

November 18, 2019

Mr. Fred Bradshaw, Chair  
The Standing Committee on Crown and Central Agencies  
c/o Room 7, Legislative Building  
Regina, SK S4S 0B3

Dear Mr. Bradshaw:

**Re: Divestiture of CIC Asset Management Inc.'s investment in Terra Grain Fuels Inc.**

Rule 145(4) of *The Rules and Procedures of the Legislative Assembly of Saskatchewan*, requires the Minister of Crown Investments (CIC) to provide certain information to your Committee on any significant transactions that are undertaken by the Corporation. Accordingly, I am pleased to provide you with CIC Asset Management Inc.'s (CIC AMI) final report on the divestiture of its investment in Terra Grain Fuels Inc. (TGF).

**Situation Prior to Transaction**

TGF distills grain and corn to create ethanol and as a bi-product, livestock feed. TGF was formed in 2006 to construct an ethanol facility at Belle Plaine, Saskatchewan. As part of an investment syndicate, CIC AMI invested \$23.9 million in debt (becoming the majority debt holder) and \$3.0 million in equity as a result of commitments made by its agent at the time, Victoria Park Capital.

TGF is affected by the volatility of oil prices, grain prices, tariffs and U.S. dollar exchange rates. In 2010 CIC AMI sold the TGF equity, and during 2012 and 2013 CIC AMI wrote off the debt to zero due to declining market conditions affecting financial results at the plant.

In 2014, Golden Opportunities Fund, SaskWorks Venture Fund, and Prairie Ventures Fund (also members of the group of debt holders) purchased the equity ownership of TGF. CIC AMI chose not to take an ownership position in the company and remained a debt holder.

### **Objectives of the Transaction**

CIC AMI has a mandate to prudently divest of the investment portfolio. CIC AMI and the other debt holders agreed that sale of TGF to a strategic buyer provided the best opportunity for the plant's future growth. All the debt holders were interested in exiting the investment after holding it for over 10 years.

The debt holders and owners initiated a sale process of TGF in November 2018. Marketing was undertaken to strategic buyers including ethanol producers, oil refiners, and diversified fuel producers. Financial buyers were also contacted that had previously invested in the ethanol/biofuel industry.

### **The Transaction**

- 1) During the spring of 2019 all debt holders provided interim debt financing to TGF to sustain operations through a sales process. Funding was provided under the condition of priority ranking on the proceeds of the sale. CIC AMI's pro-rata share of the short-term loan was \$3.5 million.
- 2) On May 22, 2019 Federated Co-operatives Limited (FCL) issued a press release announcing it purchased the plant and assets, indicating FCL intended to operate the plant with existing employees and invest in the plant. The plant will assist FCL to prepare for the incoming national Clean Fuel Standard.

### **Implications of the Transaction**

As a result of the sale, the debt holders agreed to extinguish the amounts owed from the original 2006 loan in exchange for their pro-rata share of the net proceeds from the sale to FCL. CIC AMI extinguished \$40 million of unpaid principal and accumulated interest owing on its loan. CIC AMI's book value of the TGF investment prior to the sale process was zero. Since 2006, \$14.6 million of principal, interest and fees were repaid to CIC AMI on the loan.

The 2019 short-term loan was repaid to the debt holders from the sale proceeds. CIC AMI received \$3.5 million in July 2019, \$1.0 million in October 2019 and expects to receive an additional \$100,000 in 2024-25 per the terms of the sale agreement for a total of \$4.6 million.

### **Authorities**

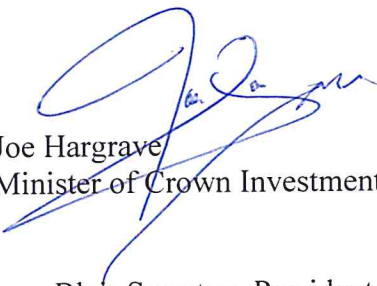
Authority for this transaction is *The Crown Corporations Act, 1993*. This transaction was also approved by the CIC Board and Cabinet.

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I would be pleased to provide any further information on this transaction that the Committee might require.

Sincerely,



Joe Hargrave  
Minister of Crown Investments

cc: Blair Swystun, President & CEO, Crown Investments Corporation  
Cindy Ogilvie, President, CIC Asset Management Inc.