



# LEVINOFF-COLBEX SEC – QUARTERLY REPORT

NUMBER 1 – FALL 2008

The Board of Directors of Levinoff-Colbex Inc. is pleased to present this first quarterly report for Levinoff-Colbex SEC.

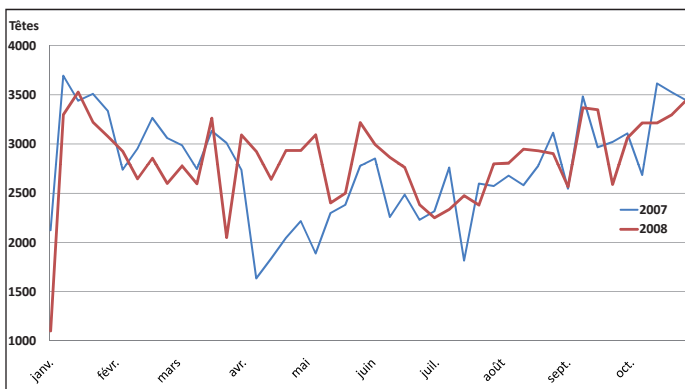
## SUPPLY

Despite a slight decrease in the number of cull cattle in Quebec and increased U.S. competition at Canadian auctions following the reopening of the U.S. border to cattle over 30 months old, the enterprise has succeeded in maintaining its slaughter rate thanks to steadier supplies of cull beef-cattle from Western Canada and the slaughtering of a number of grain-fed calves during the summer.

Overall in 2008, slaughter volumes after 10 months of operations are slightly higher than for the same period in 2007, and also higher than the estimates presented in our business plan.

The graph below compares the weekly slaughter rates for 2007 and 2008.

Weekly slaughter volumes, 2007-2008



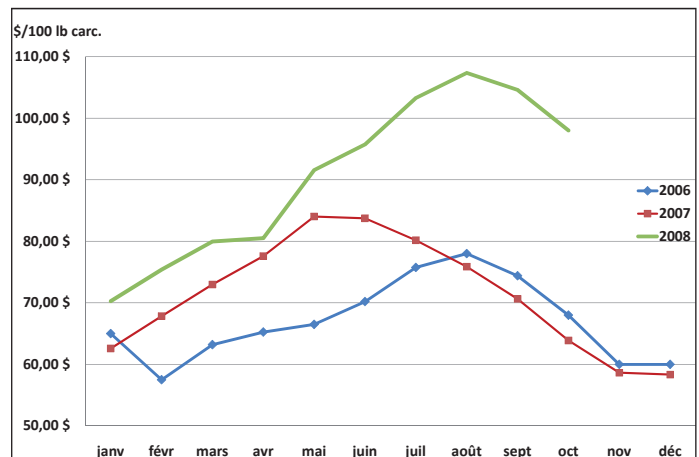
Source : Levinoff-Colbex SEC

## PRICES

The opening of the U.S. border to cattle over 30 months old has had a major impact on the prices of cull cattle and boneless beef in 2008. One result is that the price of dairy-type cull cattle, which are usually younger than beef-type cull cattle, has increased more rapidly in Eastern Canada. After 10 months' operations, the average price paid by Levinoff-Colbex to Quebec producers was \$526.59 per head, compared with \$428.58 per head for the same period in 2007, or an increase of \$98 per head.

The following graph shows the change in the carcass price paid to Quebec producers between 2006 and 2008. As can be seen, the carcass price has risen sharply since June 2008.

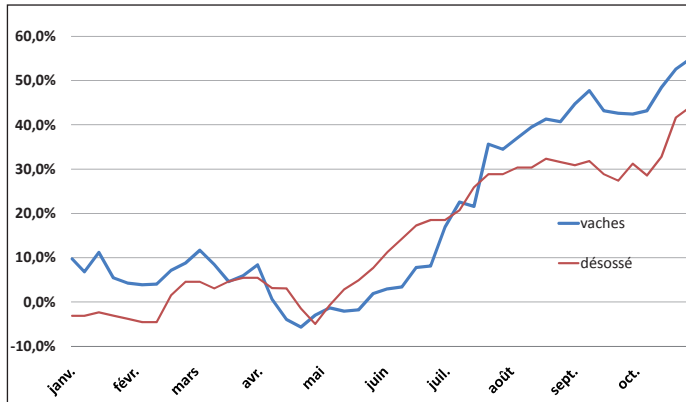
Average carcass price for cull cattle in Quebec, 2006-2008



Source : FPBQ

The graph below shows the percentage change in the purchase price of cows in 2008, compared with 2007, as well as fluctuations in the selling price of 85 percent lean boneless beef for the same two year period. As can be seen, in the first and third quarters of 2008, cow prices have increased more significantly than the price of boneless beef. This gap translates into a gross margin decline for 2008 compared with 2007.

Change (%) in cull cattle and 85 % lean boneless beef prices (2008 vs. 2007)



Source : FPBQ

## MEAT MARKET

The demand for cull cattle products remained strong throughout summer 2008. Low slaughter rates in Australia and New Zealand resulted in a sharp increase in demand on the local market which, in turn, led to an increase in meat prices in summer 2008. The price decline in autumn was largely offset by the fall of the Canadian dollar.

The implementation of COOL has not had a significant impact on the marketing of Canadian cull cattle meat. However, the additional costs associated with the management of specified risk materials (SRMs) continue to place us at a major disadvantage compared with U.S. competitors at auctions in the rest of Canada.

## BY-PRODUCTS

Despite the lack of access to major Asian markets, the plant has begun to make good use of certain slaughtering by-products intended for the export market. Returns per head for by-products have therefore increased substantially in 2008, with the exception of hides, whose price has been declining since August 2008.

## TRADING RESULTS

After 9 months' operations, Levinoff-Colbex has realized sales of \$102.3 million in 2008, compared with the estimate of \$94.3 million in the business plan, and \$85.9 million in 2007 for the same period.

Despite a higher sales figure, results are lower than projected. This is due to the following:

- ▶▶ A 2.5% drop in the gross margin for meat, due to the higher cost of animals. The latter was partially offset by an increase in the price of boneless beef and an increase in returns for by-products.
- ▶▶ Higher than projected operating costs (additional employees for the processing of SRM and by-products, additional payments to the CSST and higher waste disposal costs.)
- ▶▶ Higher interest charges on long-term debt and the bank overdraft due to the delay in re-capitalizing the business.

## RECAPITALIZATION

In summer 2008, the shareholder (FPBQ) launched an invitation for bids with a view to obtaining an additional \$30 million of investment in the business. An offer was accepted in fall 2008 and the FPBQ is currently completing the loan documents. Levinoff-Colbex's Board of Directors expects the investment to be made in early December 2008.

## BOARD PRIORITIES

Besides following up on the re-capitalization initiative, which will improve the facility's financial situation, the new Board of Directors is focussing on coordinating its action plan with that of the plant's general management. Optimal use of the plant's facilities is also a Board priority.

The expansion of the barn has been suspended, due to the delay in the company's re-capitalization. However, a temporary alternative is being put in place to receive Quebec cattle directly at the plant. The company will soon complete the transaction for the acquisition of the land adjacent to the plant in Saint-Cyrille-de-Wendover. This will facilitate the plant's future development and is a preventive measure to eliminate any future conflict with neighbours.

November 17, 2008

Levinoff-Colbex SEC