Winnipeg

Planning, Property & Development Department • Service de l'urbanisme, des biens et de l'aménagement

Office of the Director • Bureau du directeur

In reply please refer to / Référence à rappeler :

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PERSONAL AND CONFIDENTIAL

October 12, 2005

Mr. Don Janzen
President
Hytek
Box 100
La Broquerie, MB.
R0A 0W0

Dear Mr. Janzen:

RE: RE: OLYWEST PROJECT- 3RD REVISED OFFER

On behalf of the City of Winnipeg, in partnership with the Province of Manitoba and Destination Winnipeg, we thank you for the opportunity to present a third revised proposal to the Olywest Consortium (Olywest), to locate its new state-of-the-art pork slaughterhouse and processing plant in Winnipeg.

We understand from the information as submitted by Olywest, that operating from a new 300,000 sq. ft. facility, the new processing plant will employ up to 1,100 incremental jobs by 2011 (the "new facility"). Anticipated capital costs for the project are estimated to be approximately $132 million. We also understand that the new facility will initially require approximately 33 acres of land for development purposes with approximately 27 acres reserved for future expansion.

We can confirm that based upon the above referenced information, and subject to due diligence and the development of a mutually acceptable formal agreement including terms and conditions, we would be prepared to recommend that the City of Winnipeg approve an economic incentive package as follows.

Subject to substantial completion of the new facility not later than January 1, 2009, the Planning, Property, and Development Department will be prepared to recommend to Council:

1. The sale of sixty (60) acres of land within the St. Boniface Industrial Park (referred to as Site 4 in your site selection) valued at $ 600,000 to Olywest for $ 1.00 upon completion and occupancy of the new facility.
2. An Option until 2016, for Olywest to purchase the residual approximate forty (40) acres of adjacent land (within the Site 4 Parcel) valued at $ 400,000, for $ 1.00 provided that Olywest has fully utilized those lands acquired through the initial sale of 60 acres.
3. An estimated total of two million four hundred thousand ($ 2.4 million) in Economic Development Incentive Grants over a nine (9) year period following completion of your project (based notionally upon your proposed Property Tax Strategy). For greater certainty, the City will agree to provide Grant amounts in years 1 through 4 (2009 through 2012) based upon the actual property tax statement (the municipal portion of property tax and the business tax only). As you are aware, we have estimated the municipal portion of property tax at approximately $ 500,000 and the business tax at approximately $ 250,000 for a total estimated annual tax amount of $750,000. Based upon this, the City has estimated the Grant being dispersed as follows; yr 1 (2009)- $ 750,000, yr 2 (2010)- $ 562,500, yr 3 (2011)- $ 375,000, yr 4 (2012)- $ 187,500, yrs 5 though 9 (2013 through 2017)- $ 105,000 per year.
4. That the City cap the Development and Building Permit Fees at a maximum total of $1 million. The Planning, Property, and Development Department has estimated that this may provide your project with a benefit of between $ 200,000 and $ 350,000.

Local Improvement District:

As you are aware, the City will also front end the cost of necessary public infrastructure including;

- Signalization and intersection improvements on Dugald Rd, Plessis Rd, Mazenod Rd, Ray Marius Rd, and Dugald Rd.
- Roadway improvements along Mazenod Rd and Ray Marius Rd.
- Wastewater and water service extensions along Mazenod Rd and Ray Marius Rd.
- Construction of a storm water retention pond and land drainage sewer connections on the Site Parcel 4 lands.
- Roadway lighting and sodding along Mazenod and Ray Marius Rd.

These public infrastructure improvements estimated at approximately $ 9 million will be provided for under a Local Improvement District and Olywest will be charged for the improvements as a Local Improvement District Levy on your annual Property Tax Statement. This charge will be amortized over a 20 year period at the city's preferred 20 year borrowing rate plus 1% for administration[1].

Nutrient Loading Surcharge:

As you are aware, the City's Water and Waste Department (W&W) have planned for new wastewater treatment facilities and additional costs to be incurred as a result of the Province's stated goal of removing nutrients in Lake Winnipeg to 1970 levels. The City currently has

[1] For illustration purposes the city's 20 year borrowing rate is currently 6.5 % plus 1 % administration equates to a 7.5 % Local Improvement amortized rate. Note that the Local Improvement Levy will be determined at the time the services will be installed.

planned for over $ 380 million in wastewater treatment plant facility upgrades as well as an additional $10 million in operating costs (not including the cost to pay off debt) in order to achieve the Provincial targets for nutrient reduction by 2014.

The City's Water and Waste Department (W&W) are therefore in the process of considering a possible revision to the Sewer By-law that, subject to Council approval, would see all heavy producers of high levels of nutrients (including competitors) pay a surcharge for their wastewater treatment based upon discharge strength and volumes. There is a sound policy rationale for this By-law revision as all ratepayers should not be required to subsidize high nutrient discharge industries. Under this scenario, Olywest would then be able to compete on a level playing field with other similar industries within Winnipeg.

The steps involved in this new Sewer Rate By-law revision (specific to the issue of nutrient reduction) would be:

- W&W will need to conclude the process to recommend changes to existing Sewer By-law 7070/97 for recommendation to Council
- W&W are currently collecting industry specific data on nutrient loads for various industrial sectors, and comparing nutrient limits specified in by-laws from other jurisdictions
- Target discharge levels will need to be established and advertised (i.e. discharge above a specific level will be surcharged)
- W&W will need to establish surcharge levies based upon actual capital + operating costs.
- Council will need to consider / approve the new rate structure.

Through this disclosure, we are providing Olywest with ample forewarning of the W&W Department's intent with regard to a future high nutrient discharge surcharge.

Other:
The Planning Property and Development Department commits to assign senior staff to the Olywest file to ensure that your project is expedited to a successful completion.

We also understand that as a condition, Olywest will require some assurance of future access to the City's sewer and water over a long term. This would include the possibility of the Olywest facility doubling it's capacity to the processing of 4.6 million hogs. The City will work towards a mutually agreeable Sewer and Water Access Agreement in this regard.

At this time you will appreciate that this proposal is an administrative recommendation and will require the approval of City Council. Furthermore, Economic Development Incentive Grant disbursements to Olywest would be subject to annual budget approval.

If you are in agreement with this proposal and wish to proceed, please sign the confirmation portion of this letter and return it to us at your earliest convenience. We understand that Olywest may be wishing to make a formal announcement of this new facility within the next couple of months. With your cooperation, we will therefore make best efforts for a coordinated and timely approval of this economic incentive package by City Council. As you are aware, this Economic Development Incentive Package will first be heard at the Executive Policy Committee (EPC) and will require City Council approval. Scheduled meetings of the EPC are on October 19,

November 9, and November 16, 2005 with City Council meetings on October 26 and November 23, 2005.

We look forward to further detailed discussions regarding your proposed project and will continue to assist in your efforts to ensure its complete success. Should you have any questions, please do not hesitate to contact me at the above referenced number.

Yours truly,

H. Finnigan
Director
Planning, Property, and Development Department

CONFIRMATION:

We request that the City of Winnipeg proceed with the formal recommendation to Council of our economic incentive package based upon the above stated terms and conditions.

Mr. D. Janzen
President

Date: November 2, 2005

c.c. Annitta Stenning, CAO
Ryan Craig, Mayor's Chief of Staff

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