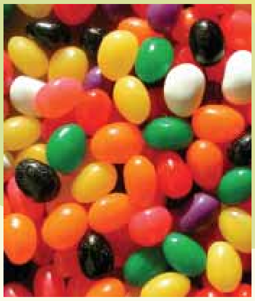


SUGAR CONFECTIONARY OPPORTUNITY PROFILE

SouthGrow
Regional Initiative

Creating Opportunities...

We Are...

City of Lethbridge
Town of Cardston
Town of Claresholm
Town of Coaldale
Town of Coalhurst
Town of Magrath
Town of Milk River
Town of Picture Butte
Town of Raymond
Town of Taber
Town of Vauxhall
Town of Vulcan
Village of Barons
Village of Carmangay
Village of Coutts
Village of Champion
Village of Milo
Village of Nobleford
Village of Stirling
Village of Warner
Cardston County
County of Lethbridge
MD of Taber
Vulcan County
County of Warner
Blood Tribe

The confectionery industry can be separated into those operations that make sugar candy, those that make chocolate and other cocoa based products and producers of gum.

Sugar confectionery companies are small or medium sized and produce hard candy, gummy bears, licorice, jujubes and toffee, as well as hard and soft candies for specialty and novelty markets.

Chocolate operations are larger and are dedicated to boxed chocolates, chocolate bars and/or seasonal novelties.

The Potential

In Canada, there is a significant market, in excess of $2 billion annually, for non-chocolate confectionery products. Sugar confectionery shipments increased from $520 million to $1.3 billion from 1994 to 2004. Domestic sales of non-chocolate confectionery products in Canada are estimated to be $1.2 billion annually. With total sales including imports estimated at $2.1 billion for 2005, the import penetration rate for sugar and confectionery products for Canada is 42.0 percent. About $869 million of product sold is imported and about 30 percent of this (or $261 million) is in the prairie provinces, which constitutes 30 percent of Canada's population. The total sales of non-confectionery products in the prairie provinces is $621 million.

In addition to western Canada's (British Columbia, Alberta, Saskatchewan, and Manitoba) population of 10 million, the western United States' (Washington, Oregon, California, Arizona, Nevada, Utah, Idaho, Montana, Wyoming, Colorado, New Mexico and Texas) population is about 85 million, resulting in large market potential. In the last ten years, the value of Canadian exports of confectionery products to the United States has increased more than three times, producing a trade surplus of over US$650 million. Canada's share of U.S. confectionery imports leads the world at 46 percent, almost three-times Mexico, the next largest exporter.

An Overview

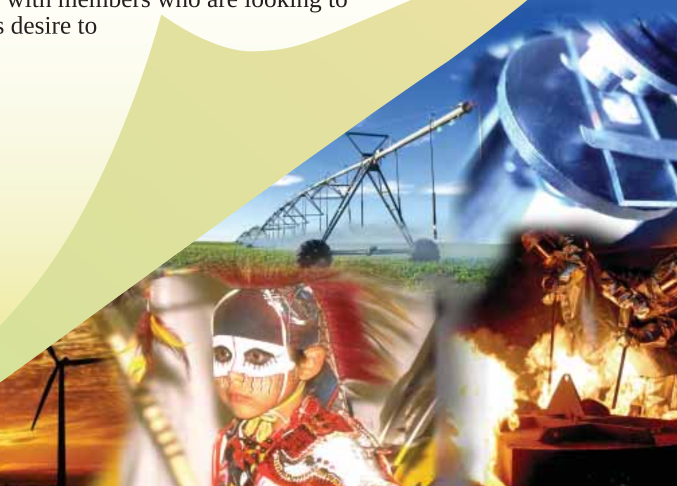
Packaging materials constitute a significant input cost, estimated at 20 percent of the cost of raw materials. Other raw materials include cocoa products (20 percent), sugar (5 percent), dairy products (7 percent) and nuts (6 percent). While medium- and large-sized firms in the confectionery industry are capital-intensive, technologically modern and efficient, entry into the sector can be gained with relatively low levels of sophistication.

Profits tend to be higher in the sugar confectionery industry than in the chocolate industry. Canada has four major multinational chocolate bar companies that co-exist in the same market, all about the same in size, resulting in intense competition and lower profits. Canadian firms that export to the United States enjoy a cost advantage over American manufacturers since the United States maintains a high domestic price for sugar and Canadian processors purchase refined sugar at world prices which are lower (25 to 30 percent lower).

The Opportunity

Major manufacturers such as Mars/Efferm/Masterfoods, Nestles, Cadbury, Ferrero and Hershey, have recognized Canada's advantages as a location for serving the North American plants in Canada. Others viewing non-chocolate confectionery as an opportunity include:

- Companies from outside of North America that serve the market and recognize that Alberta processors have a competitive advantage due to the North American Free Trade Agreement (NAFTA).
- European companies that want to expand its markets to North America and want to reduce production costs. EU reforms in Europe can cause sugar market imbalances that lead to severe disruptions and a decline in the EU sugar industry.
- Small- to medium-sized companies that are family owned with members who are looking to immigrate would be ideal given the Alberta Government's desire to encourage investment and immigration for those who wish to build a business in Alberta.



Fast Facts:

In the last ten years, the value of Canadian exports of confectionery products to the United States has increased more than three times.

Historically about 95% of confectionary exports go to the the United States.
A critical success factor in the non-confectionery industry is managing ingredient costs.

Other critical success factors in this sector include competing with branded products, product advertising and promotion, quality of production and gaining access to high-caliber distribution channels.

Canadian processors purchase refined sugar at world prices which are lower (25 to 30 percent lower).

Alberta processors have a competitive adveantage due to the North American Free Trade Agreement (NAFTA).

Sector Supports:

The following are organizations and agencies that can provide support for those wishing to seize the opportunity:

SouthGrow Regional Initiative
www.southgrow.com

Agriculture, Food and Rural Development – Agri-Food Investment Division
www.agric.gov.ab.ca/app21/rtw/index.jsp

Confectionery Manufacturers Association of Canada
www.confectioncanada.com

Sugar Beet Growers Assoc.
www.absugar.ab.ca

Rogers Sugar
www.rogerssugar.com

SouthGrow Regional Initiative

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www.southgrow.com

The SouthGrowN Advantage

A critical success factor in the non-confectionery industry is managing ingredient costs:

- **Sugar Beets** In the SouthGrow region, there are approximately 1.3 million acres serviced by irrigation. The average number of acres planted to sugar beets from 1997 to 2001 was about 3,400 acres per year and production from these acres has been about 778,600 tons per year.
- **Sugar** Rogers Sugar which is located in Taber in the SouthGrow region and which operates a beet processing facility contracts with sugar beet growers to encourage continued high quality production and increased acreage of beets. This plant is one of the most modern sugar refineries in North America and is capable of producing 150,000 metric tonnes per year.
- **Logistics** SouthGrow is located on the major Canadian transportation routes for both east/west and north/south highway routes. It is located on the Cananex corridor with close proximity to the United States border, allowing for easy connection to the interstate system to all major US cities.
- **Accessibility** SouthGrow's location is ideal for accessing the Western North American confectionery market.
- **Raw Materials** Main ingredients, sugar and baking flour, are readily available in the SouthGrow region.
- **Supports** Alberta food research facilities are available and accessible for product development.
- **Low Cost** Real estate costs in the region are less than those in other major centres in Western Canada, and the province has a competitive corporate tax rate for manufacturers and processors There are no capital or payroll taxes, and no provincial sales tax. Albertans also benefit from the lowest overall taxes in Canada.
- **Experience** SouthGrow has a mature food processing sector located within its borders, with successful operating models and strong industry associations.
- **Population** Growth due to in migration from both domestic and international sources is expected to continue.

Opportunity Assessment

The Boyd Company, Inc. of Princeton, New Jersey (a leading site location firm) analyzed key cost elements for the confectionery industry and found Alberta to have the lowest total annual operating costs of the 30 locations in Canada and United States studied:

Selected Sample of Location Comparisons (in $,000 U.S.)

Confectionery Industry Centre	Hershey, PA.	Chicago, IL.	Los Angeles, CA.	Charlotte, NC.	Alberta, Can
Sugar Cost (510 tons/month)	$3,814	$3,913	$3,895	$3,868	$1,650
Hourly Labour Costs (335 workers)					
Hourly Earnings	$17.43	$15.55	$16.43	$14.97	$11.98
Annual Base Payroll	$11,111	$9,918	$10,479	$9,548	$7,641
Fringe Benefits	$4,111	$3,669	$3,877	$3,532	$1,528
Occupancy Costs (175,000 sq. ft.)	$1,571	$1,873	$2,397	$1,837	$1,543
Outbound Shipping Costs	$3,518	$2,788	$4,135	$3,405	$3,479
Total Annual Geographically-Variable Operating Costs	**$24,615**	**$22,565**	**$25,177**	**$22,626**	**$16,130**

NOTE: Costs are projected based on a model 175,000 sq. ft. production plant employing 335 hourly workers. Finished product is shipped over-the-road to 12 key regional market cities for optimum North America distribution. A benchmark volume of 510 short tons per month of refined sugar is used to project the key sugar ingredient cost.