February **2013**

ANNUAL GENERAL MEETINGS

OF PRODUCER GROUPS COVERED BY THE JOINT PLAN OF QUEBEC BEEF PRODUCERS

Fédération des producteurs de bovins du Québec

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THE **FEDERATION'S VISION** AND **VISION**

To ensure that Quebec cattle producers earn the highest net income possible and enjoy a decent standard of living, the *Fédération des producteurs de bovins du Québec* has adopted the following mission:

- to support the development and growth of farms, of production, and of Quebec's entire cattle industry, with a view to offering our ultimate customer consumers a quality product that meets their requirements;
- to manage collective marketing mechanisms efficiently, taking each production sector's specific rate of development into account;
- to support unifying concerns expressed by the production sectors, as well as solutions beneficial to all producers.

GENERAL CONTEXT

SECTION 1

1. MARKET ENVIRONMENT

1.1 Situation in the United States

The cattle herd has been declining for several years and a significant increase is unlikely before 2015.

The reduction in production has resulted in rising cattle prices since 2011.

However, repeated droughts and the U.S. ethanol policy have driven the price of feed up sharply in three of the past five years.

The profitability of cattle operations is undermined.

Market prices are expected to continue to rise in the next few years.

Given that the slaughterhouses are currently operating with negative margins, consumers will have to be willing to absorb a new increase in beef prices to allow for an increase in farmgate prices.

The U.S. and world economies remain very weak.

Figure 1: Price outlook in the United States

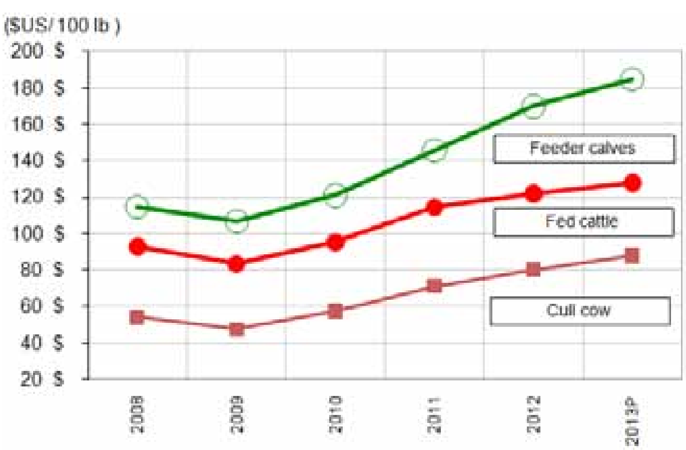


Figure 2: Evolution of the prices of the cattle in the United States

Variation of the prices with regard to (compared with) the previous year			
	2011/2010	**2012/2011**	**2013/2012** (forecasts)
Feeder calves	+ 21%	+ 16%	+ 9%
Fed cattle	+ 20%	+ 7%	+ 5%
Cull cattle	+ 23%	+ 13%	+ 9%
Wholesale price	+ 15%	+ 5%	+ 4%
Retail price	+ 10%	+ 6%	+ 3 %
Grain-corn	+ 60%	+ 2%	- 12%

1.2 Situation in Canada

Prices in Canada are following the upward trend in the U.S.

Canada depends heavily on U.S.-owned slaughterhouses.

The profitability of cattle operations is fragile.

1.3 Situation in Quebec

Closure of Levinoff-Colbex (May 28, 2012).

More cows being slaughtered in the U.S. Exports from Eastern Canada to the U. S. rose from 20% to 59% at year's end.

85% of Quebec cows are slaughtered outside of Quebec (Ontario and U.S.A.).

79% of Quebec fed cattle are slaughtered outside of Quebec (Ontario and U.S.A.).

Decline in cattle volumes since 2008.

Price rising in all production sectors.

Profitability is fragile because of feed price increases (grain, oilseed and by-products).

Figure 3: Prices evolution of Quebec's cattle

Prices in Quebec	2012	Change	
		2011	2008
Male feeder calves, 600 lb ($/100 lb live)	$158	7 %	46 %
Fed cattle ($/100 lb carcass)	$197	8 %	32 %
Milk-fed calves ($/100 lb carcass)	$347	25 %	15 %
Grain-fed calves ($/100 lb carcass)	$196	- 3 %	19 %
Cull cows ($/100 lb live)	$61	13 %	51 %
Male bob calves ($/100 lb live)	$142	21 %	21 %
Female bob calves ($/100 lb live)	$135	5 %	- 61 %
Exchange rate ($CA/$US)	1.00	- 1 %	6 %
Grain-corn, regional centres ($/tonne)	$297	1 %	28 %

Figure 4: Volume evolution of Quebec's cattle

Volume	2012	Change	
		2011	2008
Feeder calves	148,000	- 4 %	- 23 %
Fed cattle	134,000	- 13 %	- 38 %
Milk-fed calves	146,000	1 %	- 9 %
Grain-fed calves	75,600	- 2 %	- 15 %
Cull cattle	89,000	- 2 %	12 %
Bob calves	137,700	3 %	- 12 %
TOTAL	730,300	- 4 %	- 18 %

Points to keep in mind:

- 2012 was more difficult than expected because price increases were lower than anticipated;
- Prices should continue to rise for a few more years;
- Conditions for producers should improve gradually, beginning in the cow-calf sector;
- Factors to monitor are the strength of the economic recovery, which is necessary in order for consumers to absorb an increase in retail prices, and producers' ability to control their production costs;
- The risk of slaughterhouse closings is growing, particularly in the United States;
- In the current market environment, it will take several years to rebuild the cattle herd.

ACTIVITIES IN 2012

SECTION 2

1. INCOME SECURITY

1.1 Gains in Quebec following pressure exerted by the Federation

Removal of the 25% measure for 2012 and permanent removal for 2013;

Estimated impact for 2012	25% Measure	Net impact on contribution (2/3)
Feeder calves ($/calf)	$154	$103
Fed cattle ($/head fed cattle)	$13	$9
Milk-fed veal ($/calf)	$3	$2
Grain-fed veal ($/calf)	$16	$11

Reduction of the 2012 farm income stabilization insurance (ASRA) premium for fed cattle following adjustment of the historic loss level to reflect the new cost of production calculated in the 2010 model. Impact about $0.11/kg ($35/head fed cattle);

Beginning in 2012, the sales price of associated crops grown for market, and not used on the farm, has been capped so that revenue from sales does not exceed the cost of production;

1.2 Losses resulting from federal cutbacks

Cutbacks outlined in the federal government's new agricultural policy framework effective 2013:

- AgriInvest: decrease in the government's contribution rate (from 1.5% to 1% of allowable net sales);
- AgriStability: coverage of reference margins reduced from 85% to 70%. Slight increase in coverage for negative margins which rises from 60% to 70%. Introduction of a cap on reference margins so as not to exceed the level of allowable expenses.

1.3 Files in progress (demands by the Federation)

- Inclusion of research and promotion levies in cost of production models;
- Removal of the ASRA premium adjustment for operations exceeding three times the size of the farm models;
- For crops used on the farm, consideration of the opportunity cost, that is, their market price, rather than their cost of production. For 2012, the gap between the cost of production and the market price of grains is estimated at $100/T. This measure would enable the ASRA program to adequately cover animal productions for every type of producer, whether they buy or grow their grain, regardless of the grain price environment;
- Annual updating and indexing of the last ASRA fed cattle model to reflect the actual availability of by-products and downgraded grains (or containing toxins);
- Insurable volume based on an annual average market weight, instead of capping the individual weight of feeder calves for marketing at 750 lb;
- Preparation for the next grain-fed and milk-fed veal cost of production surveys scheduled for 2014 (based on 2013 financial results).

These demands seek to ensure that cattle producers receive fair coverage under the ASRA program.

2. FARM BUSINESS DEVELOPMENT SUPPORT PROGRAM

2.1 MAPAQ Adaptation Strategy

The Federation participated in various meetings with the *ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec* (MAPAQ) to make the programs accessible to as many cattle producers as possible. At the end of 2012, out of a total of nearly 2000 applications, one-third was cattle operations. The Federation is concerned about the very low participation by small cow-calf farms. Considering that these producers are often difficult to reach (working at jobs off the farm), the Federation asked the MAPAQ to streamline its procedures to increase this clientele's interest.

2.2 Payments Program (APP)

For 2012, over 250 cattle farms took advantage of the program. The advance payments totaled $23.7 million ($93,000 per farm on average), including $14.2 million interest free. The total interest saving is estimated at nearly $800,000 for the cattle sector as a whole.

2.3 Financing Cooperatives

The Federation made several representations to *La Financière agricole du Québec* (FADQ) in 2012 to work out a new intervention framework that better meets the needs of cooperative members. Some aspects are still unresolved, however, especially regarding ASRA conditions, and will be discussed in 2013.

3. ENVIRONMENT

3.1 Wintering Pens

Updating the strategy for smarter regulation[1].

Follow-up of the new concepts validation project and development of a design guide by *the Institut de recherche et de développement en agroenvironnement*, in collaboration with various researchers from Agriculture and Agri-Food Canada.

Training for producers entitled *Gérer avec succès un enclos d'hivernage: mon rôle en tant que producteur agricole* (Managing wintering pens successfully: my role as an agricultural producer).

Meeting with partners to present the objectives of producers and the work done since 2008 in the area of wintering pens, in order to obtain the necessary support for adjustments to the regulations.

3.2 Manure Characterization

The Agricultural Operations Regulation (AOR) stipulates that the farmer must have the livestock waste produced on his raising site characterized. If he decides to be exempt from this obligation, he must use the data in Schedule 6 of the AOR, which corresponds to the data of the *Centre de référence en agriculture et agroalimentaire du Québec* (CRAAQ) plus 20%.

1 A regulation is considered smart for its efficiency or capacity to achieve the expected objectives, its minimization of costs and its efficiency, i.e. achievement of the objectives at the lowest possible cost, its flexibility, its ease of implementation, its transparency, its fairness and its coherence.

In 2013, several beef cattle producers will be subject to the obligation to characterize the manure produced by their animals (solid manure and annual phosphorus production of more than 3200 kg), while raising sites with solid manure and annual production of more than 1600 kg of phosphorus will have to perform this characterization effective from January 1, 2014. Raising sites under liquid manure management are already subject to the Regulation for this aspect.

The project entitled "*Caractérisation des fumiers de bovins de boucherie: prendre la décision de caractériser ou non*" (Characterization of beef cattle manure: making the decision whether or not to characterize) will end in April 2013 and will provide producers with answers on what to consider before deciding on whether or not to characterize the manure from their operations.

3.3 Draft Regulation respecting water withdrawals and water protection

In December 2011, the Government published a draft Regulation respecting water withdrawals and water protection, containing requirements that have an impact on Quebec farms.

In February 2012, the Federation submitted a brief setting out the concerns of cattle producers' regarding certain provisions of this Regulation and suggesting adjustments to make it easier to understand, and ultimately easier to implement. At the time this report was written, the Regulation had still not been published.

4. ANIMAL HEALTH AND WELFARE

4.1 Quebec Animal Health and Welfare Strategy

The Federation is a partner in the Quebec Animal Health and Welfare Strategy. It has participated in various working sessions for the development of recommendations related to the Strategy.

Achievements by the Strategy`s partners in the past year:

- Amendments to the Regulation respecting the animal species or categories designated under Division IV.1.1 of the Animal Health Protection Act, which specify that the owners or custodians of farm animals henceforth are subject to the provisions of that Act and that the MAPAQ may intervene if the safety or welfare of an animal is jeopardized;

- Amendments to the Act, which now states that the safety or welfare of an animal is jeopardized where the animal does not have access to drinking water or food in quantities and of quality in keeping with its biological requirements, is not kept in premises that are suitable and salubrious, and does not receive the health care required by its condition when it is wounded, sick or suffering. An animal must also be transported properly and must never be subjected to abuse or ill-treatment that may affect its health. The amendments make it possible to define these concepts better and increase the amount of fines for infractions.

4.2 Best practices code for beef cattle

The Code is currently being revised. The publication of the new Code is scheduled for 2013. During the summer of 2012, two online surveys helped gather information on knowledge of the Code and the usual practices for managing these animals, such as identification (branding), dehorning and castration.

4.3 Biosecurity

The Canadian Beef Cattle On-Farm Biosecurity Standard was published in fall 2012. The Federation was a member of the committee that developed this standard.

Educational tools were developed in Quebec to control the movement of people, vehicles, equipment, tools, wild animals, dead animals, vermin and manure in cattle operations. For the other aspects, namely management of animal movements, management of animal health, and education, training and record-keeping, educational tools will be developed in other Canadian provinces.

5. RESEARCH

Six new research projects financed by the Federation's Research Fund were initiated in 2012, making a total of 15 projects started, underway or completed, for a total cost of $1,215,927. Producers invested $721,834 of this amount. Thus, for each dollar invested by producers, it is possible to obtain an additional $0,70.

5.1 Preliminary study for the creation of a network of expertise in the grain-fed veal sector

This project helped to define a pilot project aimed at establishing a network of expertise in the grain-fed veal sector to meet the sector's needs for management services and technical services.

A new request was submitted to MAPAQ for the establishment of the project.

5.2 Reduction of the cost of feeding grain-fed calves in the growth and finishing period by the use of Quebec by-products

This project sought to find alternative solutions to the current feeding method in order to reduce costs. At the same time, the project sought to add value to the use of by-products found in Quebec.

Conclusion of the project: it would be possible to feed grain-fed calves with grain-corn alternatives that are less costly, without affecting the animals' growth performance.

5.3 Evaluation and improvement in the agri-environmental stewardship of wintering pens and vegetative strips

This project, conducted between 2009 and 2011, sought to evaluate the best on-farm practices for the management of wintering pens to limit the risks of contaminated water reaching the surface water.

Recommendations arising from the project: the hydraulic isolation concept, the layout of the pen, the calculation of the runoff width and the number of runoff sides should be among the factors to consider in pen design. Concerning the management of vegetative strips, it was concluded that vegetative strips must not be use by animals to graze. One practice to be recommended in designing wintering pens is to use the "runoff to surface water" risk assessment grid.

A training project for producers will be based on the results of this project.

Project	Amount financed by the industry	Amount financed by governmental programs	Other sources	Total
Preliminary study for the creation of a network of expertise in the grain-fed veal sector	$0	$24,272 (1)	$10,750	$35,022
Reduction of the cost of feeding grain-fed calves in the growth and finishing period by the use of Quebec by-products	$24,554 (2)	$122,082 (1)	$27,289	$173,925 (2)
Evaluation and improvement in the agri-environmental stewardship of wintering pens and vegetative strips	$7,843	$81,400 (3)	$73,852	$163,095

1. Program to support sectoral development strategies Component 1 – Support to sectoral development
2. Maybe revised
3. Défi-Solution program from Conseil pour le développement de l'agriculture du Québec

6. GUARANTEED PAYMENT FUND

6.1 Activities

The Guaranteed Payment Fund is a sort of self-insurance in the event of payment default by a buyer. This Fund is in addition to the security that every buyer must deposit in order to buy cattle in Quebec (fed cattle, grain-fed veal calves, feeder calves, cull cattle and bob calves).

The Guaranteed Payment Fund is replenished by contributions from cattle producers. The current rate is 0.1% of the amount of each sale.

Here is a summary of the highlights of each of the four sectors:

Fed cattle

April 2012: the RMAAQ authorized the withdrawal of $3 million to compensate the fed cattle marketing agency which recorded a bad debt in the Abattoirs Zenon Billette inc. file in 2007. This withdrawal made it possible for all producers to be paid.

May 2012: the RMAAQ authorized an amount of $833,043 to be transferred from the Quebec Fed Cattle Marketing Development Fund (FDMMBQ) to the Guaranteed Payment Fund. The FDMMBQ was created following the acquisition of Abattoirs Zenon Billette inc.

The producers' contribution was suspended on October 1, 2011.

Grain-fed veal

June 2012: the RMAAQ authorized the withdrawal of an amount of $120,947. The receiving order issued against Levinoff-Colbex s.e.c. in May caused a default of payment toward the grain-fed veal marketing agency. This withdrawal allowed all producers to be paid.

The producers' contribution was suspended on January 1, 2010.

Feeder calves

The producers' contribution of 0.1% of the amount of each sale is still in effect.

Cull cattle and bob calves

June 2012: the RMAAQ authorized the withdrawal of $1,102,486. The receiving order issued against Levinoff-Colbex s.e.c. in May caused a default of payment toward Quebec auctions. This withdrawal allowed all producers to be paid.

The producers' contribution was suspended in 1996. It will be reinstated on January 1, 2013.

6.2 Balance of Guaranteed Payment Fund, by production sector

Sector	2012 (1)
Cull cattle and bob calves	$357,787
Grain-fed veal	$720,872
Fed cattle	$1,479,879
Feeder calves	$1,139,306
Surplus related to the fair value of investments	$239,031
TOTAL	**$3,936,875**

1. Preliminary data at December 31, 2012.

7. UPA OF THE FUTURE: IMPACTS ON OUR SYNDICATES

7.1 Implementation

The implementation of the "UPA of the Future" project is challenging for our 14 regional syndicates in two areas, i.e., harmonization of each syndicate's territory with the territory of its regional federation, and designation of cattle production representatives for the boards of directors of the new local syndicates.

Territorial harmonization generally requires an amendment of the syndicate's General By-laws by producers gathered at a Regional General Meeting (RGM). The cattle producers' representatives are designated directly by the board of directors of the regional syndicate. This still has to be done by 9 of the 14 cattle producers' syndicates.

Since the implementation of the second and third segments of the UPA of the Future project will result in a change of regional affiliation for many producers, a common date has been established for everyone. The territorial changes for the cattle producers' syndicates will all take effect on January 20, 2014.

In February and March 2014, producers will meet on the basis of their new regional territory and will officially adopt the new General By-laws of their syndicate.

7.2 The infraregional division of Chaudière-Appalaches and Montérégie

These two regions alone account for over one-third of Quebec cattle farms. To facilitate and improve the efficiency of union work, the Federation suggests that two cattle producers' syndicates be maintained in each of these regions. The Federation is working with the Fédération des producteurs de lait du Québec (FPLQ) to draw a common boundary line for both organizations.

8. PUBLIC AFFAIRS,EXTERNAL RELATIONS, INFORMATION AND COMMUNICATIONS

8.1 Communication with producers

A communications agency assessed the tools for communication with producers. This evaluation and the follow-up of the recommendations are among the priorities identified by the Federation's Communications and Union Life Committee.

The agency proposed orientations to improve communication with producers. These orientations extend over several years. Some will be applied starting in 2013.

8.2 Assessment of union life

The mandate of the Federation's Communications and Union Life Committee was broadened in November 2011 to integrate the union life component. The Federation now wishes to adopt a union life strategy.

The UPA's Communications and Union Life Department is assisting the Committee, which will propose strategic orientations and action priorities to the Board of Directors, based on the Federation's areas of concern. The actions are based on an evaluation of union life, which was completed in consultation with the FPBQ's directors and staff.

8.3 Open House on Quebec Farms

On September 9, 2012, to celebrate the 10th anniversary of Open House on Quebec Farms, the UPA organized a major festival at Montreal's Parc Jean-Drapeau.

The Federation was present with an information booth calf and cattle pens. About 34,000 visitors showed up to learn more about cattle production and chat with producers.

Communication materials were also provided to the 20 dairy and 12 cattle farms that hosted the UPA's Open House on Quebec Farms event in the regions. Many contests were organized and enabled the public to learn more about our production sector.

8.4 Media relations

In 2012, several issues in the news mobilized the Communications Department (Levinoff-Colbex, Association de défense des producteurs de bovins, etc.). These front-page stories required a lot of work monitoring news stories, writing press releases and following up with the media.

LEVINOFF-COLBEX

SECTION 3

1. LEVINOFF-COLBEX S.E.C.

1.1 2012 chronology

February 2012: Olymel withdrew from negotiations aimed at implementing a plan to restructure the enterprise.

March 2012: the UPA, the FPLQ and the FPBQ proposed creating a cooperative as a promising solution. This cooperative was to play the role of the new financial partner and be involved in the management of the slaughter plant.

April 2012: a Special General Meeting of the FPBQ and the Annual Meeting of the FPLQ endorsed this cooperative project. A consultation tour of cattle producers was planned for June 2012.

April and May 2012: it was observed that cull cattle prices were overheating in Ontario. Consequence: more and more Quebec cows were heading to Ontario. Result: Levinoff-Colbex had to pay more for its cattle supply.

May 28, 2012: the Board of Directors of Levinoff-Colbex decided to suspend operations. The directors resign.

August 2012: all cattle producers received an information document entitled *Levinoff-Colbex–State of the situation and details.*

October 2012: the receiver indicated having received four offers to purchase Levinoff-Colbex's assets. No offer was accepted.

November 2012: after the cessation of operations, the FPBQ prepared a post-mortem report. Meetings were organized with the regional Boards of Directors of the UPA, the FPLQ and the FPBQ. A post-mortem document was mailed to all Quebec cattle producers.

1.2 Contient of post-mortem report

The post-mortem describes the highlights of the case, from the beginning of the mad cow crisis in 2003 until the enterprise closed its doors on May 28, 2012.

It explains why and how the FPBQ became the owner of Levinoff-Colbex, including all the mandates the Federation received from producers. The document also gives the details of the agreement in principle signed in December 2004.

The seven main reasons why the slaughter plant went out of business are also explained:

- an excessive debt load and a lack of liquidity;
- regulations unfavourable to Levinoff-Colbex;
- a shaky world economy;
- quasi-permanent closing of the borders;
- supply volumes below the breakeven point;
- a high price for cull cattle due to slaughter overcapacity;
- inability to implement a restructuring plan.

Clearly, the reasons that led to Levinoff-Colbex's closing still prevail today. In the circumstance, the reopening of Levinoff-Colbex in the short-term is difficult to imagine. The current price of cull cattle and the liquidity requirements to restart the slaughter plant appear to be the two main stumbling blocks.

2. CULL CATTLE MARKETING DEVELOPMENT FUND

Under the *Règlement sur les contributions des producteurs de bovins*, all cull cattle producers are bound by a $32 million loan contracted by the FPBQ in 2008 to recapitalize Levinoff-Colbex. All dairy cull cattle producers are required to pay the annual invoice sent to them by the FPBQ. For cull cow-calf producers, the amount is deducted by FADQ.

The levies collected are deposited into the Cull Cattle Marketing Development Fund and are allocated to repayment of the loan (plus costs and interest). No amount is used to pay debts contracted by Levinoff-Colbex S.E.C.

Cull cattle producers will receive an annual bill until the loan is repaid in full, which should happen at the end of 2014.

For 2008 to 2011, the collection rates ranged between 93% and 98.5%. This means that the vast majority of dairy producers are paying their bill, thus avoiding undue inflation of high collection costs. For 2012, this collection rate is currently higher than 80%.

What's left to collect?
As of January 1st, 2013, we have $16,7 M left to repay. According to the current timetable, we should have repaid the loan by 2014.
This deadline may however vary depending on herd, legal costs associated with levy collection or other charges.

Financial commitments	
$19.5 M	Loan owed to IQ • The FPBQ wishes acquittance • No decision by the creditor to date
$2.5 M	Suretyship (Levinoff-Colbex line of credit) • The FPBQ wishes acquittance • No decision by the creditor to date
$32 M	Loan (plus costs and interest) • Paid by the FDMMBR
± $1.3 M (net)	Levinoff-Colbex bad debt to the FPBQ (interest on IQ loan) • Assumed by the FDMMBR

Acquisition cost
Acquisition cost = $62.5 M
Producers' initial investment in 2006 ($20/cull cattle levy) = $6 M
Producers' investment in 2008 ($53.86/cull cattle special levy) = $30 M (+ interest and collection costs)

ORGANIZATIONAL CHANGES IN 2012

SECTION 4

In 2012, the Federation conducted an exercise to rationalize its expenses. This rationalization became essential in a context where Quebec cattle production suffered a sharp reduction in both the number of farms, especially in the feeder calf sector, and in herd size. This situation has, in turn, caused a reduction in the Federation's revenues.

The Federation therefore reviewed its internal organizational structure. Two management positions were abolished (a reduction from six to four), as well as two unionized positions. In addition, four unionized positions were not replaced following retirement, resignation, position not filled, etc. The anticipated savings from these significant organizational changes will allow the Federation to achieve a balanced budget.

It is important to add that this rationalization exercise will have only a modest impact on the quality of the services offered to cattle producers. However, the staff reduction requires us to review certain processes. Accordingly, responses to requests and the services we offer will be prioritized based on their nature and character.

In 2013, the Federation will continue its reflection with the aim of improving its financial health. The Board of Directors and the Executive Committee have already decided to reduce their number of meetings. Other budget items will be analyzed in the coming months.

MARKETING ACTIVITIES IN 2012

SECTION 5

AGENDA

1. MARKETING ACTIVITIES IN 2012

1.1 Market situation and highlights

1.2 Main findings and issues

2. MARKETING COMMITTEE ACTIVITIES

2.1 Strategic planning

2.2 Income security

2.3 The sector's orientation for 2013

3. ELECTION OF A COMMITTEE REPRESENTATIVE AND AN ALTERNATE

3.1 Eligibility criteria:

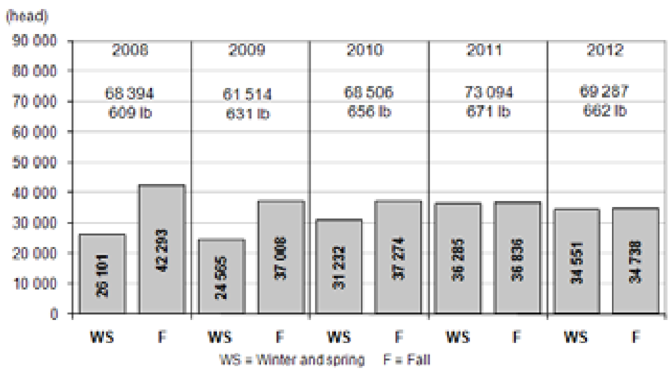
- reside or conduct business in the territory covered by the Joint Plan;
- be registered under the feeder calf category of the Joint Plan;
- own a herd of at least 30 beef cows or have fattened and marketed at least 30 feeder calves during the previous calendar year;
- be a producer at the time of nomination;
- in the case of a legal person or a partnership, the mandated physical person must also:
  - be active in the cattle business other than as an investor;
  - hold at least 20% of the operation's issued share-capital or stock;
  - sit on its board of directors, if any, and hold the right to vote;
- respect the Board's by-law, in particular by paying contributions in compliance with the Code of Conduct for members of the board of directors and marketing committees.

4. OTHER BUSINESS (IF ANY)

1. MARKETING ACTIVITIES IN 2012

1.1 Market situation and highlights

Figure 1: Number of feeder calves sold at special auctions in Quebec (seasonal volumes, annual volumes and average weight)



In 2012, the number of calves sold at special auctions dropped by 5.2% compared with last year, but nonetheless remains slightly higher than the average for the past five years. Considering the sharp reduction in the number of cows in the past few years, sales at special auctions represent an increasingly high share of total production.

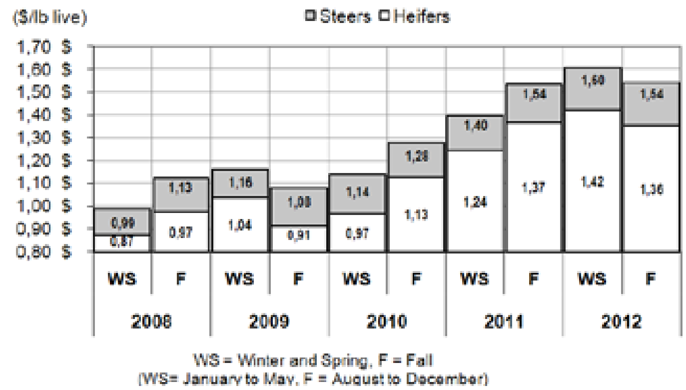
The average market weight fell slightly in 2012, but remains well above what it was in 2008. Since the decision was made to base part of ASRA compensation on market weight of calves, the average weight has risen by about 50 lb/head.

Supervised sales represented a total of 3,076 calves in 2012 (in Saguenay-Lac-Saint-Jean and Abitibi-Témiscamingue), down 691 calves from 2011. This decline is mainly due to a decrease in feedlot activities.

Réseau Encans Québec (REQ), with the collaboration of the Feeder Calf Marketing Agency, is involved in a cattle fattening project. In 2012, 5,396 feeder calves were purchased by REQ under this project and fattened under contract by fed cattle producers.

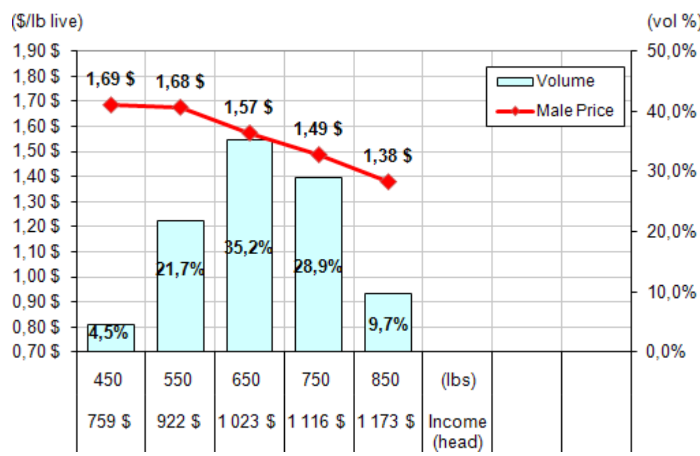
The involvement of REQ and the Agency in fattening makes it possible to stabilize the feeder calf market when necessary.

Figure 2: Price of feeder calves (600-700 pounds) sold at special auctions



The price of feeder calves decreased slightly in fall 2012, after peaking in the spring. This slight decline is attributable to the fed cattle market, which was not as firm as anticipated. Increased liquidation of cattle inventories, caused by the drought conditions in the United States in 2012, was responsible for this pause in the general upward trend of beef prices in North America.

Figure 3: Price and number of male feeder calves by weight in 2012



In 2012, over 85% of male feeder calves sold at special auctions weighed between 500 and 800 lb.

The marginal income per additional pound decreases with an increase in weight. The producer thus must carefully evaluate the optimum selling weight, based on his own costs of production, market trends and the ASRA.

Figure 4: Male feeder calves price (600-700 pounds) in Quebec vs. Alberta-Manitoba

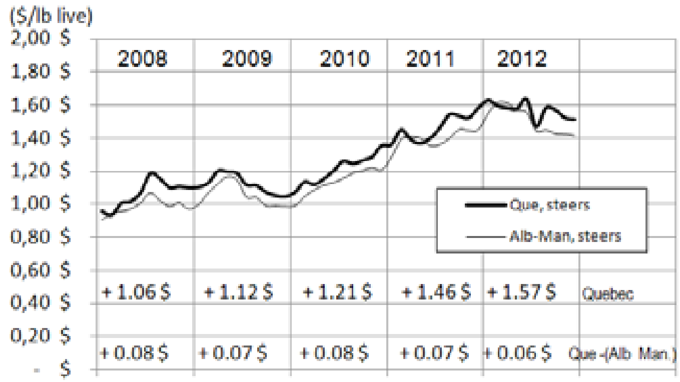
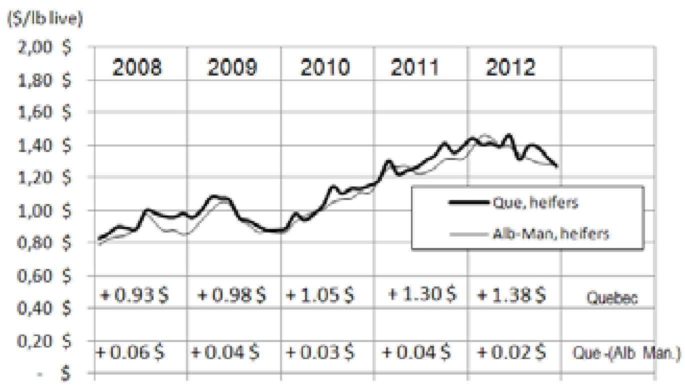


Figure 5: Female feeder calves (600-700 pounds) price in Quebec vs. Alberta-Manitoba



The price gap between Quebec feeder calves of 600-700 lb and their main reference market (Alberta-Manitoba) narrowed slightly in 2012, especially at the beginning of the year when the prices in Quebec were at almost the same level as in Western Canada.

1.2 Main findings and issues

The sharp reduction in the beef cattle herd, from 240,000 cows to 185,000 cows in five (5) years, and the decrease in the number of farms (- 28%) are the sector's main issues.

2. MARKETING COMMITTEE ACTIVITIES

2.1 Strategic planning

As anticipated, the Feeder Calf Marketing Committee (CMMVE) undertook a strategic planning process, with the aim of targeting priority work areas for the sector's development.

The Committee plans to complete its work at the beginning of 2013. The main strategic planning themes concern:

- Consultation within the industry itself (purebred producers, commercial producers and feedlots) and with MAPAQ;
- Access to cutting-edge expertise for cattle producers in all regions;
- Efficient marketing in tune with market needs.

The Committee plans to submit its report in early 2013. For next year, the CMMVE will focus on implementing the strategic plan that is ultimately adopted.

2.2 Income security

25% measure

The UPA and the specialized federations concerned have made many representations about this measure since its application (in 2011 for the feeder calf sector).

In 2011, the FADQ had reimbursed the entire cut, given its budget surpluses.

For 2012, the FADQ decided during the year not to apply the cut, again due to its anticipated budget surpluses. In December 2012, it finally decided to abolish this measure permanently.

For the feeder calf sector, the full application of this measure would have affected the compensation under ASRA, valued at $154/calf ($103 net of the ASRA premium removed).

Allocation of the compensation: 25% fixed and 75% variable

The Marketing Committee agreed with the FADQ to proceed, in 2013, with an evaluation of a fair allocation between the fixed portion and the variable portion of the ASRA compensation. The objective is to ensure that the ASRA conditions do not cause undesirable distortions in the feeder calf market in Quebec. In the meantime, it was agreed, for 2013, to maintain the status quo (25% - 75%).

Insurable volume

The insurable volume of the current model ASRA Feeder calf (450 to 750 lb) present a difference with the actual volume of calves produced (300 to 1100 lb). The Federation is asking the FADQ to revise the calculation of the volume produced used in the model so that it corresponds to the insurable volume, or to establish the limit on insurable volume for each producer, based on the average annual selling weight of the calves instead of the individual selling weight of each calf (capped at 750 lb).

ASRA for sales of breeding animals

To be fair and give cattle farmers a greater incentive to produce breeders, the Federation is requesting that the maximum weight and age of eligibility for ASRA be the same as for fed cattle, 1,750 lb and 30 months. The current limit is 1,300 lb for females with a PATBQ index over 92 and 1,500 lb for superior quality bulls.

2.3 The sector's orientation for 2013

One of the Committee's main mandates in 2013 will be the appropriation of the strategic plan for the development of the feeder calf sector and the involvement of all players in the cattle industry.

3. ELECTION OF A COMMITTEE REPRESENTATIVE AND AN ALTERNATE

3.1 Eligibility criteria:

- reside or conduct business in the territory covered by the Joint Plan;
- be registered under the feeder calf category of the Joint Plan;
- own a herd of at least 30 beef cows or have fattened and marketed at least 30 feeder calves during the previous calendar year;
- be a producer at the time of nomination;
- in the case of a legal person or a partnership, the mandated physical person must also:
  - be active in the cattle business other than as an investor;
  - hold at least 20% of the operation's issued share-capital or stock;
  - sit on its board of directors, if any, and hold the right to vote;
- respect the Board's by-law, in particular by paying contributions in compliance with the Code of Conduct for members of the board of directors and marketing committees.

4. OTHER BUSINESS (IF ANY)

AGENDA

1. MARKETING ACTIVITIES IN 2012

1.1 Market situation and highlights

1.2 Agency activities

2. MARKETING COMMITTEE ACTIVITIES

2.1 Activities in 2012

2.2 The sector's orientation for 2013

3. ELECTION OF A COMMITTEE REPRESENTATIVE AND AN ALTERNATE

3.1 Eligibility criteria:

- reside or conduct business in the territory covered by the Joint Plan;
- be registered under the fed cattle category of the Joint Plan;
- have fattened and marketed at least 50 fed cattle during the previous calendar year;
- be a producer at the time of nomination;
- in the case of a legal person or a partnership, the mandated physical person must also:
  - be active in the cattle business other than as an investor;
  - hold at least 20% of the company's issued share-capital or stock;
  - sit on its board of directors, if any, and hold the right to vote;
- respect the Board's by-laws, in particular by paying contributions in compliance with the Code of Conduct for members of the board of directors and marketing committees.

4. OTHER BUSINESS (IF ANY)

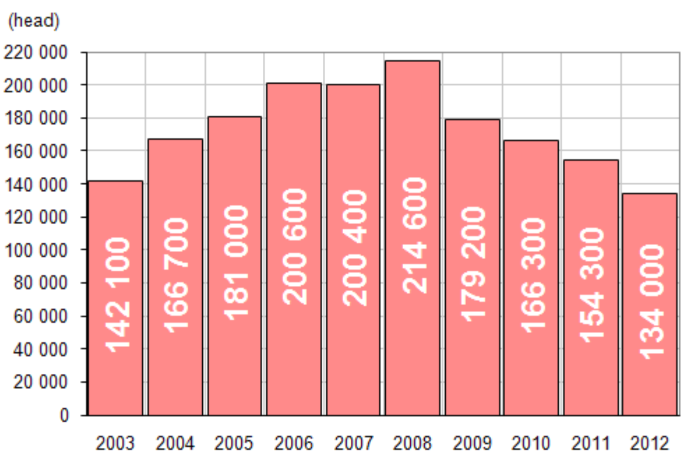
1. MARKETING ACTIVITIES IN 2012

1.1 Market situation and highlights

In November 2011, the panel established by the World Trade Organization (WTO) ruled in favour of Canada and Mexico concerning the U.S. Country of Origin Labeling (COOL) program, stating that this program's measures discriminate against Canadian cattle and do not respect United States trade obligations under the WTO. The Appellate Body upheld this decision in June 2012. The United States has until May 23th, 2013 to comply.

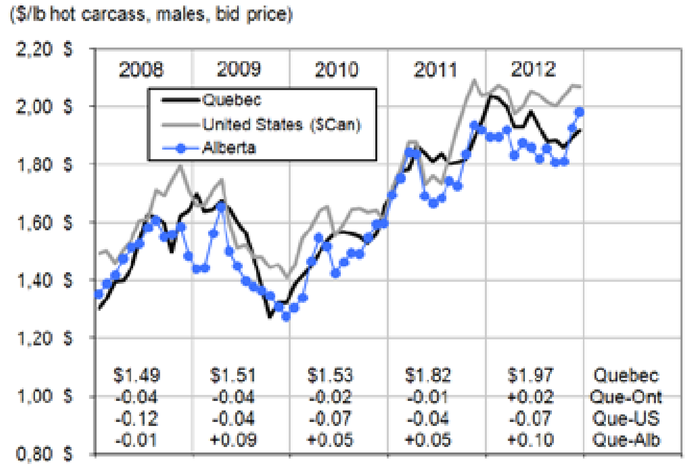
In September 2012, the Canadian beef industry experienced the biggest beef recall in its history, after the discovery of E. Coli bacteria at the XL Foods plant in Brooks, Alberta. The direct impacts were limited to Eastern Canada. Since then, the Brazilian company JBS has taken over management of the plant, with an option to purchase all XL Foods operations.

Figure 1: Fed cattle production in Quebec



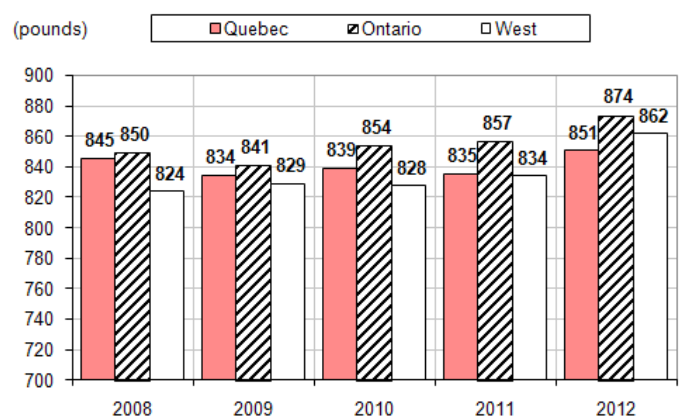
In 2012, the volume of fed cattle slaughtered dropped by about 20,000 head, or 13.2%. Thus, the volume decline that began in 2009 is continuing. Experts feel that 2013 volumes may fall to as low as 100,000 head. The market situation and income support measures could reduce this trend.

Figure 2: Fed cattle prices (A1-A2 steers) Quebec, Alberta and the United States



In 2012, fed cattle prices remained at highs unequalled in over five years. Analyzing the attached graph, we can observe that the annual average variance with Alberta is around $0.10/lb of carcass weight, and $0.02/lb with Ontario. For 2013, some observers expect a price increase of up to 10%.

Figure 3: Average weight of fed cattle carcasses (ratio of 75% males and 25% females) Quebec vs Ontario vs West



During the year 2012, the average carcass weight increased by 2% in Quebec and Ontario and 3% in Alberta. This is the highest average weight recorded in the past 5 years, for each region. Various factors explain this rise, including the increased use of ractopamine (i.e. beta agonist).

1.2 Agency activities

Following Japan's repeated announcements of the opening of its market to beef from animals older than 21 months,but younger than 30 months, Cargill decided last spring to stop payment of the premium of $10/head for fed cattle younger than 21 months. JBS-USA notified us that it would also eliminate the premium once the market opens officially.

Due to the declining volumes of fed cattle slaughtered in 2012, the Marketing Agency undertook important turnaround measures. These measures led to the removal of two full-time positions (one bookkeeper and one marketing agent) and the reorganization of the staff's duties. A spending reduction in parallel activities was also applied in Bovitrace and the Veterinary Expertise Program.

If volumes continue to decline in 2013, other budget measures will have to be considered.

In 2010, the Marketing Agency introduced incentives for compliance with the Canadian Verified Beef Production program and the Québec Bœuf Qualité Plus program. The objective set was for 50% of Quebec production to comply with one of the two programs. This objective was achieved in 2012. Under the strategic planning exercise, the Fed Cattle Marketing Committee (CMMBA) will determine the follow-up actions to this program for the next few years.

Installation of Bovitrace software continued and 2012 marked the beginning of billing of a portion of the costs to users. To date, over 50% of cattle operations use Bovitrace.

During 2012, the coordinator of the Veterinary Expertise Program devoted time to the implementation of the health component of Bovitrace. This service also allowed the Marketing Agency to learn the rules for producing fed cattle in accordance with European Union requirements. Various conferences and seminars were also offered to cattle producers in various regions of Quebec.

2. MARKETING COMMITTEE ACTIVITIES

2.1 Activities in 2012

All the necessary transfers regarding the Guaranteed Payment Fund and the Quebec Fed Cattle Marketing Development Fund, known as FDMMBQ, were made as directed by the fed cattle producers at their Special General Meeting on April 4, 2012. The balance of the FDMMBQ will be transferred once the final costs of closing the Fiducie des producteurs de bouvillons d'abattage du Québec are reimbursed. The fed cattle producers' Guaranteed Payment Fund amounts to about $1.5 M.

A negotiated agreement was signed in 2012 with the FADQ to include in the calculation of the cost of production the contribution of $10 per fed cow paid to the FDMMBQ in 2008 and in the first three months of 2009. The net return for producers is about $1.4 M.

Meetings between producers and slaughter plants continued in 2012. In March 2012, fed cattle producers had the opportunity to meet with representatives of the Ontario slaughter plant St. Helen's Meat Packers. To avoid multiple trips for producers, this meeting was held immediately after the Annual General Meeting of Société des parcs d'engraissement du Québec.

Launched under the action plan the CMMBA had adopted in 2009, the comparative study of the competitiveness of Quebec fed cattle with other regions of Canada and the United States was completed in 2012. The results were presented to the fed cattle producers' Special General Meeting and repeated in the May 2012 edition of the newsletter le bouvillon. The details of the study are available on the Fed Cattle Marketing Agency's extranet site.

The study's main conclusion is that Quebec production is at a disadvantage of about $100 to $200 per head in relation to Alberta, Iowa and Texas. Compared to Ontario, Quebec's disadvantage is between $0 and $100 per head. In the latter case, the variance essentially is due to depreciation of fixed assets and other higher fixed costs in Quebec.

In early summer 2012, a strategic planning process was initiated for the fed cattle sector. The conclusions should be known in winter 2013 and presented at the Federation's Annual General Meeting in April 2013.

2.2 The sector's orientation for 2013

For the coming year, the CMMBA will focus on implementing the strategic plan that is to be adopted.

Again this year, the CMMBA will be especially concerned about the constant reduction of the fed cattle herd and its impact on the marketing agency's budget.

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3. ELECTION OF A COMMITTEE REPRESENTATIVE AND AN ALTERNATE

3.1 Eligibility criteria:

- reside or conduct business in the territory covered by the Joint Plan;
- be registered under the fed cattle category of the Joint Plan;
- have fattened and marketed at least 50 fed cattle during the previous calendar year;
- be a producer at the time of nomination;
- in the case of a legal person or a corporation, the mandated physical person must also:
    - be active in the cattle business other than as an investor;
    - hold at least 20% of the company's issued share-capital or stock;
    - sit on its board of directors, if any, and hold the right to vote;
- respect the Board's by-laws, in particular by paying contributions in compliance with the Code of Conduct for members of the board of directors and marketing committees.

4. OTHER BUSINESS (IF ANY)

AGENDA

1. MARKETING ACTIVITIES IN 2012

1.1 Market situation and highlights

2. MARKETING COMMITTEE ACTIVITIES

2.1 Strategic planning

2.2 Raising conditions

2.3 Production histories – Call for proposals #2

2.4 Promotion

2.5 The sector's orientation for 2013

3. CONSULTATIONS WITH MILK-FED VEAL PRODUCERS ON INCREASING THE SPECIAL PRODUCTION AND MARKETING CONTRIBUTION, AS WELL AS THE SPECIAL PROMOTION CONTRIBUTION

3.1 Consultations with producers on increasing the special production and marketing contribution by $0.25 per milk-fed calf marketed, effective July 1, 2013

- Context
- CMMVL recommendation
- Consultation

3.2 Consultations with producers on increasing the special promotion contribution by $1 per milk-fed calf marketed, effective July 1, 2013.

- Context
- CMMVL recommendation
- Consultation

4. ELECTION OF A COMMITTEE REPRESENTATIVE AND TWO ALTERNATES

4.1 Eligibility criteria:

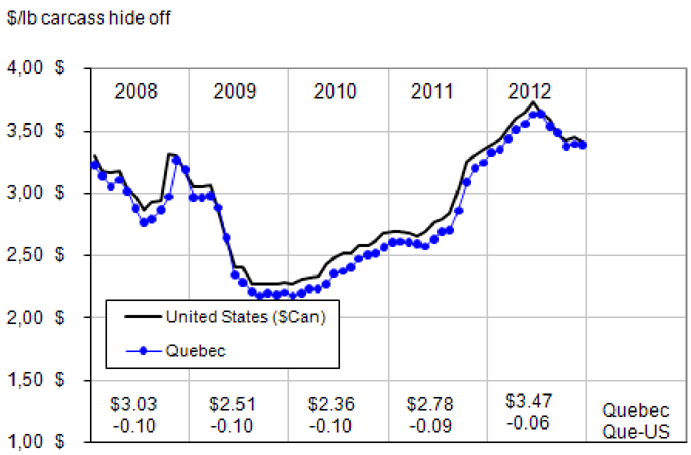
- reside or conduct business in the territory covered by the Joint Plan;
- be registered under the milk-fed veal category of the Joint Plan;
- have raised for his own account or that of a third party, or have caused to be produced and offered for sale at least 100 milk-fed calves, during the previous calendar year;
- be a producer at the time of nomination;
- in the case of a legal person or a partnership, the mandated physical person must also:
  - be active in the cattle business other than as an investor;
  - hold at least 20% of the company's issued share-capital or stock;
  - sit on its board of directors, if any, and hold the right to vote;
- respect the Board's by-law, in particular by paying contributions in compliance with the Code of Conduct for members of the board of directors and marketing committees.

5. OTHER BUSINESS (IF ANY)

1. MARKETING ACTIVITIES IN 2012

1.1 Market situation and highlights

Figure 1: Price of milk-fed veal calves in Quebec and the U.S (Non-Packer Owned)

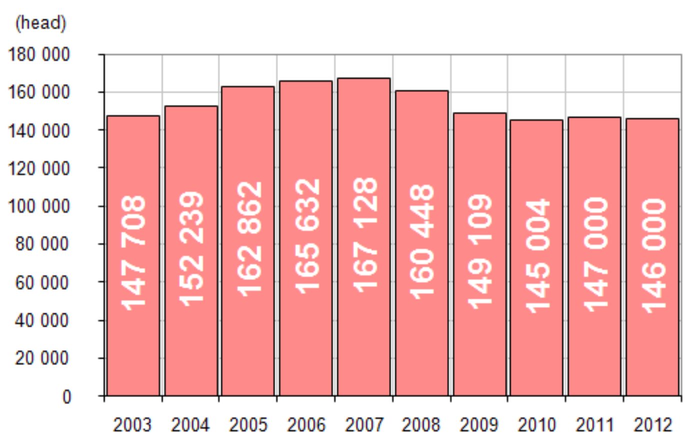


In 2012, the average price in Quebec set a new record, reaching $3.47/lb carcass weight.

This increase is explained by the rising price of animal protein (especially in the first half of the year) and a decline in the supply of milk-fed veal calves on the U.S. market.

However, it would be surprising if prices reach such highs in 2013, because the price of the future contracts offered in veal in May 2013 (US$3.22/lb) gives reason to expect a less spectacular start to the year than was recorded in 2012.

Figure 2: Production of milk-fed veal calves in Quebec

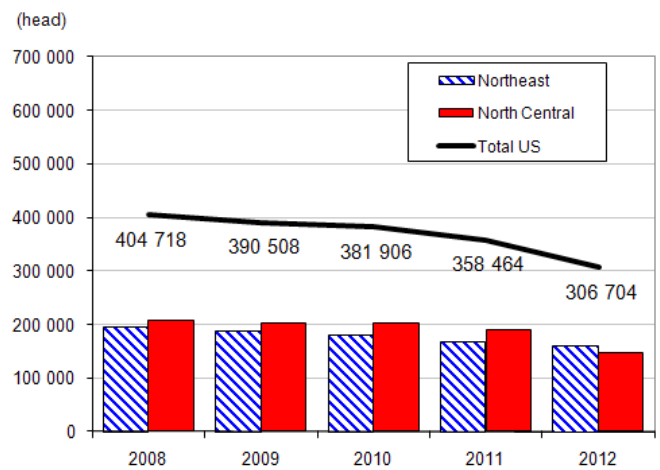


Production of milk-fed veal calves is somewhat of an exception in the Quebec cattle sector, because it is the only sector that has maintained its production volume at a similar level to that of the past few years.

Over the past three years, production of milk-fed veal calves has stabilized at nearly 145,000 calves.

This is essentially due to sustained demand for milk-fed veal on the domestic market, especially in Quebec, and by stable exports, primarily to the United States.

Figure 3: Production of milk-fed veal calves in the United States



In 2012, our neighbors to the South experienced a 14% decline in milk-fed veal calf slaughter, the sharpest downturn of the past ten years.

Here are some of the factors that may have contributed to the rapid decline of U.S. production of milk-fed calves:

- very little promotion of the product in the United States;
- increased cost of certain cost of production items in the past few years, particularly the price of milk by-products;
- the scope of investments needed to convert to group housing.

For 2013, the representatives of the Pricing Round Table renewed the same formula for determining the carcass price of milk-fed veal in Quebec as in 2012:

- period from December 31, 2012 to May 6, 2013: NPO CAN$ – $0.05;
- period from May 3, 2013 to August 26, 2013: NPO CAN$ – $0.07;
- period from September 2, 2013 to December 23, 2013: NPO CAN$ – $0.05.

2. MARKETING COMMITTEE ACTIVITIES

2.1 Strategic planning

The completion of a strategic plan during the past year allowed the milk-fed veal sector to adopt a very valuable tool to establish its priorities for the coming years. Here are the main targets and strategic orientations identified by the various players in the milk-fed veal commodity chain:

- production inputs: ensure transition to a profitable group housing production model to assure the industry's sustainable development;
- market value: optimize the market value of milk-fed veal to improve the profitability of the various links of the commodity chain;
- organization of the commodity chain: increase the availability and flow of information on the various segments of the commodity chain in order to improve the quality of discussions regarding transaction costs and margin sharing;
- support for development of the sector: reach agreement on a shared development vision with the Government to ensure that sustainable support is obtained for the sector.

At the Special General Meeting of milk-fed veal producers held in June 2012, the producers studied the strategic plan and the project to be implemented over the next few months and years to achieve the sector's objectives. The Milk-Fed Veal Marketing Committee (CMMVL) has already initiated two projects that arise directly from the strategic plan:updating the study on the spinoff effects of the veal calf commodity chain:

- updating the study on the spinoff effects of the veal calf commodity chain;
- the technico-economic picture of converting traditio-nal raising facilities to group housing system.

2.2 Raising conditions

In 2011, the CMMVL mandated a firm that specializes in securing subsidies and funding alternatives to support efforts to provide the necessary financial assistance to help milk-fed veal producers convert to a group housing system.

No financial assistance was found. However, the work led to the preparation of a business plan explaining the importance of government intervention in the milk-fed veal sector.

The CMMVL continued to raise awareness with the government authorities concerned regarding the financial impacts of compliance with standards. Meetings were held with officials from the MAPAQ and Agriculture and Agri-Food Canada.

2.3 Production histories Call for proposals #2

In fall 2012, the CMMVL allocated production histories for 1,250 housing spaces from the Federation's reserve. The goal of the call for proposals launched at that time was to ensure the maintenance of Quebec milk-fed veal production and respond to favorable market conditions observed in 2012.

Seventeen producers submitted an application for additional production histories, including 14 who already held a production history for an existing site. The Federation received applications covering a total of 3,186 housing spaces.

2.4 Promotion

The primary marketing objectives for 2012 were to boost demand for milk-fed veal products and to publicize the Quebec Milk-Fed Veal trademark to a broad audience.

These objectives were achieved through various initiatives, including:

- a digital billboard advertising campaign alongside Montreal highways for the official launch of the BBQ season;
- representation of Quebec Milk-Fed Veal at 13 corporate events, reaching various industry partners and current customers (IGA – Montreal and Quebec City merchants, association of the leader cooks, restaurants, etc.);
- a poster ad campaign in shopping centres and office towers to reach consumers and encourage them to choose Quebec Milk-Fed Veal for a holiday menu, all supported by several placements in well-targeted magazines, such as: *Signé* M by Louis-François Marcotte, *Zeste, Tchin Tchin* (SAQ) and *Guide Restos Voir 2012.*

The marketing objectives for 2013 are:

- boost domestic demand and respond to market needs, while increasing market visibility (brand recognition) for Quebec Milk-Fed Veal through mass advertising activities, while at the same time ensuring optimum distribution of Quebec milk-fed veal in markets;
- foster extensive representation in both the food service sector and the retail market;
- use social media to reach out to a greater number of customers interested in receiving relevant information on Quebec milk-fed veal, such as recipes, cooking advice and tips, new products and circular specials.

2.5 The sector's orientation for 2013

For the coming year, the CMMVL intends to continue implementation of the work plan arising from the strategic plan.

It will continue its efforts to obtain government financial assistance to help producers convert to group housing.

The CMMVL is well aware that the strong demand for additional production histories resulted in several producers not being able to carry out their projects. It intends to reassess the possibility of launching a new call for proposals in 2013.

3. CONSULTATIONS WITH MILK-FED VEAL PRODUCERS ON INCREASING THE SPECIAL PRODUCTION AND MARKETING CONTRIBUTION, AS WELL AS THE SPECIAL PROMOTION CONTRIBUTION

3.1 Consultations with producers on increasing the special production and marketing contribution by $0.25 per milk-fed calf marketed, effective July 1, 2013

a) Contexte

Currently, the milk-fed veal marketing contribution is $1.85 per milk-fed calf marketed. The contribution has evolved as follows in the past ten years:

Table 1

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
$0,60	$0,60	$0,60	$0,60	$0,85	$0,85	$0,85	$1,85	$1,85	$1,85

After an analysis of the Agency's budget, the CMMVL forecasts that the current results will be just enough to maintain current marketing activities.

Following completion of the milk-fed veal sector's strategic planning process, an action plan was proposed that includes many promising projects for all milk-fed veal producers. The implementation of these projects will require increased financial resources.

Table 2

Special production and marketing contribution increase of $0,25/milk-fed calf, effective july 1, 2013

Estimated results without the increase						
	2011	2012	2013	2014	2015	2016
Volume	145,200	146,000	146,000	147,000	147,000	147,000
Revenue	272,089	270,148	270,100	271,950	271,950	271,950
Expenses	248,361	224,010	249,485	254,475	259,564	264,755
Results	23,728	46,138	20,615	17,475	12,386	7,195
Equity	(40,810)	5,328	25,943	43,418	55,804	62,999

Estimated results with the increase						
	2011	2012	2013	2014	2015	2016
Volume	145,200	146,000	146,000	147,000	147,000	147,000
Revenue	272,089	270,148	288,350	308,700	308,700	308,700
Expenses	248,361	224,010	249,485	254,475	259,564	264,755
Results	23,728	46,138	38,865	54,225	49,136	43,945
Equity	(40,810)	5,328	44,193	98,418	147,554	191,499

b) CMMVL recommendation

The CMMVL unanimously recommends a $0.25 contribution increase per milk-fed calf marketed, applicable as of July 1, 2013, to help implement the projects resulting from the strategic plan and to continue to respond to the needs of producers.

Increasing the contribution allocated to milk-fed calf marketing activities to $2.10 per calf makes it possible to envision the achievement or pursuit of the following objectives:

- Continue to apply the Règlement sur la production et la mise en marché des veaux de lait (Regulation respecting the production and marketing of milk-fed calves) and ensure its sound management;
- Pursue actions intended to facilitate the transition to group housing by obtaining government financial assistance:
    - Updating the study on spinoffs;
    - Characterization of milk-fed veal calf farms (type of group housing and associated costs);
    - Representations to the Government;
- Develop a corporate dashboard allowing tracking and explanation of price changes for the main ingredients used in feed manufacturing;
- Deploy a dashboard to track the changes in the financial health of farm businesses specializing in milk-fed veal calf production;
- Establish the necessary conditions to reduce the price gap with the U.S. market of reference market (Pricing Round Table);
- Identify research and development priorities in the milk-fed veal sector and specify collective-type projects, such as:
    - Use of drug products;
    - Detection of prohibited products, such as hormones or other growth stimulants;
- Make available an offer of specialized management services for the milk-fed veal sector;
- Study and analyze the marketing mechanisms likely to improve on-farm income, such as mutualization of prices and a quality-based bob calf payment system;
- Favour involvement in the Verified Veal Program (on-farm HACCP) and support the producers who implement the program on their farms;
- Support any other project designed to improve production and foster its development.

c) Consultation

Do you support the Committee's recommendation to increase the special production and marketing contribution by $0.25 per milk-fed calf marketed, effective July 1, 2013? Yes/No

3.2 Consultation with producers on increasing the special promotion contribution by $1 per milk-fed calf marketed, effective July 1, 2013

a) Contexte

The current milk-fed veal promotion contribution is $3 per milk-fed calf marketed. It evolved as follows in the past 10 years:

Table 3

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
$2.60	$3	$3	$3	$4	$4	$4	$3	$3	$3

After an analysis of the Quebec Milk-Fed Veal Promotion Fund, the CMMVL anticipates a substantial negative result in the coming year, which will completely wipe out equity by 2014.

Following completion of the milk-fed veal sector's strategic planning process, an action plan was proposed that includes many projects relating to promotional activities for all milk-fed veal producers.

Table 4

Promotion contribution increase of $1/milk-fed calf, effective July 1, 2013

Estimated results without the increase						
	2011	2012	2013	2014	2015	2016
Volume	145,200	146,000	146,000	147,000	147,000	147,000
Revenue	443,993	438,078	438,000	441,000	441,000	441,000
Expenses	517,777	526,395	563,105	574,367	585,854	597,572
Results	(73,784)	(88,317)	(125,105)	(133,367)	(144,854)	(156,572)
Equity	340,971	252,654	127,549	(5,818)	(150,672)	(307,244)

Estimated results with the increase						
	2011	2012	2013	2014	2015	2016
Volume	145,200	146,000	146,000	147,000	147,000	147,000
Revenue	443,993	438,078	511,000	588,000	588,000	588,000
Expenses	517,777	526,395	563,105	574,367	585,854	597,572
Results	(73,784)	(88,317)	(52,105)	13,633	2,146	(9,572)
Equity	340,971	252,654	200,549	214,182	216,328	206,756

b) CMMVL Committee recommendation

The CMMVL unanimously recommends increasing the promotion contribution by $1 per milk-fed calf marketed, effective July 1, 2013, to avoid a deficit and maintain and increase promotional activities in Quebec.

By increasing the contribution allocated to promotional activities for Quebec Milk-Fed Veal to $4 per calf, it is possible to consider achieving or pursuing the following objectives:

- ensure the maintenance, consolidation and development of promotional activities in Quebec that generate major spinoffs for milk-fed veal producers;
- maintain a strong technical team present with retailers, distributors, the HRI network and health professionals:
  - by a representation and a solicitation;
  - by the improvement of the training for personnel who prepare and handle meat in the various marketing networks (e.g. butchers, restaurants, etc.);
- reach Quebec consumers with mass advertising activities, such as: posters in the Montreal metro, digital billboards along highways, inclusion of the product in cooking shows, association with well-known chefs, etc., all with the objective of encouraging consumers to put milk-fed veal on their menu.

c) Consultation

Do you support the Committee's recommendation to increase the special promotion contribution by $1 per milk-fed calf marketed, effective July 1, 2013? Yes/No

4. ELECTION OF A COMMITTEE REPRESENTATIVE AND TWO ALTERNATES

4.1 Eligibility criteria:

- reside or conduct business in the territory covered by the Joint Plan;
- be registered under the milk-fed veal category of the Joint Plan;
- have raised for his own account or that of a third party, or have caused to be produced and offered for sale at least 100 milk-fed calves, during the previous calendar year;
- be a producer at the time of nomination;
- in the case of a legal person or a partnership, the mandated physical person must also:
  - be active in the cattle business other than as an investor;
  - hold at least 20% of the company's issued share-capital or stock;
  - sit on its board of directors, if any, and hold the right to vote;
- respect the Board's by-law, in particular by paying contributions in compliance with the Code of Conduct for members of the board of directors and marketing committees.

5. OTHER BUSINESS (IF ANY)

AGENDA

1. MARKETING ACTIVITIES IN 2012

1.1 Market situation and highlights

1.2 Main findings and issues

2. MARKETING COMMITTEE ACTIVITIES

2.1 Promotion, certifications and specifications manual

2.2 Cost of production

2.3 Income security

2.4 Promotion and expansion of grain-fed veal markets

2.5 The sector's orientation for 2013

3. ELECTION OF A COMMITTEE REPRESENTATIVE AND AN ALTERNATE

3.1 Eligibility criteria:

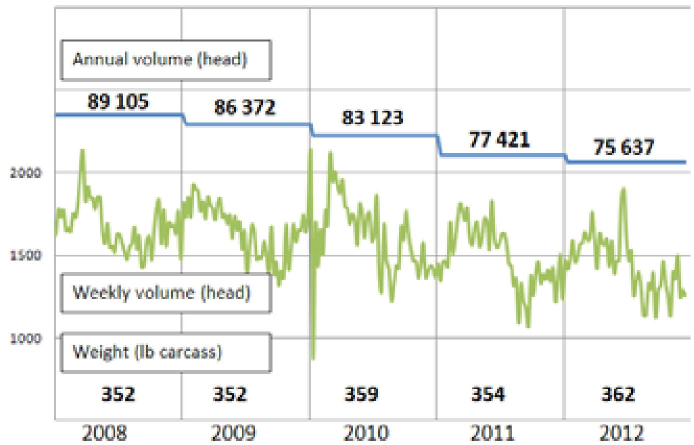
- reside or conduct business in the territory covered by the Joint Plan;
- be registered under the grain-fed veal category of the Joint Plan;
- have raised and marketed at least 50 grain-fed calves, during the previous calendar year;
- be a producer at the time of nomination;
- in the case of a legal person or a partnership, the mandated physical person must also:
  - be active in the cattle business other than as an investor;
  - hold at least 20% of the operation's issued share-capital or stock;
  - sit on its board of directors, if any, and hold the right to vote;
- respect the Board's by-law, in particular by paying contributions in compliance with the Code of Conduct for members of the board of directors and marketing committees.

4. OTHER BUSINESS (IF ANY)

1. MARKETING ACTIVITIES IN 2012

1.1 Market situation and highlights

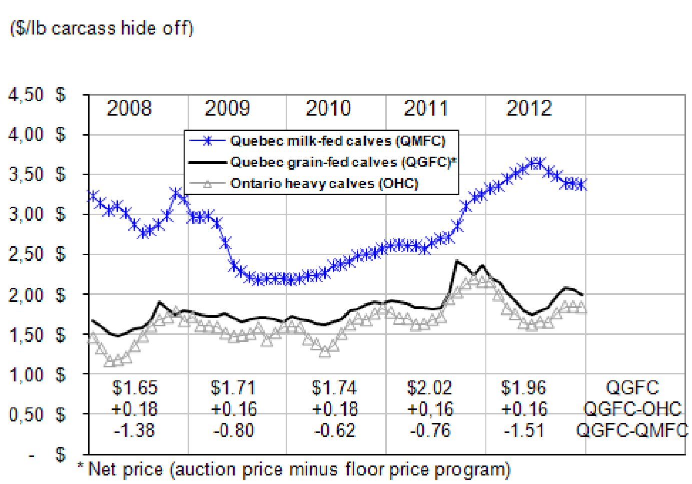
Figure 1: Evolution of grain-fed veal production (seasonal volumes, annual volumes and average weight)



In 2012, production fell by 2,3 % from the previous year. The downward trend has continued since 2003, when production peaked at 100,780 grain-fed calves. This decline is attributable to the implementation of production histories in 2003 and a decrease in the profitability of production.

Despite the generally downward trend in the annual volumes produced, the supply of grain-fed calves on the market remains strongly characterized by a seasonal cycle counter to demand, with volumes clearly higher in the first half of the year and lower in the fall when demand is considered to be strongest.

Figure 2: Price of Quebec grain-fed veal calves vs. Quebec milk-fed veal calves vs. Ontario heavy veal calves



In 2012, the price trend of grain-fed veal was totally opposite to that of milk-fed veal. The price difference with milk-fed veal was $ 1,51/lb in 2012, nearly double the gap over the preceding three years.

Figure 3: Surplus management expenses 2010-2012

	2010	2011	2012
Number of calves offered for sale	83,455	77,425	75,637
Number of calves sold outside the auction system	18,227	12,973	20,657
Average cost per calf removed from the market	$133	$95	$113
Average cost per carcass pound	$0.08	$0.05	$0.09
Average floor price	$1.83	$2.02	$2.04
Average auction price	$1.83	$2.08	$2.06
Net producer price	$1.74	$2.02	$1.96

Despite a downward adjustment of the floor price during the year and a decline in the production of Quebec grain-fed calves, the year 2012, was marked by a large number of grain-fed calves sold through the electronic auction system.

This situation can be explained in part by a slightly higher supply of heavy veal calves from Ontario than in 2011. This is also a consequence of there being too few calves produced in Quebec in fall 2011 to meet demand in that period of the year. To mitigate the decline in local grain-fed calves and secure their supply throughout the year, Quebec slaughter plants procured a significant number of heavy calves from Ontario.

These factors appear to have driven prices down in both Ontario and Quebec.

1.2 Main findings and issues

In 2012, the price of grain-fed veal was counter to the general trends of the agricultural economy (sharp increases in grain prices and in other meat categories).

This situation has reinforced one of the conclusions of the strategic plan for the grain-fed veal sector, namely the necessity for an in-depth review of the grain-fed veal market to obtain better harmonization between supply and demand. This is one of the priorities of the Grain-Fed Veal Marketing Committee (CMMVG) for 2013.

2. MARKETING COMMITTEE ACTIVITIES

2.1 Promotion, certification and specifications manual

The strategic plan highlights the necessity to improve the product's positioning and increase its brand recognition.

To achieve these objectives, the CMMVG started work on two fronts, certification and promotion:

- by reinforcing certification of the specifications manual to make it more closely aligned with the principles of HACCP program and animal welfare. A firm was commissioned to develop new specifications and a certification protocol with external audits.
- by developing a comprehensive promotional plan spread over two years. A regional information tour was held in fall 2012. Official consultations on an increase in the promotion levy are scheduled for January 31, 2013.
- by continuing to lobby the FADQ to reintroduce promotion levies in the cost of production calculation of the ASRA model farm.

2.2 Cost of production

Again, the Committee's action plan responds to the strategic plan. To help producers improve their efficiency, the Committee has implemented several projects:

- research project on feeding other grains and byproducts (distillers' grains and canola oil cake) was conducted in 2012. It will continue in 2013-2014 to measure the impact on meat quality. There will also be an implementation test on some pilot farms.
- startup project for an expert network in grain-fed veal production will also be carried out in 2013-2014 with a group of 15 to 20 producers and selected professionals (management consultants, technical advisors, veterinarians, etc.).

2.3 Income security

The Federation's main concern regarding income security remains the problem of high grain prices.

In the ASRA Grain-Fed Veal model, the grain produced and used on the farm (farm-fed grain) accounts for nearly 50% of all grain used.

Farm-fed grain is included in the model at its cost of production, which is about $100/ton lower than the market price in a year such as 2012.

Grain-fed veal producers who buy their grain at the market price (landless farms) have a cost of production structure that is totally different from that calculated in the ASRA model.

In 2012, with the market price of grain corn more than $100/ton higher than that factored in the cost of production, the shortfall is about $40 per grain-fed calf produced.

The Federation made several representations to government authorities on this issue this year. It remains a priority for 2013.

2.4 Promotion and expansion of grain-fed veal markets

The main promotion and market development activities for grain-fed veal in 2012 concerned:

- increased visibility on the Web, particularly on Facebook Veau de grain du Québec – Premier de classe;
- development of the butcher markets, including production of two contests for 35 butcher shops;
- representations to grocery chains, store visits to check the variety of cuts in the butcher's meat case and the quality of the product in general, a summer advertising campaign in Axep and Intermarché stores, circular promotions;
- training and various promotional activities given in schools and vocational training centres;
- several ads in magazines and on sites specializing in food; participation in the Salon international de l'alimentation and various other food trade shows;
- sponsorship of various events, including several organized by chefs;
- production of a new recipe booklet with the collaboration of the Institut de tourisme et d'hôtellerie du Québec;
- shooting of a segment of the Par-dessus le marché TV show with Veau de grain du Québec;
- introduction of Veau de grain du Québec and its logo on the menu of Pacini restaurants;
- supporting the promotional activities of a Quebec grain-fed veal distributor on the U.S. market.

2.5 The sector's orientation for 2013

In 2013, the CMMVG will focus its efforts on various actions arising from the strategic plan, particularly:

- Expansion of promotion activities;
- Revision of the certification concept and the specifications;
- Revision of the marketing method (supply management, floor price, terms of sale); and
- Defense of a more equitable model ASRA.

3. ELECTION OF A COMMITTEE REPRESENTATIVE AND AN ALTERNATE

3.1 Eligibility criteria:

- reside or conduct business in the territory covered by the Joint Plan;
- be registered under the grain-fed veal category of the Joint Plan;
- have fattened and marketed at least 50 grain-fed calves during the previous calendar year;
- be a producer at the time of nomination;
- in the case of a legal person or a partnership, the mandated physical person must also:
    - be active in the cattle business other than as an investor;
    - hold at least 20% of the operation's issued share-capital or stock;
    - sit on its board of directors, if any, and hold the right to vote;
- respect the Board's by-law, in particular by paying contributions in compliance with the Code of Conduct for members of the board of directors and marketing committees.

4. OTHER BUSINESS (IF ANY)

AGENDA

1. MARKETING ACTIVITIES IN 2012

1.1 Market situation and highlights

1.2 Main findings and issues

2. MARKETING COMMITTEE ACTIVITIES

2.1 Activities in 2012

2.2 The sector's orientation for 2013

3. ELECTION OF A COMMITTEE REPRESENTATIVE AND AN ALTERNATE

3.1 Eligibility criteria:

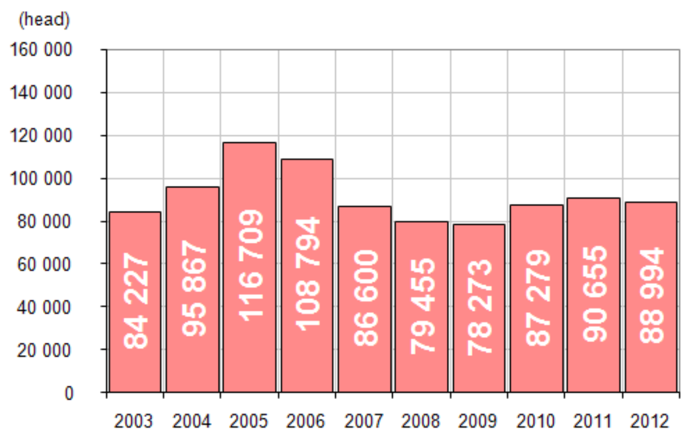
- reside or conduct business in the territory covered by the Joint Plan;
- be registered under the cull cattle category of the Joint Plan;
- be a producer at the time of nomination;
- in the case of a legal person or a partnership, the mandated physical person must also:
    - be active in the cattle business other than as an investor;
    - hold at least 20% of the company's issued share-capital or stock;
    - sit on its board of directors, if any, and hold the right to vote;
- respect the Board's by-laws, in particular by paying contributions in compliance with the Code of Conduct for members of the board of directors and marketing committees.

4. OTHER BUSINESS (IF ANY)

1. MARKETING ACTIVITIES IN 2012

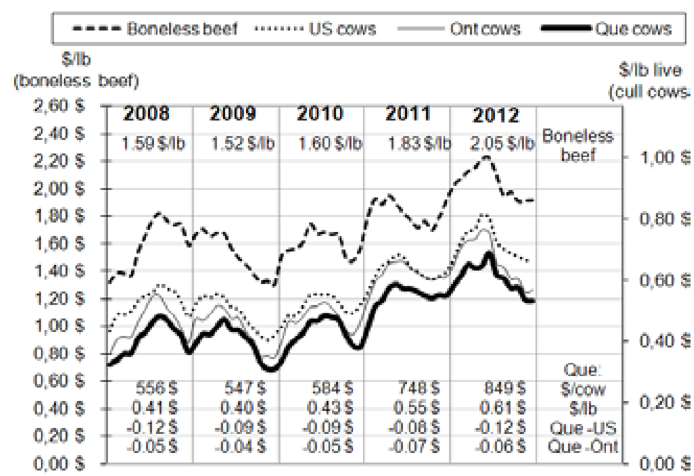
1.1 Market situation and highlights

Figure 1: Number of Quebec culled cows



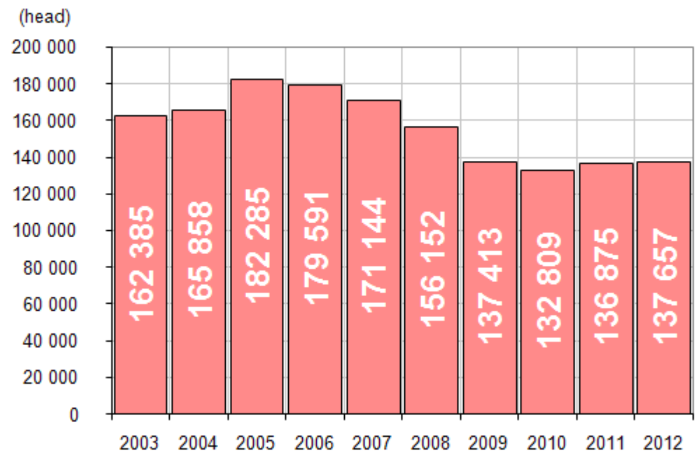
In 2012, the number of culled cows dropped by 1661 head, a slight decrease of 1.8% compared with the previous year. Additional production days granted to milk producers to ensure sufficient milk supply explain this slight decline in the number of culled cattle.

Figure 2: Cull cattle prices in Quebec vs. Ontario vs. United States and 85 % lean boneless beef in Canada



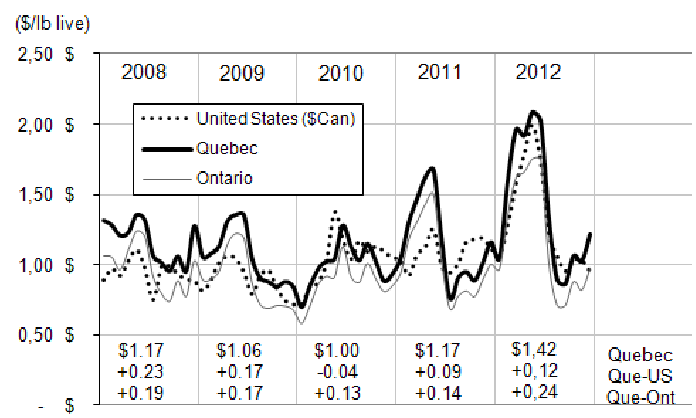
In 2012, cull cattle producers received an average price of $849 per cow sold, an increase of 13.5% over 2011. The price of cull cattle is closely related to that of boneless beef which has been in increasing demand in recent years. After the Levinoff-Colbex plant closed, the price of Ontario cull cattle declined and is now closer to Quebec's price.

Figure 3: Number of Quebec dairy calves marketed



The number of bob calves marketed in 2012 increased by 782 calves, a small increase of 0.6% compared with 2011.

Figure 4: Price for good male dairy calves, Quebec vs. Ontario vs. United States



The price of good male bob calves rose by 21.4% over 2011. High demand in the first half of the year contributed to increasing the price to nearly $2/lb. For the third consecutive year, the average Quebec price has been higher than the reference markets (U.S.A. and Ontario) and it continues to rise.

1.2 Main findings and issues

The closure of the Levinoff-Colbex slaughterhouse has resulted in major changes in the marketing of cull cattle. Discussions on a possible reorganization of the marketing system will be a work priority for the Cull Cattle and Dairy Calf Marketing Committee (CMMBR) in 2013.

2. MARKETING COMMITTEE ACTIVITIES

2.1 Activities in 2012

2012 was divided into two distinct parts. The pivotal date was May 28, 2012 (cessation of Levinoff-Colbex activities for an undetermined period);

Before the slaughter plant closed, the CMMBR had taken various measures, which have had to be abandoned or suspended since the closure:

- amendment of the Règlement sur la production et la mise en marché des bovins de réformes et des veaux laitiers du Québec (Regulation respecting Québec cull cattle and bob calf production and marketing) to strengthen the marketing channel: this change was considered essential at that time for the survival of the Levinoff-Colbex slaughter plant, owned by cattle producers;
- implementation of a measure for payment for latent defects. This measure essentially sought to compensate producers for certain latent defects (10), and for bruises, euthanasias and mortalities prior to slaughter for certain categories of cull cattle.

After the slaughter plant closed, and given the urgency of the situation, the CMMBR responded rapidly to find outlets for cull cattle by:

- making an agreement with Quebec auctions so that they can sell live cull cattle;
- requesting the RMAAQ to suspend the application of certain provisions of the Regulation and the agreements in force that prevent the auctions from selling live animals; this exemption was granted by the RMAAQ until May 2013;
- meeting with cull cattle slaughter plants after the Levinoff-Colbex closure to interest other buyers so as to ensure an acceptable price for producers. On this basis, meetings were held with the representatives of JBS-USA in June 2012 and American Foods Group in July 2012;
- making an agreement with the Association des abattoirs de bovins de réforme du Québec in order to allow purchasing of live cull cattle at Quebec auctions.

The strategic planning process for the bob calf sector began in late summer 2012. The conclusions are expected at the beginning of 2013. Discussions on this subject should be held during the 2013 regional general meetings.

Finally, major administrative changes occurred at the Agency during the year and a new Director, André Roy, was made responsible for cull cattle marketing.

2.2 The sector's orientation for 2013

The CMMBR will study the conclusions of the strategic planning process in the bob calf sector and, if applicable, will agree on an implementation plan.

In spring 2013, the strategic planning process will begin in the cull cattle sector. This work should conclude in early fall. The CMMBR will then agree on an implementation plan.

Apart from the strategic planning work, 2013 will be a year when the overhaul of cull cattle marketing will be at the centre of the Committee's discussions, as well as the review of the cull cattle and bob calf sales agreements with the auction barns.

3. ELECTION OF A COMMITTEE REPRESENTATIVE AND AN ALTERNATE

3.1 Eligibility criteria:

- reside or conduct business in the territory covered by the Joint Plan;
- be registered under the cull cattle category of the Joint Plan;

- be a producer at the time of nomination;
- in the case of a legal person or a partnership, the mandated physical person must also:
    - be active in the cattle business other than as an investor;
    - hold at least 20% of the company's issued share-capital or stock;
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4. OTHER BUSINESS (IF ANY)