



LEVINOFF-COLBEX S.E.C. – QUARTERLY REPORT

NUMBER 2 – FEBRUARY 2009

SUPPLY

For 2008, the volume of cows slaughtered by the enterprise increased slightly compared to 2007, with 149,325 cows. This number corresponds to the forecast in the business plan. However, the slaughter volume was maintained due to a more sustained cull cattle supply from outside Quebec. The number of cull cows coming from Quebec decreased by 28% in three years, falling from 102,539 head in 2006 to 73,525 head in 2008 (see the table below).

Number of cows slaughtered	2006	2007	2008
Quebec	102 539	79 686	73 525
Outside Quebec	64 416	68 192	75 800
Total	166 955	147 878	149 325

This decrease is largely explained by the increase in milk production entitlements allocated over the past two years.

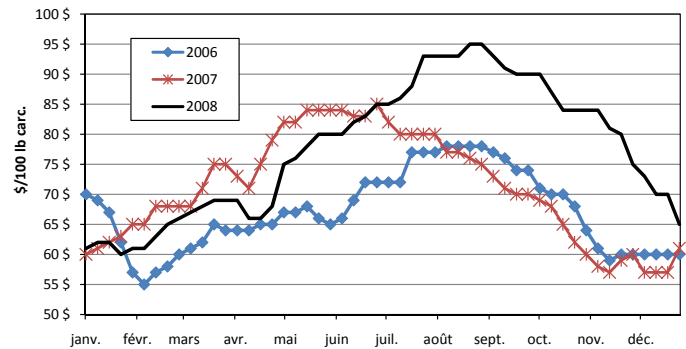
The increase in the number of cows slaughtered which originated from outside Quebec has the consequence of reducing the company's profit margins. Thus, it must assume additional shipping costs to maintain its supply.

Since January 5, 2009, the plant is able to receive direct deliveries of Quebec cull cattle, following modifications made to the barn. However, for the time being, few producers are taking advantage of this benefit. The slaughter plant receives only 150 cows per week directly. Delivery of animals directly to the plant has benefits for both the producer (better carcass yield through reduction in transit time between the farm and slaughter) and the slaughter plant (quality of product).

PRICES

In 2008, the opening of the U.S. border to cattle over thirty months old had a major impact on the price of cull cattle. The price of cull cattle has been increasing since 2006. The average price per head was \$534 in 2008 versus \$420 in 2007. This represents \$114 more per head in the past year. Parallel to this rise, the average price of boneless beef increased by only 17% in the same period. This gap translates into a decrease in the company's gross margin for 2008 compared to 2007.

Carcass price for full cattle in Quebec, 2006 - 2008



MEAT AND BY-PRODUCTS MARKET

The world economic recession resulted in reducing the value of certain carcass by-products. Among others, the price of hides dropped by 70% between April and December. This represents a shortfall of \$40 per head! Cull cattle market conditions have not yet adjusted to account for this reality, thus reducing the company's gross margins even further.

TRADING RESULTS

Levinoff-Colbex realized \$139 million in sales in 2008, compared to \$123 million forecast in the business plan, for the same volume of slaughtered cows. This increase in sales is thus directly related to the increase in the price of meat.

Despite higher sales, the results are lower than predicted. The business plan had forecast a \$3.3 million loss for 2008. The company realized losses of \$5.1 million (unaudited results). However, the company generated positive EBITDA (earnings before interest, taxes, depreciation and amortization) of \$2.6 million instead of the \$3.6 million forecast in the business plan. The following factors explain the gap observed between the actual financial results and the budget forecast:

- ▶ Higher interest expenses (around \$1 million) on the long-term debt and the bank overdraft related to the company's recapitalization delay (\$30 million in recapitalization realized in December instead of July 2008).
- ▶ Operating expenses higher than the forecasts (additional labour for treatment of SRM and by-products, an additional CSST provision and higher slaughter waste disposal expenses).
- ▶ A decrease in the gross margin on meat. The higher costs of supply were not totally covered by the increase in the price of boneless beef and by-product sales.

	2006 Audited	2007 Audited	2008 Non-audited
Revenues	\$120 M	\$113 M	\$139 M
EBITDA (earnings before interest, taxes, depreciation and amortization)	\$13 M	\$5 M	\$2.6 M
Net profit (loss)	\$6 M	(\$2.4 M)	(\$5.1 M)

For the 2009 financial year, we are finalizing our budget. At the present time, based on a slaughter volume of 150,000 head and a margin that essentially would be maintained between our selling prices and the costs of supply, we forecast EBITDA (earnings before interest, taxes, depreciation and amortization) of \$3.1 million and a net loss of about \$1.1 million. The substantial loss reduction would be due, among other factors, to a decrease of around \$2.6 million in interest expenses and the elimination of non-recurring expenses of approximately \$920,000.

IMPACT OF RECAPITALIZATION OF \$30 MILLION

The balance sheet as at December 31, 2008 reflects the \$30 million investment by the Fédération des producteurs de bovins du Québec. This made it possible to eliminate the bank overdraft, reduce the long-term debt to \$19 million, an amount almost entirely owed to the Federation, which in turn is liable for this amount to Investissement Québec

THE COMPANY'S CHALLENGES AND PRIORITIES

In 2009, Levinoff-Colbex S.E.C. will put special emphasis on ensuring the profitability of its operations. For this purpose, it will focus on the following three lines in particular:

- **Supply**

Increasing our slaughter volume by 10% to 165,000 cows would translate into a very significant contribution to our profits. In fact, the plant needs a minimum of about 160,000 cows to reach the break-even point. This additional volume must come mainly from Quebec. **For this purpose, the Board of Directors is calling on producers to make a commitment to send all of their cull cattle to their slaughter plant.**

We are also interested in fed cattle, whether under a custom slaughter or slaughter and marketing approach. There is more complexity involved in slaughter and marketing, because a new clientele must be developed.

- **Reduction of operating costs**

The market dictates the prices of boneless beef, cuts and by-products, as well as the prices paid for cows. Levinoff-Colbex thus exercises little control over its profit margin. The emphasis will be placed on the control of operating costs (e.g. CSST contributions, disposal of slurry from wastewater, etc.) and productivity gains (e.g. acquisition of equipment).

- **Added value**

How can we add value to our products to obtain better margins? Alternatives will be studied by the company's senior management.

Another of our priorities is the renewal of the collective agreement of the employees of our meat cutting plant located in Montreal, which expired in mid-December 2008.

Lastly, in January 2009, we met with representatives of Agriculture and Agri-Food Canada (AAFC) regarding a possible \$50-million financial support program for Canadian slaughter plants. We will continue these steps, initiated by the Fédération des producteurs de bovins du Québec, with the collaboration of the Federation.

February 12, 2009
Levinoff-Colbex S.E.C.