sales for existing accounts through increased awareness and understanding of the quality and healthfulness of Canadian beef. The 2010 Ipsos Reid Performance Review found that 80% of respondents say CBEF services and resources were effective at communicating the competitive advantages of Canadian beef.

3. Positively affect purchasing decisions in the Japanese market	Japanese consumers that do not purchase Canadian beef feel that supply of Canadian beef is inconsistent. With the assistance of Canadian officials, efforts must continue in gaining market access of all Canadian beef products from animals under 30 months of age, in order to increase consistency of supply to the Japanese market, which would result in increased sales activity in Japan for Canadian beef.
4. Successful launch and integration of all branding elements such as POS material, website and new logo in the Canadian beef branding effort.	The launch and integration of all branding elements into all POS material, website and new logo was successfully completed, with recognition for the new brand already being well established.

Performance Measure: Customer awareness and understanding of Canadian Beef Value Proposition

Q: What advancements were achieved regarding awareness and understanding of the CBA brand & attributes? What are the reported increases in awareness in Japan?

Retail and foodservice promotions conducted were spread across various industries/sectors throughout 2010/11. These promotions included advertising in trade and consumer magazines with CBA logo positioning a focus, and various other advertising materials. The 2010 Ipsos Reid Performance Review found that nearly nine-in-ten (88%) of respondents say that CBEF has been successful at imparting knowledge on the quality of Canadian beef; and 77% have a better understanding of food safety programs and interventions used in both Canadian meat plants producing beef (77%) and on Canadian farms producing cattle (75%).

Performance Measure: Size of Market Influenced by the value proposition

Q: What Japanese market segments is CBEF present in?

CBEF is present in the retail and foodservice sectors in Japan. As the retail segment moves a greater volume of product it is fair to assume that there is an 85-15 split respectively in the retail and foodservice segments. As Canadian beef exports to Japan increased substantially during 2010/11 it is apparent growth was achieved in these segments.

What percent of the total market do these segments represent? What growth has been achieved in these segments?

The composition ratio of the beef consumption is Family budget consumption - 34%; Processing forward - 5%; and For business, foodservice and side dish - 61%. These market segment percents have remained relatively constant since 2000.

Goal 2: Achieve growth in traditional, existing, new and emerging markets

Expected outcomes:	Realized outcomes:
1. Strengthening of the CBEF clients-export member relationship	Whether working directly with their distributors or alone, targeting end users in an effort to set the stage for future qualified meetings with export members has proved successful. This strategy will be continued to drive demand.
2. Increased loyalty of existing accounts	Offering clear instructions on how to promote Canadian beef has resulted in increased sales for our clients. Our assistance in turn has increased our clients' loyalty to Canadian beef. We further encouraged loyal clients to increase promotion of Canadian beef, offering financial assistance if they promote Canadian beef in accordance with our promotional guidelines, resulting in our clients building a stable business for Canadian beef. Conducting joint promotions or specific client focussed promotions has resulted in our clients realizing growth in their trade of Canadian beef.
3. Creation of new accounts for Canadian beef	Ten new enduser client accounts for Canadian beef were created, adding to an expanding client base that saw promotional programs delivered to over 100 endusers.

Performance Measure: New Markets and Customers created and maintained by funded initiatives

Q: Were the markets/customers established in 2009/10 retained? What value do they bring?

New clients were gained through the completion of Canadian beef seminars and the Canadian Beef VIP Awareness Mission. For example: 2011 VIP Mission participant Tenjin-ya, producer and retailer of one of the most popular lunch boxes in Japan, is now selling lunch boxes produced with Canadian beef at all 87 of its outlets on an ongoing basis. Also, VIP Mission participant Saitoh-Otoya-Shoten, a food retailer with 37 outlets in the Tokyo Metropolitan area and Kanagawa Prefecture, held the Canadian beef fair in August, and reported that consumers purchased Canadian beef. As well, VIP Mission participant Super Sunshine, a retailer in Shikoku islands, is a new customer now selling Canadian beef.

Q: What new markets or market segments were established in 10/11? What value do they bring?

CBEF continued to focus on large family restaurants, lunch box companies such as Coco's, Big Boy, Origin Toshu and Hoka-Haka Tei, and typical regional retailers like Inageya, Maruyoshi, Trail, Japanese Meat for new clients.

Performance Measure: Canadian share of target market and market segments

Q: Was Canadian beef market share increased/decreased/maintained within specific target markets and segments? Identify reasons for change or status quo.

The Canadian beef market share increased dramatically in 2010, with the increase continuing in 2011.

2009 – 1.1%, 10,506 tonnes, up 80%

2010 – 1.3%, 15,467 tonnes, up 47%

2011(Jan-Jun) - 4%, 5,227 tonnes, up 23%

Goal 3: Maximize value through optimization of carcass value

Expected outcomes	Realized outcomes
1. Increase in sales of cuts identified as priority cuts	There was an increase in sales of priority cuts. Boneless short plate was 2,792 tonnes, up 31.1%. Hanging tender and outside skirt was 401 tonnes, up 18.2% in the period from January to July.
2. Long-term reduction in pricing spread between Canadian and U.S. product in the Japanese market	This is difficult to analyze due to the large price differences even amongst U.S. companies.

Level of completion of funded initiatives

The CCMDC budget for Japan marketing programs was \$1,068,506.40 and \$1,429,865.70 was expended.

Taiwan Market

Market Situation and Indicators

The Canadian beef and cattle genetics industry has established a set of marketing targets for sales over the near to medium term. For this Results Report period, the **2010 target** for Taiwan was:

Exports (MT)	3,035 pwt
--------------	-----------

CCMDC Marketing Implementation Plan 2010/11 - Volume in carcass weight = 3,571

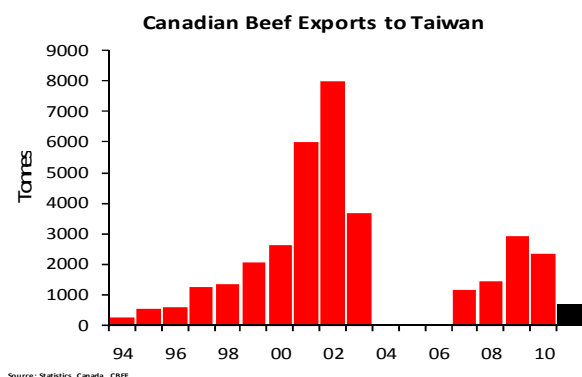
Taiwan	2002	2006	2009	2010	2011p
Cdn Beef Exports Volume (MT)	7,971	n/a	2,905	2,349	681
Cdn Beef Exports Value (million \$)	\$41.51	n/a	\$11.06	\$8.98	\$5.5
Taiwan Exports as % of Cdn Prod.	1.6%	n/a	0.29%	0.23%	--

(Volume in product weight)

Taiwan is the world's tenth largest importing nation accounting for 2% of global trade. However their reliance on imports is the highest in the world at 95%. Beef imports increased 2% in 2010 with strong foodservice demand and continued economic recovery. In January 2010 Taiwan increased market access to include U.S. bone-in beef and other products (including ground beef and offal). U.S. imports surged 45.5% in 2010. Australian imports increased modestly to maintain its position as the largest beef supplier. Imports from New Zealand also increased modestly.

Canadian beef exports to Taiwan were down 19% in volume and value to 2,349 tonnes valued at \$8.98 million in 2010. As a share of total exports or total production Taiwan remains a small market.

Beef consumption in Taiwan is expected to increase in 2011 as the economy grows. There has been a shift with more beef sold through supermarkets versus the traditional wet markets, as Taiwan's food markets move towards a more western feel due to historical fears over quality. As meat prices increase globally beef offal has become an appealing alternative to Taiwan consumers, who are similar to the Chinese in culinary preferences. In the first half of 2011 Canadian beef exports are down 71% in volume and 62% in value and are projected to total 681 tonnes valued at \$5.5 million. The substantial reduction in Canadian beef exports to this market is because of the limitations put on trade following the increased testing for ractopamine that started in January 2011. Until issues around international residual levels are resolved, exports are expected to continue to remain limited.



Overview of activities and industry benefits

1. What industry benefits (value, CBA recognition, pricing) occurred as a result of CBEF marketing initiatives implemented in Taiwan?

Since the Taiwanese market reopened in 2007 CBEF has been rebuilding its network of partners in the import, distribution and foodservice sectors, resulting in Canadian beef returning to the distribution channels of its partners such as Mayfull, Shuh Sen, Game Meat and Eagle Cold Storage while gaining new customers such as Natural Meat and Chang Chuh. In 2010, the cost of beef has become an issue and many importers switched back to U.S. beef. The Federation continued to maintain a presence in the retail channel and made breakthroughs with the hotels and fine dining restaurants to promote high end cuts. These successes made sure that despite the fact Canadian beef costs more than U.S. beef, partners are willing to work with Canadian beef on various projects and programs to increase brand recognition.

2. What new and innovative initiatives were undertaken in Taiwan in 2010/11?

June 2010, Taiwan office exhibited veal in the Taipei Food Show. The import volume is not significant but Canadian veal is building its recognition in Taiwan in fine restaurants and hotels. Two veal promotions were conducted in fine restaurants. As for beef, the Federation worked with high end restaurants to promote value-added steaks such as rib eye and short ribs. The Federation continued to promote its international consumer website by increasing its awareness in press releases and on all CBEF point-of-sale materials on display in stores and in restaurant.

3. What were CBEF's three most effective/important initiatives in Taiwan?

In June, the Federation combined the **International Taipei Food Show and Directors' Summit to conduct a promotional event with**

Sonoma Steak House. This promotion was successful as more than 20 blog writers and reporters attended the lunch meeting. As a result, more than 30 articles were published on the internet or print media and the event also made the evening news on three channels. This event let local customers understand that the Canadian beef industry truly believes Taiwan is a priority market, and at the same time receiving brand recognition among consumers.

The second initiative would be the **Differentiation Seminar.** In 2010, CBEF Taiwan held the seminar in Taichung in Dong Hi University to attract both the trade and the students to attend the event. The Differentiation Seminar also included a cutting demonstration of the front quarter cut to introduce to the customer to possible product innovations. The seminar also included a cooking demonstration, making it a fruitful event for the 175 people who attended. Third, Taiwan held one **international food show, one consumer food show and one gourmet food show to promote the CBA.** Effort was made to involve packers, local importers and restaurant owners to work as a team to introduce Canada beef and veal to the consumers. Such activity also strengthens the relationship with the local customers. As a result, in 2010, chilled veal was imported to Taiwan to be used in high end restaurants.

4. Briefly outline what impact the current results will have on your 2011/12 strategy or future strategy development in 2012/13?

In 2010 the Taiwan office strategy was successfully increasing the presence of Canadian beef in both the foodservice sector and some retail channels. At present, however, the ractopamine issue remains unresolved and is challenging the import of North American beef to Taiwan. A second challenge remains the gaining of bone-in access to Taiwan for Canadian beef.

Given the current challenging environment, the Taiwan office will continue its focus on positioning Canadian beef in the hotel and restaurant sector and some retail in 2012. This strategy will be reviewed as and when the influencing circumstances and factors change.

At the same time, Canada Beef Inc. will undertake market reviews and adapt its marketing strategy for each marketplace, in line with market changes.

Outcomes and Performance Measures:

Goal 1: Build awareness for a Canadian beef brand

Expected outcomes	Realized outcomes
1. Increased awareness and comprehension of CBA attributes with trade partners and their clients	The Federation promoted the Canadabeef.org website for consumers to gain a greater understanding of CBA attributes. CBEF also provided banners and assisted trade partners with in-store displays and merchandising. In a few programs, CBEF Taiwan provided premiums and logo stickers for retail store, to educate consumers about the Canadian Beef Advantage. Clients have reported that the implementation of the CBA brand strategy and the resulting appearance of the CBA logo on all marketing materials assisted CBEF clients in their business dealings with their clients, increasing awareness and comprehension of the CBA brand and its attributes resulting in increased confidence in Canadian beef.
2. Sectors better understanding the importance of points of differentiation between Canadian and competing product	As CBEF Taiwan office is rebuilding its market share, it has intensified its efforts in promoting the differences between Canadian beef and its competitor's products – resulting in a number of Taiwanese potential clients and consumers opting to select Canadian beef over other suppliers of beef products.
3. Positively affect purchasing decisions in the Taiwan market	CBEF continued to hold loyalty and volume building promotions with partners such as Noble Steakhouse, which has more than 180 outlets in Taiwan, as well as two promotions with Cash City, Taiwan's largest chain of 'shabby shabby' restaurants which has 23 outlets and Taiwan Fresh Supermarket's with 41 stores.
4. CBEF consumer website become useful and productive tool to raise awareness for CBA	The launch of the updated website increased awareness of the CBA brand – regular industry updates and beef recipes available on the site are tailored to the Taiwanese palate.
5. New POS material is received well and becomes useful to raise awareness for CBA	The new international consumer logo appears to be positive with the consumers. The new logo appeared to be trendier and provide a new image for Canada beef.

Performance Measure: Customer awareness and understanding of Canadian Beef Value Proposition
Q: What advancements were achieved regarding awareness and understanding of the CBA brand & attributes? What are the reported increases in awareness in Taiwan?

In the retail sector, the 40 store chain of Taiwan Fresh Supermarkets and the subsequent shelf space acquired to market Canadian beef product has increased awareness of the brand for central Taiwanese consumers. To successfully create additional brand awareness in the foodservice sector, CBEF produces posters and table tent cards which identify Canadian beef brand attributes. Retail and foodservice promotions and show participation increased. With proper flow of beef into Taiwan and budget, these numbers will continue to increase.

Performance Measure: Size of Market Influenced by the value proposition

Q: What Taiwan market segments is CBEF present in? What percent of the total market do these segments represent? What growth has been achieved in these segments?

CBEF is involved in all aspects of the retail, wholesale and HRI/foodservice sectors in Taiwan. As noted above, as CBEF is continuing its efforts to regain market share since Taiwan’s reopening to Canadian beef in 2007, market share remains low yet is slowly increasing. CBEF market share in 2010 was the same as last year’s at 3.5%. Continued success over time is assured yet regaining market share is not a simple process thus every effort and resource available to CBEF staff is being utilized to increase Canadian beef market share. However in 2011, there are other challenges to face to increase the market share of Canada beef in Taiwan; much of the effort needs to have the Canadian beef industry provide more beef to Taiwan at competitive price versus U.S. beef.

Goal 2: Achieve growth in traditional, existing, new and emerging markets

Expected outcomes:	Realized outcomes:
1. Strengthening of the CBEF clients-export member relationship	CBEF Taiwan has shared business leads and market information with clients and export members, further strengthening our relationships. The strengthened relationships have resulted in our clients requesting CBEF joint participation at food shows as these were successful in the past. Shah Sen., Ecolait and Kobe Classic Beef are notable partners of CBEF.
2. Increased loyalty of existing accounts	The Federation held loyalty and volume building promotions with partners such as Noble Family steakhouse, Taiwan’s second largest steakhouse with over 180 outlets as well as two promotions with Cash City, Taiwan’s largest chain of “shabu shabu” restaurants with 23 outlets.
3. Creation of new accounts for Canadian beef	In late 2008, CBEF approached many retail customers but they desired chilled beef to which our members were not ready to supply to Taiwan. CBEF changed its strategy in 2009 to identify customers who were willing to work with Canadian frozen beef products. CBEF Taiwan is working closely with a few recognized meat specialty retail stores and local supermarket store to promote CBA attributes.
4. Increase in Federation activity in the retail sector	Activities at retail level are very expensive; CBEF continued to conduct some beef sampling programs and provided retail stores with CBEF promotional wrappers, stickers and recipes to ensure that Canadian beef was the focus of each retail sector promotion.

Performance Measure: New Markets and Customers created and maintained by funded initiatives

Q: Were the markets/customers established in 2009/10 retained? What value do they bring?

Established clients for Canadian beef were retained. These clients are high-end foodservice and retail outlets; sales of Canadian beef to these clients were valued at close to \$9 million in 2010.

Q: What new markets or market segments were established in 10/11? What value do they bring?

No new markets have been established in 2010-2011. The beef import environment in Taiwan for Canadian beef has been a challenging one in 2010-2011. Taiwan’s total beef import volume has been decreasing, due to the rising cost of import beef, declining world cattle populations, higher feed costs and fluctuating currencies. Canada’s strong currency has impacted imports of Canadian beef, as has the issue of Ractopamine. Taiwan was depending on CODEX to set international standards for Minimum Residue Limits (MRLs) in July; however the committee failed to set this standard and Canadian exports are hesitating to export beef to Taiwan until the issue is resolved.

Performance Measure: Canadian share of target market and market segments

Q: Was Canadian beef market share increased/decreased/maintained within specific target markets and segments? Identify reasons for change or status quo.

During 2010, the Canada beef market share maintained similar levels to 2009. More focus is in Taipei and Kaohsiung hence, loyalty was maintained in these two major sections of Taiwan. CBEF Taiwan is receiving more requests from the importers wanting to purchase Canada beef and expressing their desire to work with CBEF on future promotions.

Goal 3: Maximize value through optimization of carcass value

Expected outcomes	Realized outcomes
1. Increase in sales of cuts identified as priority cuts	As Taiwan is a price sensitive market, the price dictates whether the consumer purchases Canadian beef or U.S. beef when it comes to low to mid end cuts. The same applies to Chuck cuts. As for Rib eye and Strip loin, volume generally remains constant for Canadian products. While the price of Short plate is similar for both Canadian and U.S. beef, in 2010 the cost of boneless short rib increased by 20%, which caused customers to stop purchasing this product.
2. Long-term reduction in pricing spread between Canadian and U.S. product in the Taiwan market	In 2010/11 there is a significant price spread between Canada and U.S. beef, i.e. if the price of Canadian beef is equal to or higher than U.S. beef, resistance continues against the purchase of Canadian beef products. However, as our market share increases resistance will reduce.
3. Increased industry awareness in Taiwan for use of priority cuts	At the beginning of 2010, Canadian boneless Short rib was still higher priced versus U.S. beef and more customers switched to grass fed Short rib, Chuck Short rib or anything less expensive. As more customers tried Canada Short rib and Short plate, they found Canadian beef products were superior in comparison to U.S. beef products. Many hot pot restaurants continue to request Canadian Short plate and Short rib. As Canadian Short plate and Short rib are preferred cuts, the promotion schedule will be reviewed to consider increasing promotions for preferred cuts, in an effort to build brand loyalty, increase awareness of the CBA brand and increase overall sales of Canadian beef into Taiwan.

Level of completion of funded initiatives

The CCMDC budget for Taiwan marketing programs was \$365,601.80 and \$442,571.46 was expended.

South Korea Market

Market Situation and Indicators

The Canadian beef and cattle genetics industry has established a set of marketing targets for sales over the near to medium term. For this Results Report period, the **2010 target** for South Korea was:

Exports (MT)	0
--------------	---

CCMDC Marketing Implementation Plan 2010/11 - Volume in product weight=0

This market has remained closed to all Canadian beef and veal products since May 2003. South Korea is the world's fifth largest beef importer accounting for 5% of global trade. In addition their reliance on trade to fill beef consumptions needs is high at 56%. The Korean economy improved in 2010 with support from its manufacturing sector. In addition the Korean Won has appreciated against the U.S. dollar since second quarter 2009 making imports less expensive. However there has been a general slowdown in domestic demand which reflects the aging population. Korea's birth rate is the lowest in the region and is well below what is needed to maintain a stable population.

Protein supplies in Korea can be broken into seafood products, accounting for 40% of the market, and other meat products that have a growing market share as seafood becomes more expensive. Korea's protein market was significantly impacted by its Foot and Mouth Disease (FMD) outbreak in November 2010, which resulted in 33% of its swine herd being destroyed and 4.5% of its cattle herd. Calf production in 2011 is projected to decline 5%. While short term production is down with limitations on animal movement following FMD, production is expected to pick up in the second half of the year as controls are lifted. The local Hanwoo beef industry remains cautiously optimistic as prices remain relatively strong and are looking to expand in the future. Imported beef has lost its status as the only source of high quality beef, as domestic producers have increased feedlot production to take advantage

of the absence of North American product from 2003-2008. As a result North American beef is having a harder time regaining market share. However consumers are being lured back with lower prices and the suitability of cuts for the domestic market.

Beef consumption was up 3% in 2010 with larger imports and lower prices. Korean consumers prefer grain-fed beef with higher marbling. As such Australia's market share of imports fell in 2010 to 52%, as the Australian dollar strengthened and exporters experienced tight supplies. New Zealand maintained market share at 16%. The U.S. continues to gain ground with 30.5% market share, up from 26% in 2009. U.S. market share is expected to grow to 40% in 2011. Higher retail prices in 2011 are expected to pressure beef consumption 1% lower.

On July 1, 2011, Korea completed a several yearlong process of phasing out the use of antibiotics in commercial compound feed production until a veterinary oversight system can be put in place. In the meantime, these drugs can still be mixed into feed rations on the farm, added to the water, or injected. This will not impact imports of red meat or poultry.

Canada and Korea reached an agreement in late June 2011 whereby Korea is undertaking its domestic process (including public comment period and review/approval by the National Legislature) to commence full UTM beef imports from Canada. In return, Canada

officially informed the WTO to suspend the case. In agreeing to this, Canada informed Korea and the WTO that if Korea does not resume imports by the end of 2011, Canada would be within its rights to resume the WTO

panel. Since June, Korea has completed the public consultation and submitted the proposed regulation to the Legislature in July.

Overview of activities and industry benefits

1. What industry benefits (value, CBA recognition, pricing) occurred as a result of CBEF marketing initiatives implemented in South Korea?

The continuing border closure to Canadian beef in Korea makes it impossible to evaluate the industry benefits in terms of export volume and value. CBEF's activities in Korea were more focused on intelligence activities to support Government of Canada's market access regaining efforts and it has contributed a lot to advancement of this file in Korea. While Canadian products were not available in Korea, CBEF communicated its firm commitment to the Korean clients through available routine and project based activities, which contributed to reaffirming the commitment of the Canadian beef industry to the Korean market. Owing to these activities, Korean clients were also able to maintain more than basic level of perception of Canadian beef quality and advantages.

2. What new and innovative initiatives were undertaken in South Korea in 2010/11?

CBEF Korea conducted one smaller scale market access seminar. While there was an one hour presentation, there were question and answer sessions right after that allowed participants to discuss CBEF's market access recovery and marketing plan in an interactive way. They were also able to communicate their wish and concern regarding the future of Canadian beef to the Federation and the Government of Canada.

3. What were CBEF's three most effective/important initiatives in Korea?

The first effective/important initiative in Korea is to **support market access efforts**. The Korea office has maintained and developed its working relationship with the officials of Korean Ministries, National Assembly, and influencers. Information and intelligence obtained through these activities was communicated to the Government of Canada through the CBEF head office while formulating some suggestions to advance this file. CBEF also was a source of information on the Canadian beef industry and market access status to the Korean Government.

The second effective/important initiative in Korea is **constant communication with the Korean industry clients, Korean government officials, and Korean influencers** such as opinion leaders, academic people, and journalists. CBEF Korea e-mailed news releases whenever new market access issues arose. These news releases were posted on the Korean office's website or placed in the Korean language newsletter as well. This kept the major clients and influencers reminded of Canadian beef, while contributing to media exposure and positively influencing the opinion of Korean people on Canadian beef.

The third effective/important initiative in Korea is that CBEF Korea tried to keep the Korean industry clients of Canadian beef through **delivery of the marketing and technical materials and merchandizing posters** to them. While the focus of activities is on efforts to regain market access, the Korean office has done these communication activities as well to show permanently that Canadian beef is ready to serve the needs of Korean market with differentiated products and service.

4. Briefly outline what impact the current results will have on your 2011/12 strategy or future strategy development in 2012/13?

CBEF continually reviews and adapts its strategy for each marketplace in line with market access situation. Ipsos Survey results confirm that CBEF has been successful in their efforts to keep Korean industry clients loyal to Canadian beef. When Korea grants market access, this loyalty will turn into increase in purchasing Canadian

beef. As the market access negotiation makes progress, there has been growing inquiries from major importers as well as major retailers. Canada Beef Inc. will undertake market reviews and adapt its marketing strategy for each marketplace where necessary and in line with market changes. Canada Beef Inc. will continue to promote the CBA brand and its attributes.

Outcomes and Performance Measures:

Goal 1: Build Awareness for a Canadian Beef Brand

Expected outcomes	Realized outcomes
1. Increased awareness and comprehension of CBA attributes - especially safety - with Korean trade partners and their clients	Eight years of closure of the market could have affected confidence of Korean trade partners in the safeness of Canadian beef. While they tend to regard Australian and New Zealand beef as safer beef mainly because of BSE status of these countries, most of them believe Canadian beef is on par or comparable with U.S. and domestic beef.
2. Sectors better understanding the importance of points of differentiation between Canadian and competing product	Korean industry clients have been able to maintain and grow their positive perception of Canadian beef despite the long border closure. The annual market access seminar and periodical distribution of newsletters and advertisements helped them to be reminded of Canadian beef differentiation points such as grain-fed beef quality and clean and natural image of Canadian beef.
3. Positively affect purchasing decisions in the Korean market	There has been growing inquiries from Korean major retailers as well as major importers, owing to the Korea office's constant effort to keep them reminded of Canadian beef through routine office operation and such projects as Korean-language newsletter and Website. According to Ipsos Reid Survey, 85% of trade respondents showed interest in purchasing Canadian beef.
4. CBEF consumer website becomes useful and productive tool to raise awareness for CBA	Trade people hardly use this website but they tend to use CBEF Korea's trade website. Unless the Korean office is able to place consumer events to encourage Korean consumers into accessing this website, it seems to be difficult to make this consumer website useful and productive. And the Korea office was also advised that the centralized control of the consumer website does not work well and like USMEF and MLA, the consumer website needs to be under local management.
5. New POS material is received well and becomes useful tool to raise awareness for CBA	With translated Canadian Beef and Veal Handbooks and a few product charts, Korean offices were able to win positive reaction about Canadian beef attributes from a variety of Korean importers and end-users. They said CBEF technical materials are the most professional and useful, helping them understand how Canadian beef products are processed and supplied. The Korean office also produced several customer marketing materials such as Canada beef tumblers and umbrellas, which also helped a variety of Canadian beef clients to be reminded of Canadian beef.

Performance Measure: Customer awareness and understanding of Canadian Beef Value Proposition

Q: What advancements were achieved regarding awareness and understanding of the CBA brand & attributes? What are the reported increases in awareness in Korea?

CBEF's activities in Korea were more focused on intelligence activities to support the Government of Canada's market access regaining efforts. While Canadian products were not available in Korea, CBEF Korea communicated its trade advocacy efforts to the Korean clients through available routine and project based activities, which contributed to reassuring the commitment of Canadian beef industry to Korean clients and market. Owing to the presence of the Korea office and its minimum level of promotion activities, Korean clients were also able to maintain positive perception of Canadian beef quality and advantages through the Korea office's promotional activities. According to the 2011 February Ipsos Reid Survey, 85% of Korean clients viewed Canadian beef as much better or somewhat better than Australian beef.

Q: With this market being closed what trade relationships are being focused on?

Major efforts were made by the Korean office to keep major importers such as Hanjung, Zenith, and NH Prime longing for resumption of Canadian beef purchase. The Korean office also tried to maintain relationships with such major retailers such as E-mart, Home Plus, and Lotte Mart for Canadian beef because their potential purchasing intention can significantly influence both importers' and consumers' purchasing intention once the market opens. Through email correspondence of Canadian beef industry updates, market access updates and couriering newsletters and technical and trade marketing materials, their support to the Canadian beef industry was shown vividly through good attendance during the Canada beef seminar conducted in March 2011. CBEF initially expected at most 60 clients to participate in this seminar but based on the market mood had to accommodate 100 participants, which is reflective of Korean client's continuing interest to do business with Canadian beef industry. Their strong support shown even in physical absence of Canadian beef is definitely the outcome of the efforts to strengthen the trade relationship in Korea.

Q: How is the Canadian beef image being kept fresh and front of mind with buyers?

In many cases, Korean clients are concerned that Canadian beef safety issues can affect the consumer perception of Canadian beef but they also recognize the advantage of marketing Canadian beef as a clean and natural image of beef. They also believe Korean general public's positive view on Canada can work positively for Canadian beef suppliers because Korea implements country of origin labeling both in foodservice and retail sectors. Such retailers as Lotte Mart and Home Plus have expressed their interest in marketing and promoting Canadian beef as specialized unique image products in their outlets.

Performance Measure: Size of Market Influenced by the value proposition

Q: What interest is there in Canadian products/seminars with a prolonged closed market?

Through the questionnaire conducted right after the seminar, 94% said they would be interested in receiving information about Canadian beef. Regarding whether they want to be contacted by the CBEF team to discuss increasing Canadian beef awareness or demand building programs for their business, 87% said yes. Their interest in Canadian beef purchases can turn into commercial success once they are able to bring Canadian beef into Korea. As they understand the potential value proposition of Canadian beef, they have not given up inquiring for Canadian beef. The Canadian beef industry will benefit from this trade relationship in the near future.

Goal 2: Achieve growth in traditional, existing, new and emerging markets

Expected outcomes	Realized outcomes
1. Strengthening of the CBEF clients-export member relationship	The Korea office has been able to get in regular contact with about 300 importers, distributors, retailers, and foodservice operators, and a variety of influencers through email and other means.
2. Increased loyalty of existing accounts and creation of new accounts for Canadian beef	It was not easy to increase loyalty of existing accounts but the Korean office was able to maintain their loyalty to Canadian beef, which was evident by the seminars and their routine communication relationship with CBEF Korea office. While trying to maintain the loyalty of existing accounts, the Korean office also made great effort to generate new and younger clients' interest in Canadian beef. They also account for significant portion of the participants in Canada beef seminars and customer data base of the Korean office.

Level of completion of funded initiatives

The CCMDC budget for South Korea marketing programs was \$188,198.82 and \$320,192.87 was expended.

Other Markets including Russia, Middle East, EU and the Philippines

Other Markets (MT)	2002	2006	2009	2010	2011p
Exports to Russia (volume)	9,469	--	6,300	10,038	12,500
Exports to Russia (value)	\$8.74	\$0.00	\$7.34	\$25.23	\$56.00
Russian % of total Exports	1.8%	0.0%	1.7%	2.5%	3.95%
Exports to EU (MT)	67	304	52	192	400
Exports to MENA (MT)	518	241	260	693	1,800

(Volume in product weight)

Canadian beef exports to the Rest of the World (ROW) in 2010 totaled 13,500 tonnes, up 5%. In the first half of 2011 exports to the ROW are down 21% in volume.

Russia is the world's second largest importer of beef accounting for 13.4% of global trade. They are also reliant on imports for 43% of beef consumption. Russia's GDP grew 4% in 2010 after an 8% decline in 2009, as the financial crisis had significant impact on their economy. The Russian Ruble appreciated throughout 2010 to end the year close to pre-crisis levels. Beef production was steady in 2010, despite severe drought reducing feed supplies, while consumption was up slightly.



Russian beef imports were up 3% in 2010 with Brazil being the main supplier at 37% of total imports. Imports from the U.S. were up significantly in 2010 to capture a 4% share of total imports. In 2010 Canadian exports to Russia were up 58% in volume and over double

in value at 10,038 tonnes valued at \$25.2 million. This was a record year for Canadian beef exports to Russia and surpassed the previous high of 9,469 tonnes in 2002. Canadian exports to Russia represented 2.5% of total exports far surpassing markets like Taiwan, South East Asia and the European Union (not to mention Korea).

Russian beef imports in 2011 are projected to be up 3.7%. In the first half of 2011 Canadian beef exports are up 25% in volume and over double in value and are projected to reach 12,500 tonnes valued at \$56 million.

The European Union (EU) is the world's fourth largest importing region accounting for 7% of global trade. EU imports from their major supplier Brazil continue to be disrupted by restrictions, which require shipments to be beef only from EU approved farms that can ID their cattle. Approved farms increased only slightly from 1,700 in 2009 to 2,030 in 2010 indicating a lack of interest by Brazilian producers. Imports from Argentina were down in 2010 following the drought induced liquidation of 2009 and will only have a modest recovery in 2011. Canadian exports to the EU were up from 52 tonnes in 2009 to 192 tonnes in 2010.

In July 2009 the EU opened a 20,000 tonne duty-free quota for high quality beef. U.S. imports have been limited in the first couple of years as producers have been slow setting up adequate supplies conforming to the

specifications of no-hormones treated with a high calorie diet for a minimum of 100 days before slaughter. Australia received access to the quota in January 2010 and Canada received access in November 2010. There is potential in 2011, with increased imports from North America, to fill this quota. In the first half of 2011, Canadian exports to the EU are up significantly at 170 tonnes versus 2010 when 44 tonnes were exported in the same period.

Exports of Canadian beef to the Middle East & North Africa (MENA) were up from 260 tonnes in 2009 to 693 tonnes in 2010. Total beef imports into the Middle East were up 27% in

2010 and have doubled since 2003 as the availability of relatively cheap meat from Brazil and India has increased. Protein demand has come from both an increased population as well as increased disposable income. In addition, there has been a trend away from lamb, mutton and goat towards more beef and poultry. Rising retail beef prices has impacted local consumption. However the tourist industry has demand for high quality beef which cannot be met by domestic production. From January to June Canadian beef exports have already surpassed 1,500 tonnes and are projected to reach 1,800 tonnes in 2011.

Overview of activities and industry benefits

1. What industry benefits (value, CBA recognition, pricing) occurred as a result of the CBEF marketing initiatives in these other markets?

Russia - CBEF activities focused on a number of initiatives including the development and circulation of market development print materials in Russian; VIP Mission of key imports (August 2010); Beef Seminar and Roundtable (Moscow and St. Petersburg, respectively, December 2010); and ProdExpo Food Show (Moscow, February 2011) in partnership with Canada Pork International. Key Russian stakeholders include Snow World, East West, Metro, Miratorg, Fresh Frozen, Marr, Beef and Reef, Grand Foods, Uhrenholt, and Cargill Russia, and National Meat Association and Meat Union of Russia.

European Union - The focus of CBEF in supporting Canadian exporters to access/expand was based upon the SIAL Food Show 2010. Several then-members of CBEF attended the event including Prairie Heritage, Canada Gold, Wagyu Canada and Walcovit.

Gulfood - The focus of CBEF in supporting Canadian exports to expand markets in the

Middle East is the Gulfood Show in Dubai. Several Canadian companies participated in the event including, Wagyu Canada, Ecolait, Centennial Foods, Prairie Halal and Nexus Project.

As these markets are still in their early stages of development, CBEF continued its brand awareness and network building efforts throughout 2010/11. Food show participation and the hosting of incoming missions continues to build interest among our membership in these new markets; CBEF continued laying the groundwork for expanded activity in the near future.

2. What new and innovative initiatives were undertaken in 2010/11 in emerging markets?

As indicated above, as these are early stage and/or developing markets for Canadian beef - strategies were foundational, relationship building and advancing initiatives grounded in the CBA brand and implemented to position and poise Canadian beef effectively in each of these markets. CBEF demonstrated credibility, knowledge and commitment in our efforts to establish, and be ready to meet market interest.

3. What were CBEF's three most effective/important initiatives in emerging markets?

Participation in internationally-recognized food shows continues to be highly effective in showcasing the Canadian Beef Advantage to current and potential clients in emerging markets. These shows are not only attended by the local importers, distributors and end-users, but attract meat industry leaders from across the region and around the world. They provide the opportunity for Canadian exports to exhibit products, develop contacts and make sales.

CBEF continued its collaboration with Canada Pork International (CPI) and held joint beef and pork booths at two important food shows: the SIAL Food Show in Paris and ProdExpo in Moscow.

CBEF also sponsored a booth at Gulfood, UAE; the most important food show of its kind in the region. Five Canadian exporters participated in the show with great success.

4. Briefly outline what impact the current results will have on your 2011/12 strategy or future strategy development in 2012/13?

In 2010/11 CBEF continued to manage and expand relationships and networks in these markets to ensure strategic and nimble responses. In tandem with these market development activities, CBEF will solidify knowledge with potential exporters and other industry stakeholders who will be critical to Canada's effective future activity in these markets.

Outcomes and Performance Measures:

Goal 1: Build Awareness for a Canadian Beef Brand

Expected outcomes	Realized outcomes
1. Increased awareness and comprehension of CBA attributes within Russian, EU, and MENA trade and distribution sectors	The level of activity in any given region was based on the level of interest expressed by the CBEF membership and thus through strategy development. In 2010/11, CBEF continued its direct activity in Russia, the Middle East, the Philippines and the EU to include the hosting of incoming missions, in addition to its prior year participation in each market's largest food shows. CBEF representatives were joined by exporter member representatives when participating at the food shows, distributing materials and core publications promoting the CBA brand and its attributes.
2. Sectors better understand the importance of points of differentiation between Canadian and competing product	Networking side sessions made possible by CBEF representative participation at the food shows provided opportunities for direct one-on-one information sessions to promote Canadian beef and all facets of the Canadian beef advantage. Incoming mission participants were taken from the farm to meat processing facilities, to gain a deeper understanding of the points of differentiation between Canadian beef and competing products.
3. Positively affect purchasing decisions in target market	As Canadian beef has limited or no access in these markets, our efforts to affect buying decisions are currently grounded in our commitment to the CBA brand. We are demonstrating strength and clarity through our defined brand promise and product attributes – helping us to build credibility and client confidence. We believe this will drive decisions to purchase Canadian beef.

Performance Measure: Customer awareness and understanding of Canadian Beef Value Proposition

Q: What advancements were achieved regarding awareness and understanding of the CBA brand & attributes? What are the reported increases in awareness in these markets?

Given that these markets are in the early stages of development and as indicated above, CBEF advancements in these markets were in the nature of expanded awareness and understanding from exposure through trade show participation – and, acutely through hosted inbound missions to Canada. These built and further advanced key relationships that are crucial to successful client relationships.

Performance Measure: Size of Market Influenced by the value proposition

Q: What market segment is CBEF present in these other markets? What percent of the total market do these segments represent? What growth has been achieved in these segments?

Canada’s market share in the ‘other markets’ - while, in many cases very small – is showing growth in some countries.

Goal 2: Achieve growth in traditional, existing, new and emerging markets

Expected outcomes:	Realized outcomes:
1. Develop network of contacts in Russia, EU, and MENA markets	<p>CBEF participation in working groups at the Canada-Russia business summit, working with CERBA – a Canada-Russia business association, attendance at ProdExpo Food Show and working with the Russian National Meat Association (NMA) has resulted in developing a base network of contacts in Russia.</p> <p>With respect to the EU, CBEF collaborated with Canada Pork International with a joint booth at the SIAL Food Show in Paris.</p> <p>CBEF participated at Gulfood in Dubai, UAE where promotions were targeted at retail and foodservice, particularly hotel chain development.</p> <p>The CBEF Partner Program is an integral part of the delivery of market promotions in key as well as new markets, both from a generic market development perspective, as well as from a strategy to promote brands, particularly in partnerships to promote to foodservice.</p>
2. Creation of new accounts for Canadian beef	<p>The CBEF network is in its early stages of development of networks with key decision makers. In Russia, the association with NMA has been particularly effective in opening networks between processors, exporters and importers. These networks resulted in a 58% increase in Canadian beef exports in 2010, increasing to 10,038 tonnes in 2010 from 6,350 tonnes in 2009.</p> <p>In UAE, there has been the establishment of a network in retail with the Lulu chain of supermarkets. Foodservice inroads have been made with hotel chains (Ramada and Crowne Plaza).</p>
3. Increase in sales of Canadian beef into the Russian, EU and MENA markets	<p>Exports of Canadian beef to the Middle East & North Africa (MENA) were up from 260 tonnes in 2009 to 693 tonnes in 2010; Canadian beef exports to Russia in 2010 compared to 2009 were up 58% in volume and over double in value at 10,038 tonnes valued at \$25.2 million; Canadian exports to the EU were up from 52 tonnes in 2009 to 192 tonnes in 2010.</p>

Level of completion of funded initiatives

The CCMDC budget for programs in new and emerging markets was \$160,334.09 and \$334,518.61 was expended.

Alberta – Based Supplementary Marketing Initiative

The Alberta portion of the Canadian Beef and Cattle Market development Fund provides funding to Alberta based companies outside of the three marketing organizations that propose innovative export market initiatives for Canadian beef and cattle genetics.

Between July 1, 2010 and June 30, 2011, five applications under the Alberta International Beef Market Development Fund (AIBMDF) were received and reviewed. Funding was approved for three of the five projects; two applications were not approved. One of the approved projects is a multi-year project which commenced September 2010, with two approved projects commencing July 1, 2011. Funds were claimed under two projects in 2010/11, including a project that was approved in 2009 and extended into 2011. **Funds approved under AIBMDF during July 1, 2010 to June 30, 2011 totalled \$1,124,215 with \$144,418.04 expended.**

Project number	Date application received	Total funds requested	Total funds approved	Funds claimed July/10 – June/11
10.02 – Spring Creek Ranch*	March 12, 2010	\$65,500	\$45,750 2009/10 approval	\$1,931.84
10.04 – Canada Gold Beef Inc	August 26, 2010	\$832,500	\$401,250	\$142,486.20
11.02	June 1, 2011	\$240,000	\$240,000	\$0 Project commences July 1, 2011
11.03	June 1, 2011	\$482,965	\$482,965	\$0 Project commences July 1, 2011

*although approved in 2009, the project was extended into 2010/11

Management Representation Letter

On behalf of the Canadian Cattlemen Market Development Council (CCMDC), the staff of the Canadian Cattlemen's Association (CCA) and the respective recipient organizations, it is my pleasure to submit this report and the accompanying financial statements for the fiscal year ended June 30, 2011. The financial statements of the *Canadian Beef and Cattle Market Development Fund (the "Fund")* have been prepared by management which is responsible for the integrity of the information presented. Financial statements of the three major fund recipients (Beef Information Centre, Canada Beef Export Federation and the Canadian Beef Breeds Council) are available on request from the CCA office.

The Fund has been entrusted to the CCA to administer, and is comprised of Governments of Canada and Alberta investment matched by industry funding for long-term market development for Canada's beef cattle industry. The CCMDC, reporting to the CCA Executive and Board, is the industry-based governance structure to oversee the approval of marketing plans and allocation of funds.

The CCA has acknowledged the responsibility for the fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles and for the design and implementation of internal control to prevent and detect fraud and error. This may require management to make estimates and assumptions that affect amounts reported in the financial statements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

As trustee of the Canadian Beef and Cattle Market Development Fund, CCA signed agreements with the Governments of Canada and Alberta including: Fund operations and management; marketing priorities; eligibility for funding; process for proposals, review and control; conflict of interest guidelines; investment guidelines; and accounting policies and procedures, all of which are detailed in the CCMDC Business Plan.

To the best of my knowledge and ability, the CCA has fully complied with all terms and conditions as stated in the *Canada Funding Agreement for a Grant to the Beef Market Development Legacy Fund*, article IX, (9.01) (e), and the *Alberta Canadian Beef and Cattle Market Development Fund Agreement* (Grant #05-6530-023), section 8.2 (a) and has diligently communicated these terms and conditions to fund recipients and requested their full compliance as a condition of payments from the Fund.



R. G. (Rob) McNabb, P.Ag.
General Manager, Operations
Canadian Cattlemen's Association

Audited Financial Statements

CANADIAN BEEF & CATTLE MARKET DEVELOPMENT FUND **Financial Statements** **Year Ended June 30, 2011**

Index to Financial Statements

CANADIAN BEEF & CATTLE MARKET DEVELOPMENT FUND

Year ended June 30, 2011

page number

1	Management's Responsibility
2	Independent Auditor's Report
3	Statement of Operations and Changes in Net Assets
4	Statement of Financial Position
5	Statement of Cash Flow
6 - 10	Notes to the Financial Statements

October 25, 2011

Management's Responsibility

Calgary, Alberta

To the Board of Directors of Canadian Beef & Cattle Market Development Fund:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board is composed of members who are neither management nor employees of the Canadian Beef & Cattle Market Development Fund. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Fund's external auditors.

Kingston Ross Pasnak LLP, an independent firm of Chartered Accountants, is appointed by the Board to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the board and management to discuss their audit findings.



Robert McNabb

General Manager Operations

2900 Bell Tower

10104 103 Avenue

Edmonton, Alberta

T5J 0H8

Tel: 780.424.3000

Fax: 780.429.4817

www.krpgroup.com

An independent member firm



October 25, 2011

Edmonton, Alberta

Independent Auditor's Report

To the members of Canadian Beef & Cattle Market Development Fund:

We have audited the accompanying statements of Canadian Beef & Cattle Market Development Fund, which comprise the statement of financial position as at June 30, 2011, and the statements of operations, changes in net assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Beef & Cattle Market Development Fund as at June 30, 2011 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP

Chartered Accountants

Statement of Operations and Changes in Net Assets

CANADIAN BEEF & CATTLE MARKET DEVELOPMENT FUND

Year ended June 30, 2011

	2011	2010
REVENUE		
Legacy Fund Federal	\$ 8,543,180	\$ 10,035,698
Legacy Fund Provincial	3,955,880	4,071,114
	<hr/> 12,499,060	<hr/> 14,106,812
EXPENDITURES		
International	6,122,963	5,387,877
Commercial beef	2,190,743	3,250,508
Live and genetics	1,839,388	2,147,944
US	1,668,015	2,397,298
Administration	532,295	662,955
Alberta Other	144,418	-
Consulting Fees	1,238	260,230
	<hr/> 12,499,060	<hr/> 14,106,812
Excess of revenue over expenditures	<hr/> \$ -	<hr/> \$ -

Statement of Financial Position

CANADIAN BEEF & CATTLE MARKET DEVELOPMENT FUND

June 30, 2011

ASSETS

	2011	2010
CURRENT ASSETS		
Cash (Note 3)	\$ 6,876,970	\$ 7,538,959
Accounts receivable	1,200,978	187,416
	<hr/> 8,077,948	<hr/> 7,726,375
CASH (Note 3)	13,978,509	17,749,504
	<hr/> \$ 22,056,457	<hr/> \$ 25,475,879

LIABILITIES

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 3,396,115	\$ 2,936,620
Deferred revenue (Note 4)	4,681,833	4,789,755
	<hr/> 8,077,948	<hr/> 7,726,375
DEFERRED REVENUE (Note 4)	13,978,509	17,749,504
	<hr/> \$ 22,056,457	<hr/> \$ 25,475,879

APPROVED BY THE BOARD

_____ Director

_____ Director

Statement of Cash Flow

CANADIAN BEEF & CATTLE MARKET DEVELOPMENT FUND

Year ended June 30, 2011

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenditures	\$ -	\$ -
Changes in non-cash working capital balances		
Accounts receivable	(1,013,562)	(164,728)
Prepaid funding	-	180,000
Accounts payable and accrued liabilities	459,495	(392,786)
Deferred revenue	(3,878,917)	(4,046,293)
	<u>(4,432,984)</u>	<u>(4,423,807)</u>
NET DECREASE IN CASH	(4,432,984)	(4,423,807)
CASH, BEGINNING OF YEAR	25,288,463	29,712,270
CASH, END OF YEAR	<u>\$ 20,855,479</u>	<u>\$ 25,288,463</u>
CASH IS COMPRISED OF:		
Current (earning interest at 1.00%, with no fixed maturity)	\$ 6,876,970	\$ 7,538,959
Non-current (earning interest at 1.00%, with no fixed maturity)	13,978,509	17,749,504
	<u>\$ 20,855,479</u>	<u>\$ 25,288,463</u>

CANADIAN BEEF & CATTLE MARKET DEVELOPMENT FUND

Year ended June 30, 2011

Note 1

Description of Business

Canadian Cattlemen's Association (the "Association" or "CCA") was incorporated in March 1932. Under the Income Tax Act (Canada), the Association is classified as a not-for-profit organization and, accordingly, is not subject to income taxes. The Association's mandate is to represent the interests of Canadian Beef Producers for the enhancement of the beef industry. The Association undertakes its activities through a number of divisions.

The Canadian Beef & Cattle Market Development Fund (the "Fund"), which operates within CCA, exists to support worthy market development and trade cattle genetics, and beef and beef products over the longer term.

Note 2

Significant Accounting
Policies

Significant accounting policies observed in the preparation of the financial statements are summarized below. These policies are in accordance with Canadian generally accepted accounting principles.

Revenue Recognition

The Fund follows the deferral method of accounting for contributions. Restricted contributions that meet the definition of a liability are recognized as revenue in the year in which the related expenses are incurred. Contributions not expended in the current year that meet the definition of a liability are recognized as deferred revenue. Deferred revenue is classified as either a current or long-term liability depending upon the period in which the funds are expected to be spent. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Interest income is recognized as an increase to the deferred revenue balance in the period in which it is earned.

Statement of Cash Flow

The Fund is using the indirect method in its presentation of the Statement of Cash Flow.

CANADIAN BEEF & CATTLE MARKET DEVELOPMENT FUND

Year ended June 30, 2011

Note 2

Significant Accounting
Policies Continued...

Measurement Uncertainty

The financial statements of the Fund have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Financial Instruments

Financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the Statement of Financial Position at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in excess of revenues over expenses. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in the statement of changes in net assets until the instrument is derecognized or impaired.

The Fund has made the following classifications:

- Cash is classified as held-for-trading and is measured at fair value.
- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities are classified as other liabilities and are measured at amortized cost using the effective interest method.

The Fund has chosen to continue to apply Section 3861, Financial Instruments – Disclosure and Presentation, instead of adopting Section 3862, Financial Instruments – Disclosure and Section 3863, Financial Instruments, Presentation.

CANADIAN BEEF & CATTLE MARKET DEVELOPMENT FUND

Year ended June 30, 2011

Note 2

Significant Accounting
Policies Continued...

Financial Statement Concepts

The Canadian Institute of Chartered Accountants has announced amendments to Handbook Section 1000 "Financial Statement Concepts" and the definition of an asset. The amendments disallow the recognition of assets and liabilities solely based on the principle of matching revenues and expenses. The Fund follows CICA Handbook Section 1000 "Financial Statement Concepts".

Note 3

Cash

Cash consists of bank balances and deposits with maturities of three months or less. Cash is recorded at market value, and is currently earning interest at 1.00%, with no fixed maturity. Cash not expected to be expended in the next year is classified as long-term.

Note 4

Deferred Revenue

The Fund was formed during the 2006 fiscal year end as a result of two separate agreements between the Canadian Cattlemen's Association ("CCA") and the Government of Canada (Legacy Fund), and the Government of Alberta (Alberta International Beef Market Development Fund ("AIBMDF")).

The Government of Canada has agreed to provide up to \$50,000,000 to the Association to administer and disburse for the Legacy Fund. The maximum amount of the grant to be received each year by the CCA is \$10,000,000, the interest on the grant is recognized as an increase to the Fund, and the maximum support for the CCA from this grant for eligible administrative costs is \$2,500,000. The grant can be used from April 1, 2006 to March 15, 2015 and any unused amounts may require repayment to the government. The Association is required to obtain additional non-government contributions to support the purpose of this fund equal to 25% of the grant draw down over the term of the grant, which will come from the Canadian Beef and Cattle Research, Market Development and Promotional Agency ("National Check-Off" or "NCO") contributions. As at June 30, 2011 advances of \$37,446,629 (2010 - \$29,011,371) have been received. The CCA has spent \$37,264,796 (2010 - \$28,721,616) on qualifying expenditures resulting in a deferred balance of \$181,833 (2010 - \$289,755).