



## LEVINOFF-COLBEX S.E.C. REPORT

NUMBER 5 - MARCH 2010

### SUPPLY RISING RISING SINCE LAST FALL

In the first quarter of 2010, the volume of cows slaughtered by the plant was up 15% compared with the same period in 2009. Since October 2009, Levinoff-Colbex has been operating at full capacity, or about 3,000 cull cows and 200 fed cattle per week. In fact, the plant had to reduce its cull cow slaughter capacity in order to meet the fed cattle demand.

Number of cows slaughtered (weekly average) <sup>1</sup>	January to March 2008	January to March 2009	January to March 2010
Quebec	1952	1414	1522
Outside Quebec	1129	1190	1470
<b>Total</b>	<b>3081</b>	<b>2604</b>	<b>2992</b>

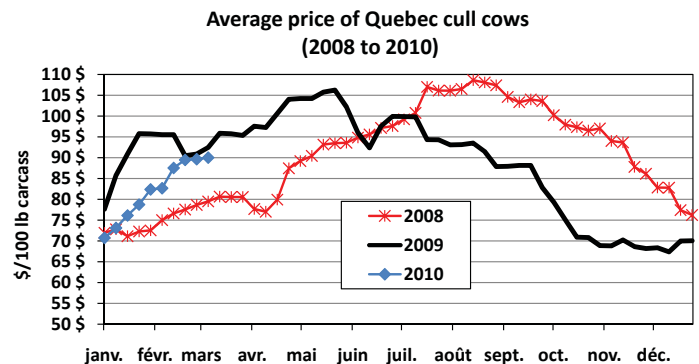
<sup>1</sup> Includes no calves or fed cattle

In 2009, direct deliveries to the plant accounted for 23% of the Quebec cows slaughtered by the company. Various measures have been implemented to promote direct deliveries, including transportation credit, extension of delivery schedules and payment of a volume-based premium.

These measures have paid off, since direct deliveries are rising steadily. So far in 2010, 40% of Quebec cows have been delivered directly to the plant. Furthermore, effective April 1, 2010, the sales commission for animals delivered directly will drop from \$17 to \$12 per head. This should contribute to a further increase in direct deliveries.

### COW PRICES THE MARKET STRENGTHENS

The average price of cull cows in 2009 was similar to the price observed in 2008 (approx. \$90 cwt) and above the 2007 price (\$72 cwt). Since the beginning of 2010, the average price of Quebec cull cattle has been increasing steadily.



### MEAT AND BY-PRODUCTS MARKET POSTS GROWTH

The rise in cull cattle prices in the first quarter of 2010 stems primarily from an increase in the price of boneless beef. The price of lean boneless beef climbed by 15% during this period, similar to cull cow prices.

The impact of the global economic recession on the price of some carcass by-products has now lessened. The price of hides has almost returned to the level posted before the recession, i.e. \$40 to \$50 per hide. This is a 150% increase over the low recorded in summer 2009.

## **2009 TRADING RESULTS**

### **A REAL STORM!**

In 2009, we slaughtered 129,209 cull cows and 2,904 fed cattle for an overall total of 132,113 head. Our break-even point is 156,000 head/year. Supply difficulties, low hide prices and the cost of requirements related to specified risk material (SRM) have resulted in an operating loss of \$7.1 million for the 2009 fiscal year. There was also a write-off of \$2.8 million for intangible assets, bringing the total loss to \$9.9 million.

These operating losses reduced our working capital. As a result, the Federation posted a guarantee bond at the bank to support our activities. A substantial increase in slaughtering activity since October has improved the company's working capital. This has given the bank a sense of security for the time being. Lastly, the Levinoff-Colbex plant's only long-term debt is an amount of \$19.5 million due to Investissement Québec.

### **WHAT'S IN STORE FOR 2010?**

The supply of fed cattle and cull cows during the first 11 weeks of 2010 has enabled the plant to operate at full capacity so far this year. This is a 22% improvement compared to the same period in 2009. The price of hides recently reached \$40-\$50 per hide, the price level before the recession. As for SRM, the federal government recently announced an assistance program that will help offset the impact of Canadian SRM regulations. Providing supplies reach our target of an average of 3,000 head/week, we can look forward to a balanced budget in 2010.

## **CHALLENGES AND PRIORITIES**

- **Supply -  
The ball is in the producers' court!**

The company's leading challenge is to obtain the maximum possible number of Quebec cull cows so as to achieve break-even. This will help reduce its dependence on outside supply to an acceptable level.

- **Zensho contract - Diversifying activities**

Since October 2009, Levinoff-Colbex has been slaughtering and processing 200 head of cattle per week (10,000 head/year) under contract to Zensho, a Japanese company. This large enterprise has more than 3,000 restaurants of various brands in Japan. Quebec's traceability system gave us an edge in winning this contract, since it enabled us to respond to Zensho's requirements that cattle be born and raised in Quebec and have a verified age of less than 21 months at the time of slaughter. The initial contract is for around one year. Discussions are underway concerning its renewal.

Levinoff-Colbex intends to continue to develop its fed cattle activities during 2010. Diversifying operations relieves dependence on supply of cull cows, in addition to offering new marketing opportunities.

- **SRM regulations - At last a federal program!**

The 2010 federal budget included a one year \$25-million program to offset reduced competitiveness caused by the SRM regulations. This is very encouraging news. However, we are still awaiting details of the program's terms and conditions.

The federal government also announced a \$40-million program to assist with the implementation of new technologies to reduce SRM management costs. We will analyze the feasibility of implementing selected promising technologies.

- **Business profitability improvement project**

The company has submitted an infrastructure modernization project (integrated plant) under the federal government's Slaughter Improvement Program. The implementation of this project would reduce operating costs and enable us to develop new business. We have received a conditional offer of \$9.6 million from Agriculture and Agri-Food Canada. We are continuing our efforts with the Quebec government for assistance to complete the financing of the project.

- **Management agreement**

When Levinoff-Colbex was purchased in early 2006, a five-year management agreement was signed with the former owners, Groupe Cola. It will expire on December 31, 2010. We have begun discussions with our managers on the terms for renewing this agreement.

- **Collective Agreement at the Montreal plant**

The Collective Agreement applicable to our employees at the Montreal cutting plant expired in mid-December 2008. Since no agreement was reached with the union, a conciliator was appointed. Negotiations are continuing with a view to reaching an agreement.