

LEVINOFF-COLBEX S.E.C. REPORT

NUMBER 6 - JULY 2010

SUPPLIES

AN INCREASE IN VOLUMES SINCE 2009

During the first half of 2010, the volume of cows slaughtered by the company increased by 17% compared to the same period in 2009. Indeed, the slaughterhouse operated at full capacity most weeks between October 2009 and May 2010, with approximately 3,000 cull cattle and 200 fed cattle per week. However, as every year, the volume of cows decreases during the summer.

Number of cows slaughtered (weekly average) ¹	January to June 2008	January to June 2009	January to June 2010
Quebec	1640	1262	1389
Outside Quebec	1219	1113	1383
Total	2859	2375	2772

¹ Includes no calves or fed cattle

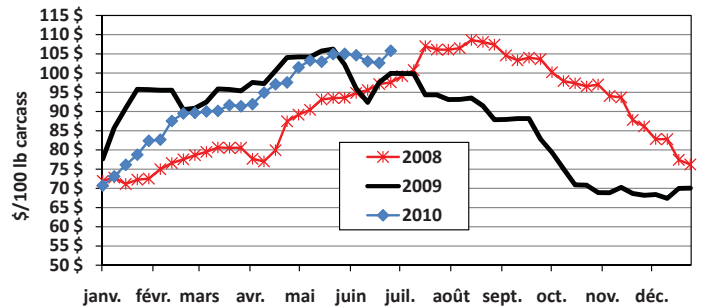
Direct deliveries to the plant continue to expand as a result of various measures taken to encourage its use: transport credit, extension of delivery schedules, premium for volume and reduced sales commission.

Thus, in 2010, direct shipments represent almost half of the volumes of Quebec this being an increase of over 100% compared to 2009.

PRICE OF CULL CATTLE SIMILAR TO LAST YEAR

The average price of cull cattle for the first six months of the year 2010 (\$93/100 lbs) is slightly lower than the price observed in 2009 (\$96/100 lbs) and higher than 2008 (\$83/100 lbs). As in previous years, the average price of cull cattle in Quebec in 2010 has increased steadily during the first six months.

Average price of Quebec cull cows (2008 to 2010)



MEAT AND BY-PRODUCTS MARKET

The price of lean boneless increased by 16% between January and June 2010, while the price of cull cattle has increased by 39% during the same period. This reflects a lower volume of supply over the months while the needs of the slaughterhouses were sustained in north-eastern North America.

The effect of the global economic recession on the price of certain carcass by-products has been reduced. Thus, the price of hides remains slightly below the range of prices observed before the recession.

RESULTS AFTER FIVE MONTHS OF OPERATIONS

From January 1st to May 29th 2010, results improved by \$2.5 million compared to last year at this time. These results do not reflect the federal program for the SRM (Competitiveness Program of slaughterhouses whose details were unveiled last July 5th). Taking into account the assistance provided for by this program in the amount of \$31.90 per cull cattle, profits are generated.

Also for the first five months of 2010, 60,041 cull cattle were slaughtered versus 50,868 the previous year, an increase of 18%. To this are added the 4252 fed cattle for Zensho versus zero last year. The total growth in the number of heads is 13 425 or 26%.

A second factor has contributed to improved results, this being the substantial increase in the price of hides which has risen from an average of \$20 per head from January to May 2009 to \$48 per head for the same period in 2010.

Unfortunately, the effect of increasing the slaughter volume and the prices of hides have been partially offset by a higher Canadian dollar reducing the dollar amount received on sales in the United States. The average exchange rate for the first five months of 2009 was \$1.22 CAN/U.S. \$1, compared to \$1.03 for the same period in 2010.

Moreover, on June 28th, 2010, Investissement Québec granted a loan guarantee on the line of credit which allowed to adequately support the operations. Remember that the working capital had deteriorated as a result of operating losses incurred in 2008 and 2009.

CHALLENGES AND PRIORITIES

• Supply

Supply is still the key element to ensure the profitability of Levinoff-Colbex. The biggest challenge for the company is to seek the maximum cull cattle in Quebec to get as close as possible to breakeven. In doing so, it reduces its dependence on supplies from outside Quebec to a sustainable level.

• Extension of the Zensho contract

Levinoff-Colbex regularly slaughters about 200 fed cattle per week for our client Zensho. The contract was extended until December 31, 2010 and our goal is to renew it for a larger volume.

• An encouraging federal program

On July 5th, 2010, the federal government announced the terms of the Competitiveness Programme for slaughterhouses, designed to support Canadian slaughterhouses face the loss of competitiveness caused by the SRM regulations. The program, for a period of one year, will pay in two payments a subsidy of \$31.90 per cull cattle slaughtered between January 1st and December 31st 2010. For Levinoff-Colbex, this represents a support of more than \$4 million for the year. This support will enable the company to consolidate its financial position in the short term.

Disbursement of financial assistance from the federal government is conditional to the establishment of an SRM management plan. Levinoff-Colbex is committed to, by the end of 2010, identify and adopt new technologies that can reduce SRM management costs. In this regard, the federal government has planned a \$40 million program to cover part of the implementation costs associated with such technologies.

• The company profitability improvement project

The company has submitted a modernization project (integrated plant) of its infrastructure to the Slaughter Improvement Program established by the federal government. The implementation of this project would reduce operating costs while developing new business. Levinoff-Colbex received a conditional offer of \$9.6 million from Agriculture and Agri-Food Canada in October 2009. The efforts continue with the Government of Quebec to complete the project financing.

Thus, an additional cooling space will be installed at the plant during the coming weeks. This development will increase the volume of slaughter in order to be able to enjoy the higher volume of cows in the autumn.

• Management agreement

Upon acquisition of Levinoff-Colbex (early 2006) a management contract for a period of five years was agreed with the former owners, the Cola Group. It will end on December 31st, 2010. Discussions are continuing regarding the future management of the company.

• Renewal of the collective agreement at the Montreal plant

The collective agreement applicable to the employees of our Montreal cutting plant, expiring in mid-December 2008, was renewed. This three-year agreement provides for a freeze of all conditions for its entire duration. A signing bonus was offered to all unionized employees.

July 19th, 2010
Levinoff-Colbex S.E.C