

The 2011 Battle For Acres

Unprecedented Challenges In Fruit & Vegetable Processing

POINTS OF INTEREST

The impact of the 2011 battle for Acres; an increase in expenses coupled with poor weather conditions are greatly impacting commodity prices

Increasing energy prices are influencing packaging. Retailers and manufacturers shrink pack sizes to minimize sticker shock.

Crop prices are on the rise. AFFI convention announces raw ingredient price increases ranging from 8% to as high as 40%

Over the last 3 years commodity markets have been on what can be best described as a 'roller coaster ride'. The ride started in 2008 when commodities such as wheat and corn hit all time highs. Compounding this issue was oil when it crossed the \$100 a barrel mark. While the recession somewhat cooled commodity prices other expenses such as fertilizer, equipment parts, land rentals, and seed costs continued to escalate. This has resulted in substantial decreases in the net earnings to some of the largest food processing companies in North America.

In addition to rising costs, poor weather in 2010 reduced production and have again substantially impacted commodity prices.

At Lucerne Foods we continue to strive to offset these increases through operating efficiencies. However, operating costs compounded by raw material ranging as high as 52% have

made it impossible to absorb and offset these increases on our own.

The challenges continue in 2011. The combination of the on-going battle for acres, difficult growing conditions, soaring cost of land preparation, fertilizer, irrigation, seed cost, labour, electricity, and fuel is continuing to drive up costs. The Associated Press reported that "Americans should brace for higher food prices this year...the demand for corn has pushed US supplies to their lowest point in 15 years."

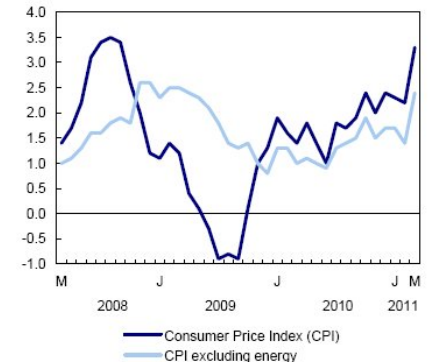


Processors are now at risk unless we can establish new pricing to reflect today's market conditions.

CPI & Energy

The 12-month change in the CPI and the CPI excluding energy

12-month % change



Energy prices advanced 17.1% during the 12 months to April, following a 12.8% increase in March. Gasoline prices increased 26.4%, bringing prices at the pump to a level 5.0% below the record high of July 2008. This increase followed an 18.9% gain in the 12 months to March.

Higher year-over-year prices were also recorded for electricity (+7.0%) and fuel oil (+32.4%). Conversely, prices for natural gas fell 4.8% in the 12 months to April.

Excluding energy, the Consumer Price Index (CPI) rose 2.0% in the 12 months to April, following a 2.4% gain in March. Excluding gasoline, the CPI advanced 2.2% in the 12 months to April.

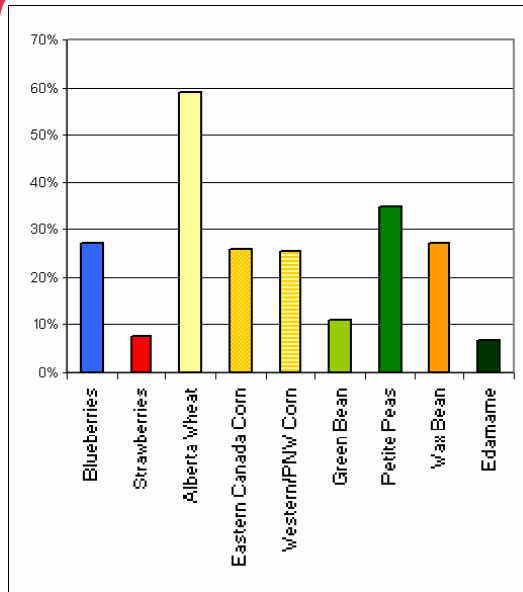


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Crop Price Increase from 2010 Growing Season to 2011 Growing Season.

2011 Crop Price Increases

Mother nature has one of the largest roles in the cost and pricing of crops. Poor weather conditions on a global scale are causing an increase in crop prices. Flooding in China has driven up the price of cauliflower and edamame as shortages become prevalent. Furthermore, cold weather in Western Canada is playing a key role in the delay of crop development in many facilities. These conditions are affecting the growth of peas, strawberries, and corn, among others.

Organics prices are on the rise since organic land is limited. Due to this and the high demand for organic products there is a shortage of supply, and thus, an increase in price.

A Crop Update From Our Plant Managers...

Colin Campbell — Lethbridge, AB

As of June 16, 2011 the Lethbridge facility has planted 98% of its corn. Due to the recent cold weather in Southern Alberta, the crop is experiencing slower growth. Thus, first harvest is expected September 1, 2011, one week later than planned. Also, at this time 66% of peas have been planted. Similar to the corn, the peas are also experiencing slower growth than normal. As a result, first harvest will be July 14, 2011, one week later than planned.

Travis Drew— Abbotsford, BC

As of June 17, 2011 the Clearbrook facility has successfully planted 100% of their pea crop. However, the peas are two weeks behind schedule. Roughly 38% of beans have been planted at this time. Due to a late start, there is an expectation of facing a 5% decrease on planted bean acres. Also, at this time beans are one week behind.

