



Financial Statements
December 31, 2009 and 2008

Northern Beef Packers LP
(A Development Stage Company)

NORTHERN BEEF PACKERS LP

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Northern Beef Packers LP
Aberdeen, South Dakota

We have audited the accompanying balance sheets of Northern Beef Packers LP (a limited partnership), formerly known as Northern Beef Packers, Inc., as of December 31, 2009 and 2008, and the related statements of operations, member' equity, and cash flows for the years then ended and the cumulative period from September 28, 2005 (date of inception) to December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Beef Packers LP as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended and the cumulative period from September 28, 2005 (date of inception) to December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Aberdeen, South Dakota
September 3, 2010

NORTHERN BEEF PACKERS LP**(A Development Stage Company)****BALANCE SHEETS****DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 33,619	\$ 449,431
Prepaid expenses	<u>659,957</u>	<u>659,957</u>
Total current assets	<u>693,576</u>	<u>1,109,388</u>
PROPERTY AND EQUIPMENT		
Development costs	<u>46,074,150</u>	<u>41,528,767</u>
OTHER ASSETS		
Related party receivables	1,890,175	1,890,175
Equipment deposit	500,000	2,000,000
Real estate held for sale	310,000	310,000
Loan fees	<u>417,000</u>	<u>-</u>
	<u>3,117,175</u>	<u>4,200,175</u>
	<u>\$ 49,884,901</u>	<u>\$ 46,838,330</u>
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 2,205,000	\$ 679,593
Accounts payable	13,950,449	11,595,745
Accrued expenses	<u>128,292</u>	<u>15,743</u>
Total current liabilities	<u>16,283,741</u>	<u>12,291,081</u>
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Partners' investment	36,850,000	35,497,000
Deficit accumulated during the development stage	<u>(3,248,840)</u>	<u>(949,751)</u>
Total equity	<u>33,601,160</u>	<u>34,547,249</u>
	<u>\$ 49,884,901</u>	<u>\$ 46,838,330</u>

NORTHERN BEEF PACKERS LP
(A Development Stage Company)
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>	<u>Cumulative Since Inception</u>
SALES	\$ -	\$ -	\$ -
COST OF SALES	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	-	-	-
IMPAIMENT LOSS ON EQUIPMENT DEPOSIT	1,500,000	-	1,500,000
START-UP EXPENSES	<u>799,089</u>	<u>821,882</u>	<u>1,748,840</u>
LOSS FROM OPERATIONS	<u>(2,299,089)</u>	<u>(821,882)</u>	<u>(3,248,840)</u>
DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	<u><u>\$ (2,299,089)</u></u>	<u><u>\$ (821,882)</u></u>	<u><u>\$ (3,248,840)</u></u>

NORTHERN BEEF PACKERS LP

(A Development Stage Company)

STATEMENTS OF MEMBERS' EQUITY YEARS ENDED DECEMBER 31, 2009 AND 2008

	Common Stock	Additional Paid-in Capital	Partner's Investment	Deficit Accumulated During the Development Stage	Total
Issuance of 100,000 shares at \$1.00 par on September 28, 2005	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Additional stockholder investment	-	519,147	-	-	519,147
Partnership equity investment, managing partner	-	-	2,000,000	-	2,000,000
Partnership equity investment, 26 limited units	-	-	13,000,000	-	13,000,000
Accumulated deficit from September 25, 2005 through December 31, 2007	-	-	-	(127,869)	(127,869)
BALANCE, DECEMBER 31, 2007	100,000	519,147	15,000,000	(127,869)	15,491,278
Equity paid out on conversion to limited partnership	(100,000)	(519,147)	-	-	(619,147)
Partners' equity investment subscribed, 44 limited units	-	-	22,000,000	-	22,000,000
Partners' equity subscriptions receivable	-	-	(1,503,000)	-	(1,503,000)
Accumulated deficit	-	-	-	(821,882)	(821,882)
BALANCE, DECEMBER 31, 2008	-	-	35,497,000	(949,751)	34,547,249
Partner's equity subscriptions received	-	-	1,353,000	-	1,353,000
Accumulated deficit	-	-	-	(2,299,089)	(2,299,089)
BALANCE, DECEMBER 31, 2009	\$ -	\$ -	\$ 36,850,000	\$ (3,248,840)	\$ 33,601,160

See Notes to Financial Statements

NORTHERN BEEF PACKERS LP
(A Development Stage Company)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>	<u>Cumulative Since Inception</u>
OPERATING ACTIVITIES			
Deficit accumulated during the development stage	\$ (2,299,089)	\$ (821,882)	\$ (3,248,840)
Impairment loss on equipment deposit	1,500,000		
Changes in assets and liabilities:			
Receivables	-	134,483	-
Accounts payable	35,665	-	35,665
Accrued expenses	112,549	15,743	128,292
NET CASH USED BY OPERATING ACTIVITIES	<u>(650,875)</u>	<u>(671,656)</u>	<u>(3,084,883)</u>
INVESTING ACTIVITIES			
Equipment deposit	-	(1,000,000)	(2,000,000)
Payment for real estate held for sale	-	(310,000)	(310,000)
Payments for plant development costs	(2,226,344)	(18,037,514)	(32,819,323)
Payment of fees for related parties	-	(1,195,825)	(1,890,175)
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,226,344)</u>	<u>(20,543,339)</u>	<u>(37,019,498)</u>
FINANCING ACTIVITIES			
Proceeds on notes payable	2,205,000	-	2,914,876
Payments on notes payable	(679,593)	(30,283)	(709,876)
Loan feEs paid	(417,000)	-	(417,000)
Equity retired	-	(619,147)	(619,147)
Capital investment	1,353,000	20,497,000	37,469,147
NET CASH FROM FINANCING ACTIVITIES	<u>2,461,407</u>	<u>19,847,570</u>	<u>38,638,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(415,812)</u>	<u>(1,367,425)</u>	<u>(1,466,381)</u>
CASH AND CASH EQUIVALENTS BALANCE BEGINNING OF THE YEAR	<u>449,431</u>	<u>1,816,856</u>	<u>-</u>
CASH AND CASH EQUIVALENTS BALANCE END OF THE YEAR	<u>\$ 33,619</u>	<u>\$ 449,431</u>	<u>\$ (1,466,381)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Development costs included in accounts payable	<u>\$ 2,319,039</u>	<u>\$ 11,595,745</u>	<u>\$ 2,319,039</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	<u>\$ -</u>	<u>\$ 2,760</u>	<u>\$ 2,760</u>

NORTHERN BEEF PACKERS LP

(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business (Development Stage)

Northern Beef Packers LP (a South Dakota limited partnership) (the Company) is located in Aberdeen, South Dakota. The Company was started for the purpose of constructing and operating a beef processing plant. The original entity, Northern Beef Packers, Inc., was organized on September 28, 2005 as an S corporation. In 2008, substantially all of the assets of that entity were transferred into Northern Beef Packers LP and the corporate entity was dissolved. The general partner has 40% interest, with the remaining 60% held by seventy limited partners, of which one is the general partner. The accompanying financial statements reflect the activities of both entities.

The Company has not yet commenced operations, activities through December 31, 2009 have been entirely related to raising equity, obtaining financing, and construction of the processing plant.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

For purposed of the statement of cash flows, cash includes all amounts on deposit with financial institutions with an original maturity of three months or less.

Property and Equipment

Development costs are stated at cost. Cost consist of development costs, capitalized interest and other costs that meet the capitalization criteria, less refunds of state taxes for qualified processing expenditures. Depreciation had not started as the plant has not been put into operation.

Real Estate Held for Sale

Real estate held for sale is a residence in Green Bay, Wisconsin that is carried substantially at fair value.

Loan Fees

Loan fees are cost incurred to obtain financing to complete construction of the plant and will be amortized over the loan period on a straight-line basis.

Subscriptions Receivable

Subscriptions receivable represent amounts due from partners accepted by the Company who have not paid the entire amount due.

NOTES TO FINANCIAL STATEMENTS

Organizational and Start-Up Costs

The Company has expensed all organizational and start-up costs incurred during all periods through December 31, 2009.

Subsequent Events

The Company has evaluated subsequent events through, September 3, 2010, the date which the financial statements were available to be issued.

Income Taxes

The Company is organized as a limited partnership, previously an S corporation. Accordingly, all earnings and losses of the Company pass through to the owners and are taxed at the owners' level. Differences between the financial statement basis of assets and the tax basis of assets are related to the capitalization of organization and start-up costs for tax purposes, whereas these costs are expensed for financial reporting.

The Company has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), on January 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of December 31, 2009, the unrecognized tax benefit accrual was zero.

The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. The Company is no longer subject to Federal tax examinations by tax authorities for years before 2006.

NOTE 2 - NOTES PAYABLE

The Company has unsecured notes payable to various individuals that are due on demand. These notes currently do not have a stated interest rate.

NOTE 3 – RELATED PARTIES

As of December 31, 2009, the Company had notes payable to the managing general partner and other management employees of \$1,155,000 which are included in the notes payable on the balance sheet (see also Note 2). During the period from inception through December 31, 2009 the Company had received interim loans from the previous owners, which have all been repaid. Interest payments on that debt were \$340,415, all of which was capitalized as development costs. In addition, the Company has receivables from the management company in the amount of \$1,890,175 at December 31, 2009 and 2008. These receivables are noninterest bearing.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

The Company has a disputed construction payable of approximately \$2.1 million, which has been turned over to legal counsel. The contractor has filed a mechanic's lien on the plant and the determination of the amount that will be due upon final settlement is not determinable at this time. There are \$10.9 million in additional construction liens filed against the Company's assets of which \$10.3 million have been included in the payables on the December 31, 2009 balance sheet, which represents the amounts the Company has entered into agreements to satisfy the liens.

NOTES TO FINANCIAL STATEMENTS

The Company has entered into binding contracts for additional construction totaling approximately \$8.9 million. Additional contracts for construction and installation of equipment and bringing in utilities will need to be entered into in order to complete the plant and make it ready to start processing beef.

In November 2007, the Company entered into a contract with Haarslev, Inc for the construction of rendering and bloodmeal processing equipment in the amount of \$10,257,000. Deposits of \$2,000,000 were made on this contract by December 31, 2009 with an additional required down payment of \$1,077,100 that was not paid by the Company. As a result, Haarslev has cancelled the contract and management has determined that the deposit is impaired. To date no legal action has been pursued by either party, though the Company has turned the matter over to legal counsel. There has been no significant action to date beyond notification of cancellation of the contract. Management has valued the deposit at their best estimate of the likely outcome.

NOTE 5 – SUBSEQUENT EVENTS

The Company entered into a loan agreement in March 2010 for \$30 million to complete construction of the plant. The loan matures on March 18, 2012 with interest accruing at 15%.

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