

Farm Management Consulting



MNP Canadian Agriculture Industry Outlook Spring 2024

Presented by: John Loepky P.Ag

Date: March 2024

Ag Industry Outlook – Table of Contents

- Canadian Agricultural Industry Outlook 2024
 - Market Fundamentals
 - Trade
 - Poultry
 - Dairy
 - Crops
 - Hogs
 - Beef
 - Wineries
 - Cannabis
 - Food and Beverage
- Contacts
- Appendices
 - Our People

Industry Outlook 2024



The Market Fundamentals

- Supply - Demand
- Trade
- Supply Management

Exchange Rates

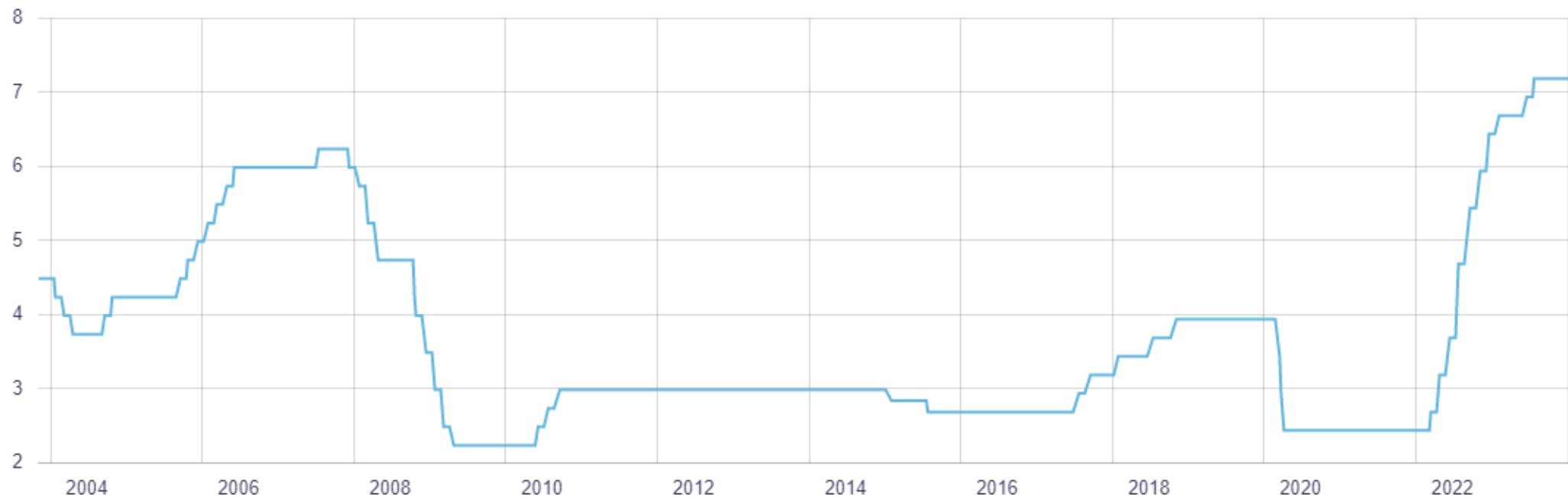
Daily Exchange Rates



Green – Euro Red - USD

Source: Bank of Canada

Interest Rates

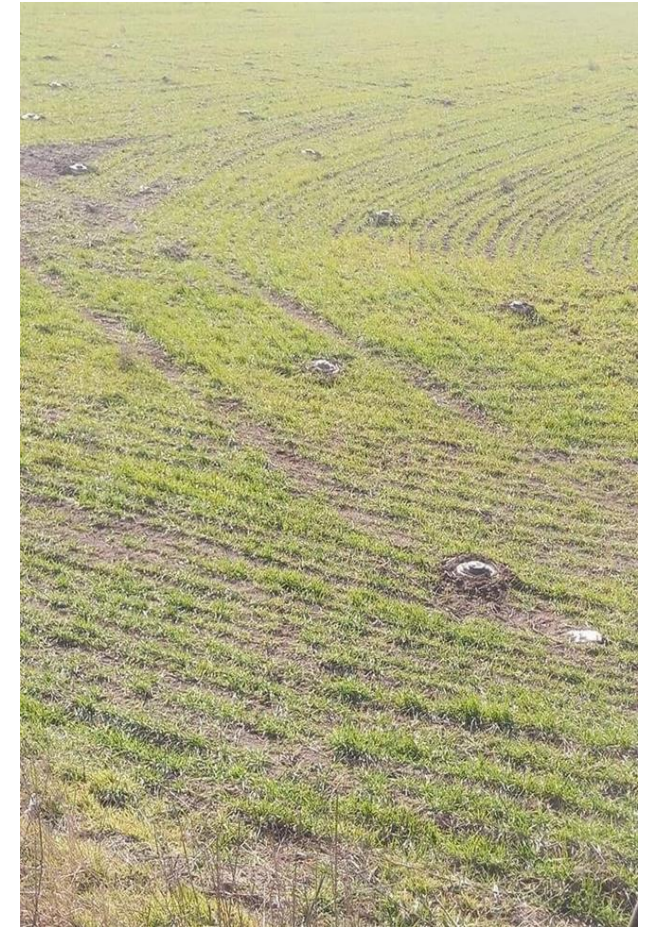


Source: Bank of Canada

Industry Outlook - 2024

Trade – Ukraine Conflict

- Unsuccessful talks between Russia and Turkey to revive the Black Sea grain deal / exporting of Ukrainian grains, as Russia demands its export restrictions to be lifted
- Leading to volatility in global prices, especially wheat prices, and concerns about food security
- A separate agreement was negotiated: Russia to send 1 million tonnes of grain to African nations via Turkey
- Despite Russian attacks on ports along the Danube River, Ukrainian exports using this route have been unaffected, also due to “humanitarian corridor”
 - With increased production of Ukrainian wheat (+9%), barley (+12%), corn (+4%), and sunflowers (+25%), Ukraine is expecting to export around 50 million tonnes of grains and oilseeds
- Ukraine has shifted their export trade routes from the grain corridor to shipping by sea along the black sea coast to Turkey and inland by rail to Poland and other EU countries

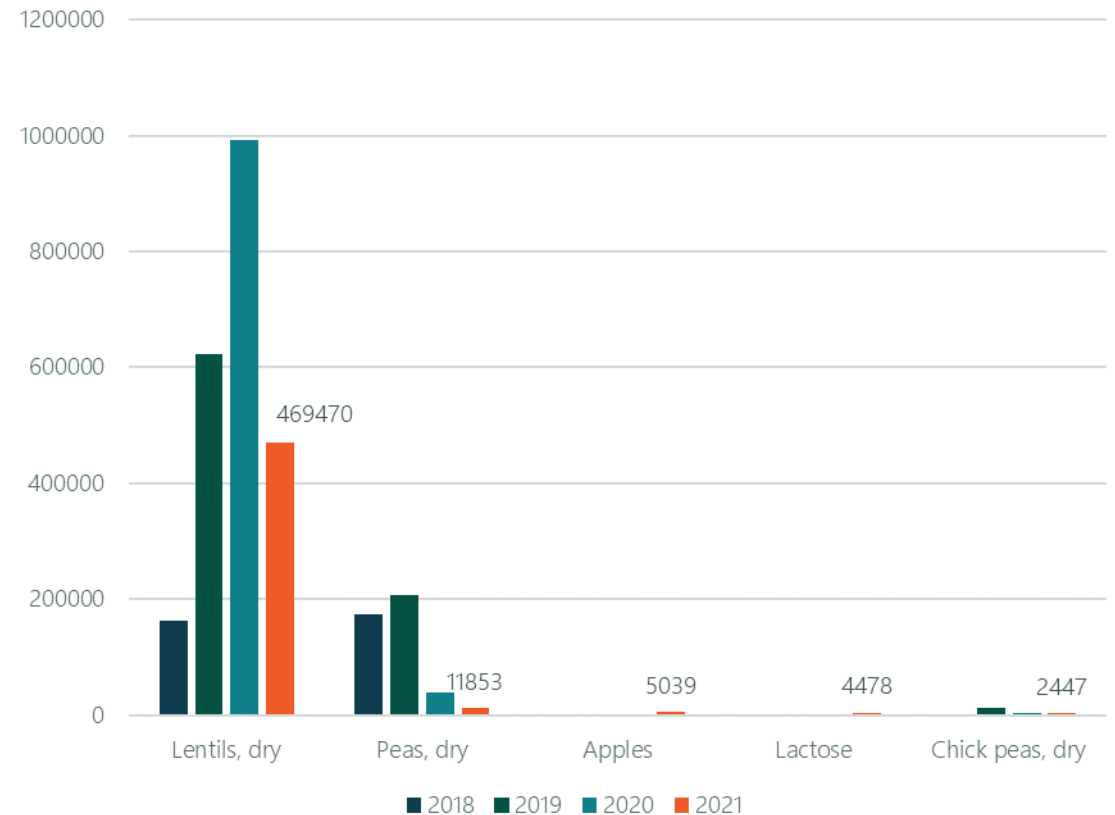


Industry Outlook - 2024

Canada – India Conflict

- Canada indicates they have evidence of Indian involvement in the assassination of a Canadian Sikh within Canada
 - Leading to strained relationships at the G20 meeting in New Delhi early September but has since been de-escalated
 - Concerns for impact on (ag) trade with India as 77% of lentil imports comes from Canada
- Other significant exports:
 - Crude rapeseed or canola oil
 - Dry beans
 - Coal
 - Potash fertilizer
 - Newsprint paper

Top 5 Commodities Exported to India - Export Quantity (tonnes)



Industry Outlook - 2024

Bill C-234

- The Bill would remove federal carbon tax from propane and natural gas used on farm for necessary farm practices (heating barns, drying grain etc)
- Fuel for on-farm use already exempt
- Senate amended the bill to remove the exemption for buildings and shorten the period from eight to three years
- In delay as it went back to parliament for further debate before it heads back to the senate to be approved

Industry Outlook 2024

- New Zealand disputed Canada's allocation of imports under CPTPP
 - 80-85% of TRQs are reserved for Canadian processors with priority access, thereby blocking other countries' chance to increase exports
 - A ruling in September 2023 determined that Canada has to change its TRQ administration to be consistent with the trade agreement
- USA filed additional disputed claims of Canada's dairy import quotas under CUSMA
 - A ruling was made in November 2023 that how Canada allocates its tariff-free dairy import permits through processors was consistent with what was written in the trade agreement. USA is expected to file additional disputes in the near future
- UK-Canada trade deal fell through in January 2024 due to sticking points such as access to the dairy industry with cheese imports from the UK

Industry Outlook 2024



Poultry

- Avian Influenza Continues
- Outlook for moderate growth in 2024
- Challenges for new entrants

Safe Guards

- *Understand the quota:*
 - *Provincial legislation re: transferability.*
 - *Debtor's utilization and options to lease out quota.*
 - *Understanding compensation rules will have bearing on security.*
- *High land values may support security position*

Industry Outlook - 2024

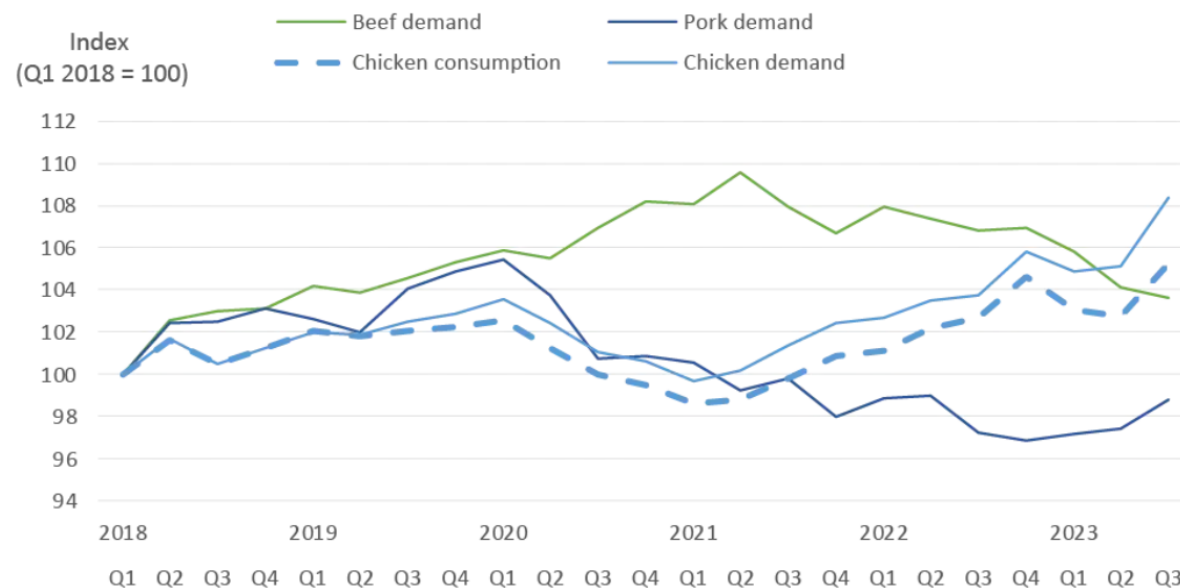
Poultry

- AI seems to have stabilized in most Canadian provinces:
 - Number of infected premises currently in 2024:
 - 13 in BC, 4 in Alberta, 1 in Saskatchewan, 1 in Ontario, 1 in Quebec, and 1 in Nova Scotia
 - A strain of the disease is now fatal to wild birds such as geese. They are also carriers of the disease and therefore contribute to more infections throughout the globe
 - Vaccine for ducks to be administered in France starting October 1

Industry Outlook - 2024

Poultry

- Chicken consumption and demand have seen steady increases in 2022 and 2023
- Poultry prices are expected to increase by \$0.10/kg and \$0.10/dozen in 2024
- Lower feed costs expected for 2024 but still above the 5-year average



Sources: Statistics Canada, AAFC, FCC calculations

Industry Outlook 2024



Dairy

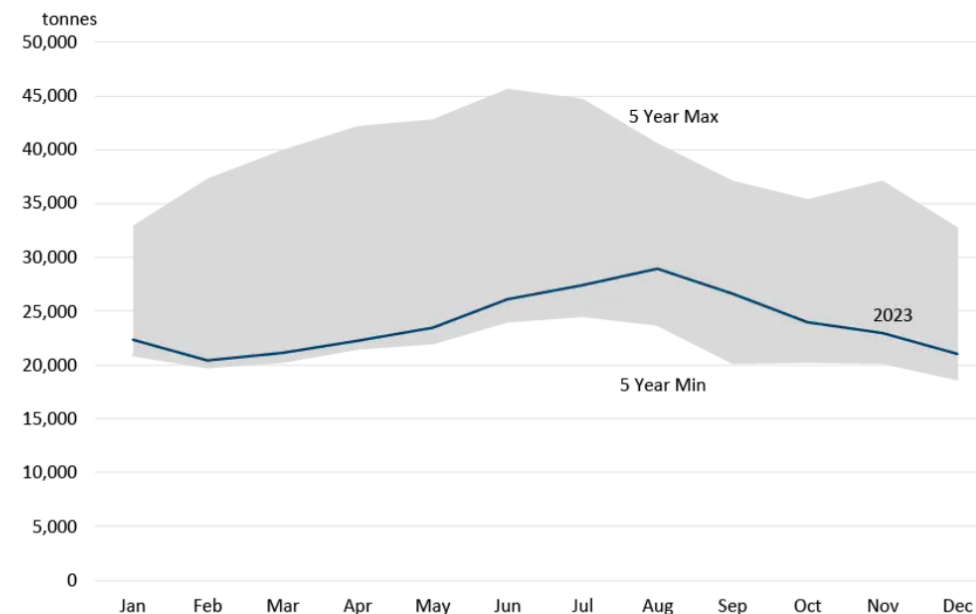
- Moderate profitability
- Increased demand
- Delayed milk price increase of 1.8% to May 2024

Safe Guards

- *Understand the quota:*
 - *Provincial legislation re: transferability.*
 - *Debtor's utilization and options to lease out quota.*
 - *Understanding compensation rules will have bearing on security.*
- *High land values may support security position*

Industry Outlook 2024

- Low butter stocks
 - Butter stocks are higher than last year but still low compared to the last 5 years
- Incentive days
 - 1 incentive day announced for P5 in February 2024 (There were 6 incentive days in 2023 for P5)
 - Is expected more incentive days will be announced for P5 and WMP later this year
- CDC estimates that TR grew by 2.4% in 2023



Source: CDC

Industry Outlook 2024



Crops

- 2024 Production Outlook
- Farm Equipment
- Farmland Values

Safe Guards

- *Equipment ratio on grain farms is important.*
- *Ensure all property of creditor included on debt security*
- *Verify proper registration on land and related farm equipment*
- *Verify crop insurance & AgriStability status*

Industry Outlook 2024

Corn

The 2024 USDA forecast from February are the following:

- Seeded acres is 91 million acres which is down from 94.6 million acres in 2023
- Average expected yield of 181 bushels/acre which is up from 177.3 bushels/acre in 2023
- USD\$4.40/bushel expected price in 2024



Soybeans

The 2024 USDA forecast from February are the following:

- Seeded acres is 87.5 million acres which is up from 83.6 million acres in 2023
- Average expected yield of 52 bushels/acre which is up from 50.6 bushels/acre in 2023
- USD\$9.60/bushel expected price in 2024



Grain Production - Canada

Soybeans

- 5.6 million expected seeded acres in 2024
- 5.6 million harvested acres in 2023
- Estimated yield of 45.5 bushels/acre which is down from 45.9 bushels/acre in 2023

Canola

- 22.7 million expected seeded acres for 2024
- 21.9 million harvested acres in 2023
- Estimated yield of 37.7 bushels/acre which is up from 36.9 bushels/acre in 2023
- 74% of the prairies are facing moderate to exceptional drought conditions

Wheat (excl. Durum)

- 20.3 million expected seeded acres for 2024
- 20.5 million harvested acres in 2023
- Estimated yield of 52.4 bushels/acre which is up from 49.9 bushels/acre in 2023



Industry Outlook 2024

Machinery purchases slowing

- 2WD farm tractors down 25.9% YTD
- 4WD farm tractors up 1.4% YTD
- Combine sales down 4.9% YTD

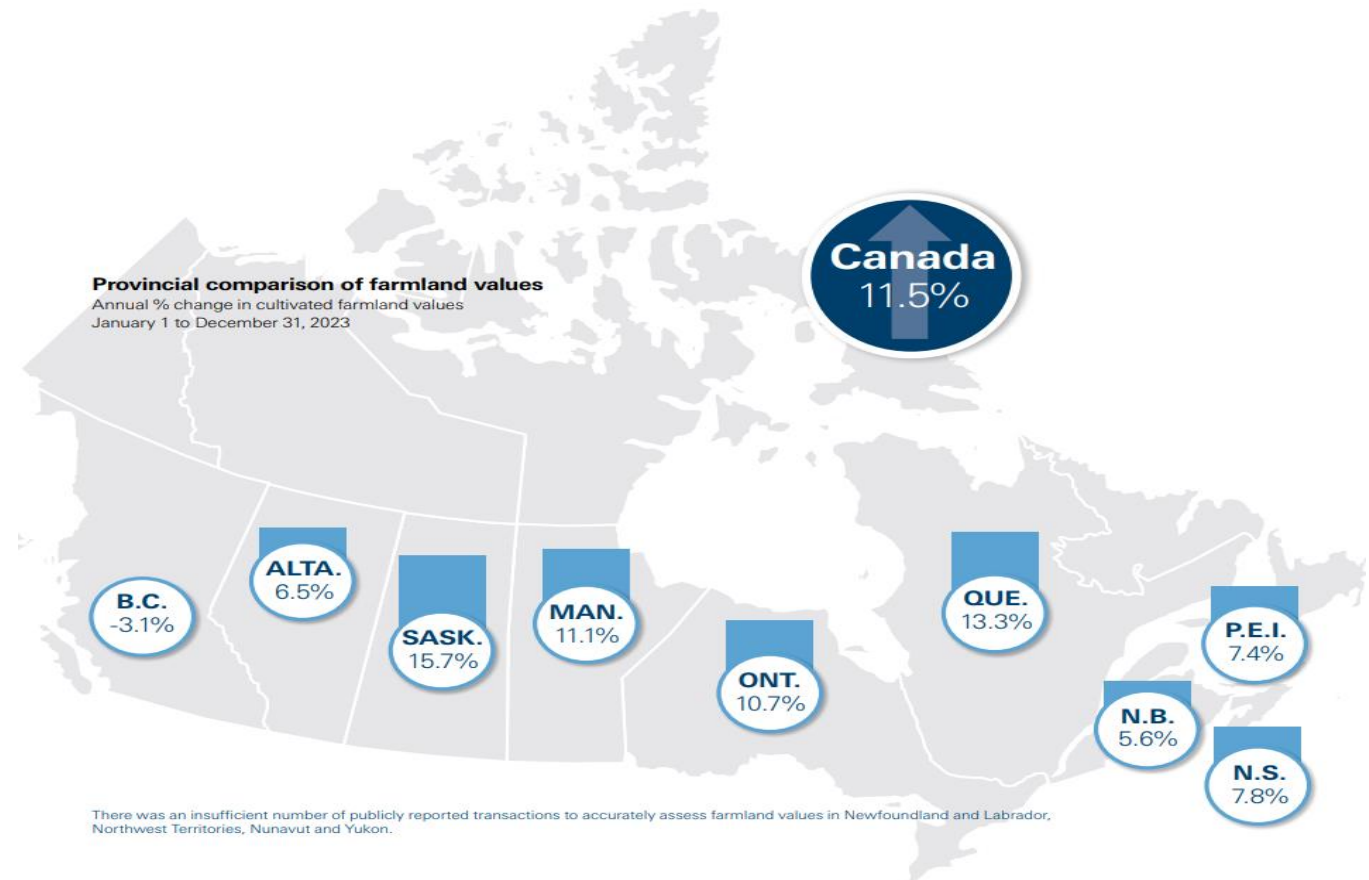
Source: Association of Equipment Manufacturers



Industry Outlook 2024

Canadian Farmland Values

2023 FCC FARMLAND VALUES REPORT



Industry Outlook 2024



Hogs

- Low margins in 2023 but outlook improved in 2024
- Hog prices are expected to remain the same for 2024 on average
- Demand in China is expected to drop for 2024 due to population decline

Safe Guards

- *Perform walk-through on short notice and assess condition of herd and barn operations*
- *Verify proper registration on land and related farm equipment*
- *Verify AgriStability status.*

Industry Outlook - 2024

5 Year MB Farrow to Finish Hog Margins (Per Head)

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|--------|--------|--------|--------|--------|
| Total Revenue Per Hog | 175.44 | 232.78 | 262.54 | 235.97 | 227.31 |
| Total Production Expenses per Hog | 127.04 | 172.04 | 200.33 | 186.23 | 167.94 |
| Gross Margin per Hog | 48.40 | 60.74 | 62.21 | 49.74 | 59.37 |

Industry Outlook 2024



Cattle

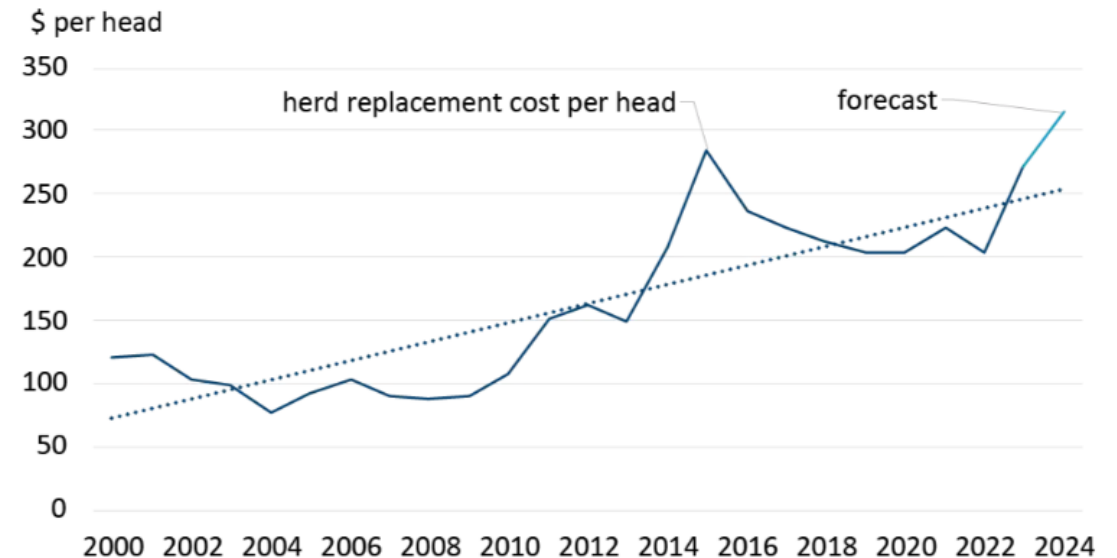
- Strong outlook for overall sector moving forward
- Lower inventories in industry
- Feedlot margins improving but still challenging due to high hay prices

Safe Guards

- Perform walk-through on short notice
- Verify inventory and require manifests and/or proof of purchase or sale. Look closely at inventory values.
- Verify AgriStability and risk management practices.

Industry Outlook 2024

- Likely no expansion of beef herds due to limited feed supplies, high feed prices, and high (record) calf prices
 - Drought assistance announced for Saskatchewan and Alberta
 - Some areas southwest of Winnipeg also eligible for tax deferral
 - Producers can defer income if their breeding herd has been reduced by at least 15%
- High summer demand, but sustainability is questionable due to higher interest rates and inflation



Sources: Manitoba Agriculture, CanFax, Statistics Canada and FCC Calculations

Industry Outlook 2024



Wineries

- Frost in BC interior has result in 70-75% expected loss in tree fruit/grape
- BC announces \$70-million replanting program after devastating crop loss
- Sales coming off of pandemic high levels
- The federal alcohol tax is set to increase by only 2% instead of 4.7% on April 1st

Safe Guards

- *Verify Inventory (and value in-use).- sample to ensure quality.*
- *Confirm terms of licences to produce and sell are being met.*
- *Seek rolling 5 year plans/third-party input – primary downfall is cash and inventory management.*

Industry Outlook 2024



Cannabis

- Industry revenue has grown at a CAGR of 43.4%, in last 5 years.
- The Ontario cannabis market reporting growth patterns.
 - Total sales reaching \approx \$145.93 million in February 2024
- Regulatory fee increase coming April 1st.

Safe Guards

- *Ensure all property of creditor included on debt security.*
- *Confirm terms of licences to produce and sell are being met.*
- *Confirm key individuals named in licences are tied to the company.*

Industry Outlook 2024

Table 1: Fees to be adjusted as of April 1, 2024

| Fee description | Current fee | Adjusted fee |
|--|-------------|--------------|
| Screening of a licence application for micro-cultivation | \$1,886 | \$1,969 |
| Screening of a licence application for standard cultivation | \$3,767 | \$3,933 |
| Screening of a licence application for nursery | \$1,886 | \$1,969 |
| Screening of a licence application for micro-processing | \$1,886 | \$1,969 |
| Screening of a licence application for standard processing | \$3,767 | \$3,933 |
| Screening of a licence application for sale for medical purposes | \$3,767 | \$3,933 |
| Application for security clearance | \$1,903 | \$1,987 |
| Application for import or export permit | \$703 | \$734 |

Source: Statistics Canada

Industry Outlook 2024



Food and Beverage

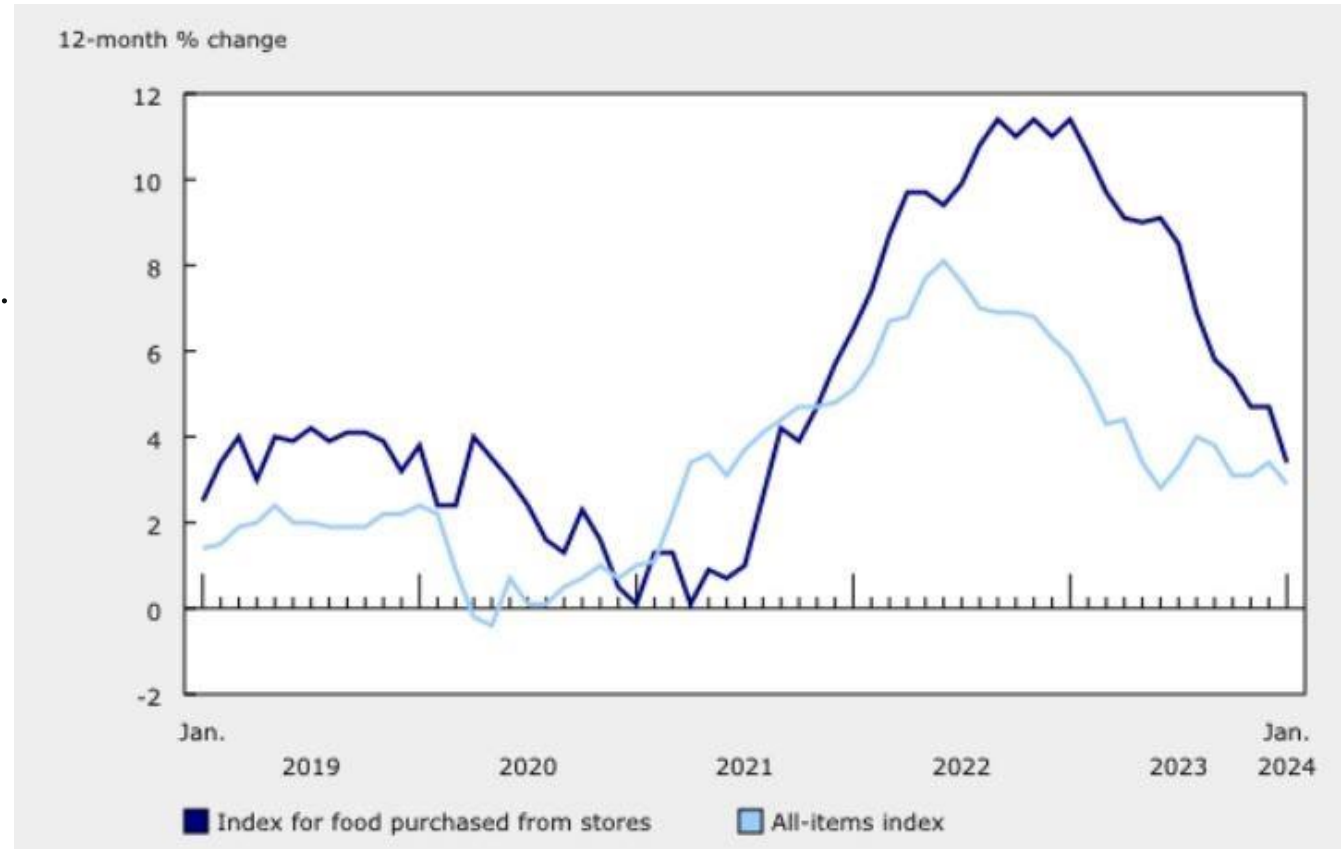
- Food inflation narrowing gap to overall inflation
 - Inflation of 2.9% in January vs 3.4% for food
- Rising costs impacting industry
 - Maintaining margins problematic as consumers choosing lower margin products
- Federal government promises prices freezes and special discounts, but grocers have yet to commit to the federal plan to stabilize food prices

Safe Guards

- *Ensure all property of creditor included on debt security.*
- *Confirm terms of licences to produce and sell are being met.*
- *Confirm key individuals named in licences are tied to the company.*

Industry Outlook 2024

- Consumer Price Index for food purchased from stores, 12-month percentage change.



Source: Statistics Canada

Contacts

Farm Management Consulting

John Loepky , P. Ag

Direct: 204.336.6148 Cell: 204.381.3260

john.loepky@mnp.ca

Corporate Recovery Services

Victor Kroeger, CPA,CA,LIT,CIRP, CFE

Direct: 403.298.8479 Cell: 403.870.1827

vic.kroeger@mnp.ca