

# Prospectus Supplement

## KC Pacific Energy - Pineapple report

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*Pineapple Farm*

## Costa Rica is largest producer

In 2004, Costa Rica was the 7th largest producer of pineapple, however with the introduction of the highest demand MD2 variety in Costa Rica, yields have tripled making Costa Rica the world's largest producer as of 2007.

Top 10 countries, (% world production, 2004)	
1. Thailand (11%)	6. Nigeria (6%)
2. Philippines (11%)	7. Costa Rica (5%)
3. Brazil (10%)	8. Mexico (5%)
4. China (10%)	9. Indonesia (3%)
5. India (9%)	10. Kenya (4%)

KC Pacific Energy

12/8/08

### Importance of Pineapple:

Pineapple is the second harvest of importance after bananas, contributing to over 20 % of the world production of tropical fruits (Coveca, 2002). Nearly 70% of the pineapple is consumed as fresh fruit in producing countries. Its origin has been traced to Brazil and Paraguay in the Amazonic basin where the fruit was domesticated. It has been defined as the most probable area of origin the zone comprised from upper Panama and Brazil, Paraguay and Argentina, including the northern Amazonian forest and the semi-arid regions of Brazil, Venezuela and Guyanas (Collins,1949).

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## Costa Rica, largest world producer as of 2007

### Production 2007

- The world pineapple production reached 1640.8 Million Metric Tons (MMT) in 2007 where Costa Rica (1544.8), Philippines (232.6), Cote d'Ivoire (175.0) are among the top fresh fruit exports.
- In 2008, Costa Rica is the leading exporter of pineapple to the European markets with an annual export of about 300,000 tonnes followed by Cote de'Ivoire, with an export of 150,000 tonnes, while Ghana just reached the third position with 71,000 tonnes.



## Why Now? MD2 and the credit crisis

Based on requests from international buyers and findings in a US market survey, USAID-RED identified the MD2 "Golden" pineapple as the variety in highest demand. Introduced in 2000 in Costa Rica. The MD2 variety are yellowish in color, have longer shelf-life span and are sweeter than the smooth cayenne, the former favorite. During the last few years, the MD2 variety has become the standard for the international market because of color and flavor superior to other varieties.



MD2 pineapple in Costa Rica

*“ Farmers sell their land as banks tighten lending requirements and pineapple is cost-prohibitive start-up for the poor”*

**While MD2 is more in demand and yields have more than DOUBLED, it has only overtaken the Red Spanish as the leading planted variety in Costa Rica as of 2006—VERY recently. Owners of perfectly fertile vacant land have yet to reassess the values of their land.**

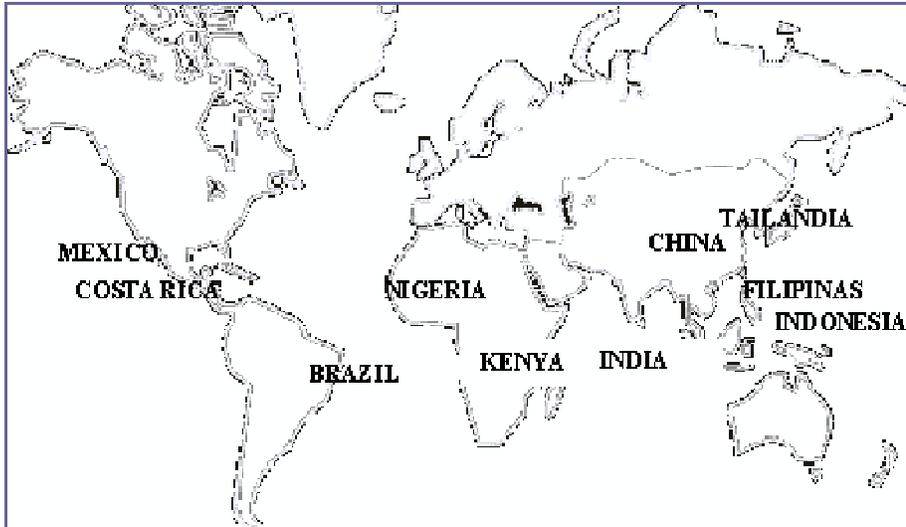
## Barrier To Entry

These same owners are unable to plant for themselves because it costs a minimum of \$2,500 per hectare to plant and NO BANKS are lending money (at any kind of reasonable rate) as of the recent CREDIT CRISIS that has hit the world these past 18 months.



Newly planted Pineapple Farm

## Demographics



## MD2 pineapple



MD2 pineapple in Costa Rica



## The Suckers and the slips (seed material)



## Soil and Climate of Costa Rica

Pineapples are very successful in Costa Rica for a number of environmental reasons. Pineapples grow best in hot tropical lowlands. The optimal temperature range for the fruit is from 75-90 F but they can grow above 65 F. If temperatures were to fall below this range, growth would slow, the harvest would be delayed, and a fruit with a lower sugar/acid ratio (undesirable) would be produced. Because Costa Rica's average lowland climate remains at approximately 72 F year-round, this is not a problem. However, one drawback of pineapple production is that the fruit cannot be grown in the highlands because temperatures only remain at 50-55 F year-round. Furthermore,

Costa Rica's climate is conducive to pineapple growing because pineapples are drought tolerant plants-thus allowing them to survive the dry season in Costa Rica which lasts from December to April. Also, the many volcanoes on the island contribute to oxidized iron in the soil



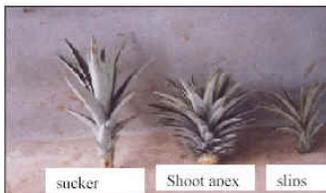
Land prepared for planting

which leads to increased pineapple production in the redder soils. (Costa Rican Climate, 1995). Finally, for all of these reasons, it can be seen why Costa Rica is the top pineapple producing country in the world. MD2 first was tested and developed in Hawaii and later sent to Costa Rica by Del Monte for further study. It was a hit because not only is it sweeter than regular pineapple, but the MD-2 has less acidity and a more complex taste and distinct coconut flavor.

## Converting the Complex Pineapple Growth Cycle into \$\$

### Planting, \$2,400/hectare

Includes ground preparation, mowing, tracking, fertilizing and planting of seed materials, slips or suckers of the plant. 60,000 planted/hectare.



**Seed material one-time cost:** \$4,000/hectare for 60,000 suckers & slips.

### Extraordinary ROI > 60%

We have access to prime, pineapple growing land from \$4,000 to \$14,000 per hectare. Investment will include first year planting and production costs resulting in up to \$21,000/hectare investment cost. Returns are estimated based on average yields for the



Plantation in Guanacaste province

**7 months:** flowering induction with a fertilizer or chemical.

**12 months:** first harvest.

**18 months:** second harvest.

**24 months:** third harvest.

**At end of year 2, field is burned and new suckers and slips are planted.**

**2 full time employees per 10 hectares, \$12,000 per year. Average \$1,200 per year per hectare in employee costs.**

**Year 1 yield: 50,000/hectare = 80 tonnes**

**Year 1 Cost: \$7,600/hectare**

**Year 1 Gross: \$24,000 (about 48 cents per average 1.6 kg. Pineapple, 30 cents per kilo)**

MD2 variety in Costa Rica. Land cost will effect actual returns, **worst case land cost is \$14,000 per hectare** resulting in a 60% return to the investor. Still, **60% returns are extraordinary when considering any investment.**

### US Department of agriculture

**news:** According to the Department of Agriculture, the prospects for pineapple are bright. The domestic demand over the next ten years is conservatively estimated to grow by an average of four to seven per cent very year. Moreover, if small and medium-scale growers and processors enlarge their operation, annual growth of pineapple exports could be higher by seven per cent in value and seven per cent in volume.

### Investment Amount

\$7,600 (yr. 1 production) + \$4,000 (land purchase) = **\$11,600/hectare**

### Return on Investment

**Year 1:** \$24,000 - \$3,600 (yr. 2 production costs) = **\$20,400**

**Year 2:** \$24,000 - \$3,600 (yr. 3 production costs) = **\$20,400**

### 60% to investor = 100% ROI

Note: second harvest is not confirmed and omitted from gross for conservative estimates.

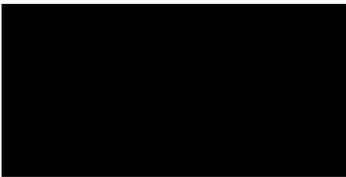
## KC Pacific Energy - Pineapple report

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*Food and Energy*



## Risks

Risks include but are not limited to:

- 1) **Disease** A very low disease risk exists in Costa Rica, highly unlikely greater than 2% loss, still our projections assume 20% loss. However, risk of total farm loss is possible although the research of this report has been unable to find any instance of such loss in Costa Rica.
- 2) **World Demand** Regardless of increasing world demand for pineapple over the last 10 years, there could be a sudden decrease in demand, although highly unlikely.
- 3) **World Supply** could increase faster than demand. Due to better farming practices and the aggressive growth of the MD2

cultivar the supply is rapidly increasing, but consumption is also increasing - hence the demand by Dole and Del Monte for new land is accelerating.



*Pineapple plantation*

Prices could drop, although seemingly unlikely to drop faster than the yield and demand increases because the MD2 variety is highly sought due to its sweetness and lower acidity. Farming practises constantly improve creating higher yields. However, this risk exists.

- 4) **Weather, drought and flood**, the stable weather of Costa Rica and the ability of pineapple to handle drought makes this situation highly unlikely.
- 5) **War/government stability**. Noted as the most stable and long-term democracy in Costa Rica, with over 10% of the land owned by US citizens, makes this risk very small.

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*KC Pacific energy S.A., a Costa Rican entity is seeking investment to purchase pineapple growing land as set forth in its prospectus in compliance with SEC regulation D. All interested parties should request the main prospectus of the company. This prospectus supplement is presented privately to express the belief of KC Pacific that investing with the Company in pineapple growing lands is a good opportunity. Investments may be made upon presentation of a check with signed copy of the prospectus to the President or Secretary of the Company.*