



Farm Management Consulting

MNP Canadian Agriculture Industry Outlook Spring 2021

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Industry Outlook 2021

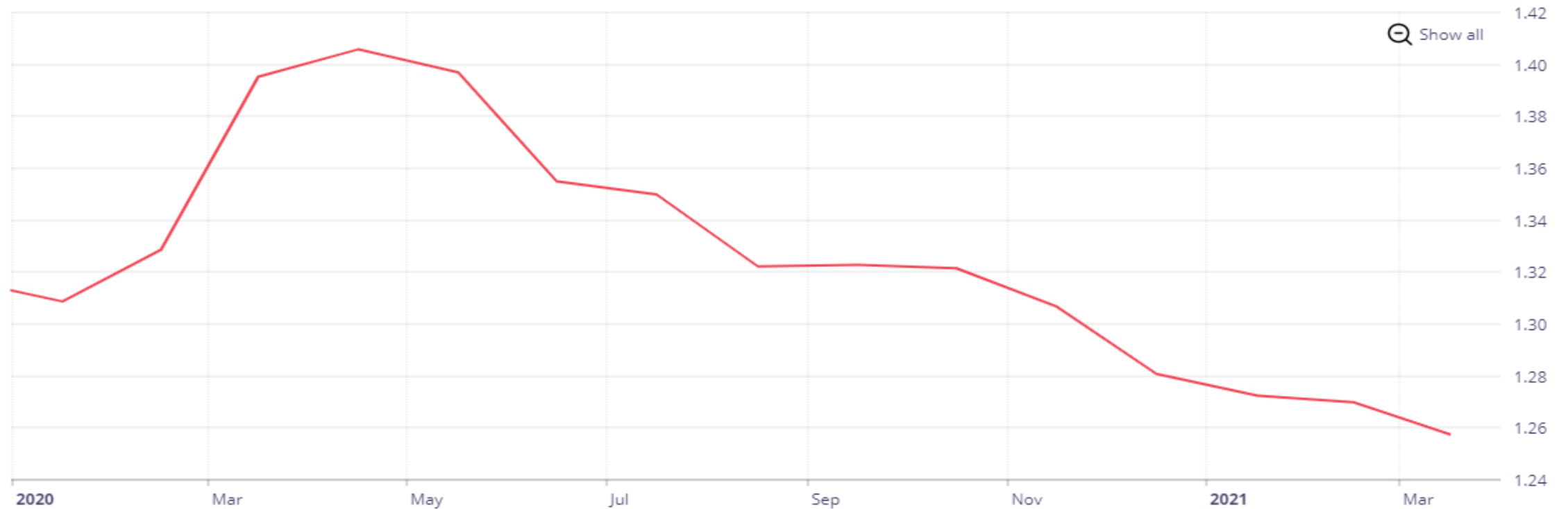


The Market Fundamentals

- Supply - Demand
- Trade (hoarding)
- Supply Chain Disruptions
- Supply Management

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Monthly Exchange Rates



Source: Bank of Canada

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USA and China

- Phase 1 deal reached almost 1 year ago (Feb 2020)
 - China agreed to purchase \$36.6 billion of US ag products in 1st year
 - To the end of 2020 they have purchased 82% of the committed amount
- Trade deals have not had significant focus due to Covid-19
- As the world adjusts and recovers, trade deals will come back into importance

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Canada and China

- Diplomatic relations continue to remain chilly
- The canola export licenses of Richardson and Viterra were suspended by China
 - Remain suspended to this day
 - That being said China was the largest market for Canadian canola in 2020, with 22% of exports landing there.
- While there has been lots of posturing for political effect it has not impacted agricultural trade, or trade in general, between the two countries.

2020 Canada-China Trade

Source: Trade Data Online (Statistics Canada – Customs Data)

Trade (Exports)	Jan-Dec 2019	Jan-Dec 2020	% Change
China	\$23.3B	\$25.2B	8.12
Others	\$569.4B	\$497.3B	-12.66
Total All Countries	\$592.6B	\$522.4B	-11.85

Trade (Imports)	Jan-Dec 2019	Jan-Dec 2020	% Change
China	\$75.0B	\$76.4B	1.91
Others	\$526.7B	\$465.3B	-11.65
Total All Countries	\$601.7B	\$541.8B	-9.96

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Canada and USA

- Expectation that there will be less uncertainty under the Biden administration regarding trade than under Trump
- USA will always be protectionist but potentially less so going forward
- On Dec 9th, US filed the first trade complaint under CUSMA related to dairy import quota
 - New Ag secretary, Tom Vilsack, is in favor of this complaint and a supporter of the US dairy industry

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Canada and UK

- Canada-U.K. TCA
- Entered into force on April 1, 2021
- Canada has ratified a post-Brexit free trade deal with U.K.
- Transitional agreement that allows Canada and Britain to continue to trading virtually tariff-free while the two countries work out a longer term deal. It is virtually the same as the trade deal with the E.U. that U.K. was originally part of.
- This agreement is in place temporarily while a new trade deal is being negotiated between the two countries.

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Poultry

- Outlook for growth in 2021
- Profitability a mix of improving prices/consumption and rising feed costs
- Trade Deal Compensation

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*

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Trade compensation

- Industry is looking for compensation for CPTPP and CUSMA Trade deals
- Nov 2020 Canadian government announced compensation for CPTPP
 - \$691 million on total over the next 10 years
 - Covers chicken, egg, broiler hatching egg and turkey
- When Chile ratifies the CPTPP it will have the biggest impact on turkey producers, taking up the majority of the access granted

Industry Outlook 2021



Dairy

- Consumer demand shifting
- Rising feed costs
- Trade Compensation

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*

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National retail sales

	52 wks ending Feb 1/20	52 wks ending Dec 26/20
• Fluid milk	-1.8%	+5.6%
• Fluid cream	+5.3%	+12.7%
• Yogurt	-2.7%	+2.5%
• Ice Cream	-1.0%	+13.0%
• Cheese	+0.6%	+10.8%
• Butter	+4.1%	+12.4%

Source: Dairy Farmers of Manitoba

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- Federal Government to pay out remaining \$1.405 billion over next 4 years to the dairy industry for the market access that was given up in CETA and CPTPP
- Government has committed to compensating dairy farmers for CUSMA but the details are still pending

Industry Outlook 2021



Crops

- 2021 Planting
- 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*

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US Planting Intentions

- Wheat: 46.4 million acres (up 5% yoy)
 - 4th lowest acres since 1919
 - Stocks of 1.31 billion bu (down 7% yoy)
- Corn: 91.1 million acres (up less than 1% yoy)
 - Stocks of 7.7 billion bu (down 3% yoy)
- Soybeans: 87.6 million acres (up 5% yoy)
 - 3rd largest acreage on record
 - Stocks of 1.56 billion bu (down 31% yoy)



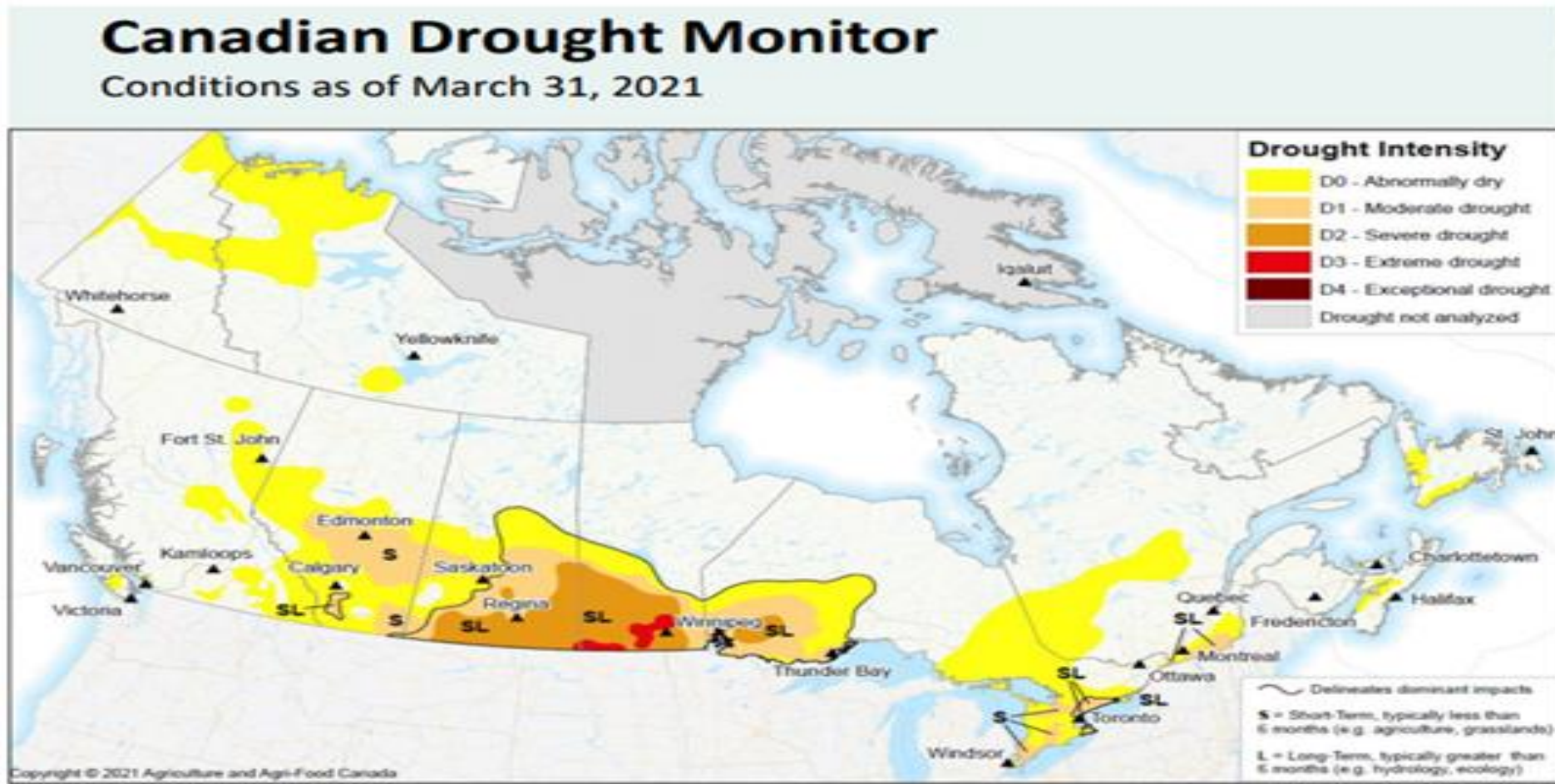
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Canada Planting Intentions

- Stat's Can and AAFC estimates will be coming out later in April.
- A lot is riding on the amount of moisture at time of seeding.
- Fertilizer pricing is also having an impact on crop selection
- Industry expectations are that canola acreage expected to increase significantly
- Chinese demand for major crops has depleted world supplies and is supporting strong pricing going forward



Industry Outlook 2021



Industry Outlook 2021

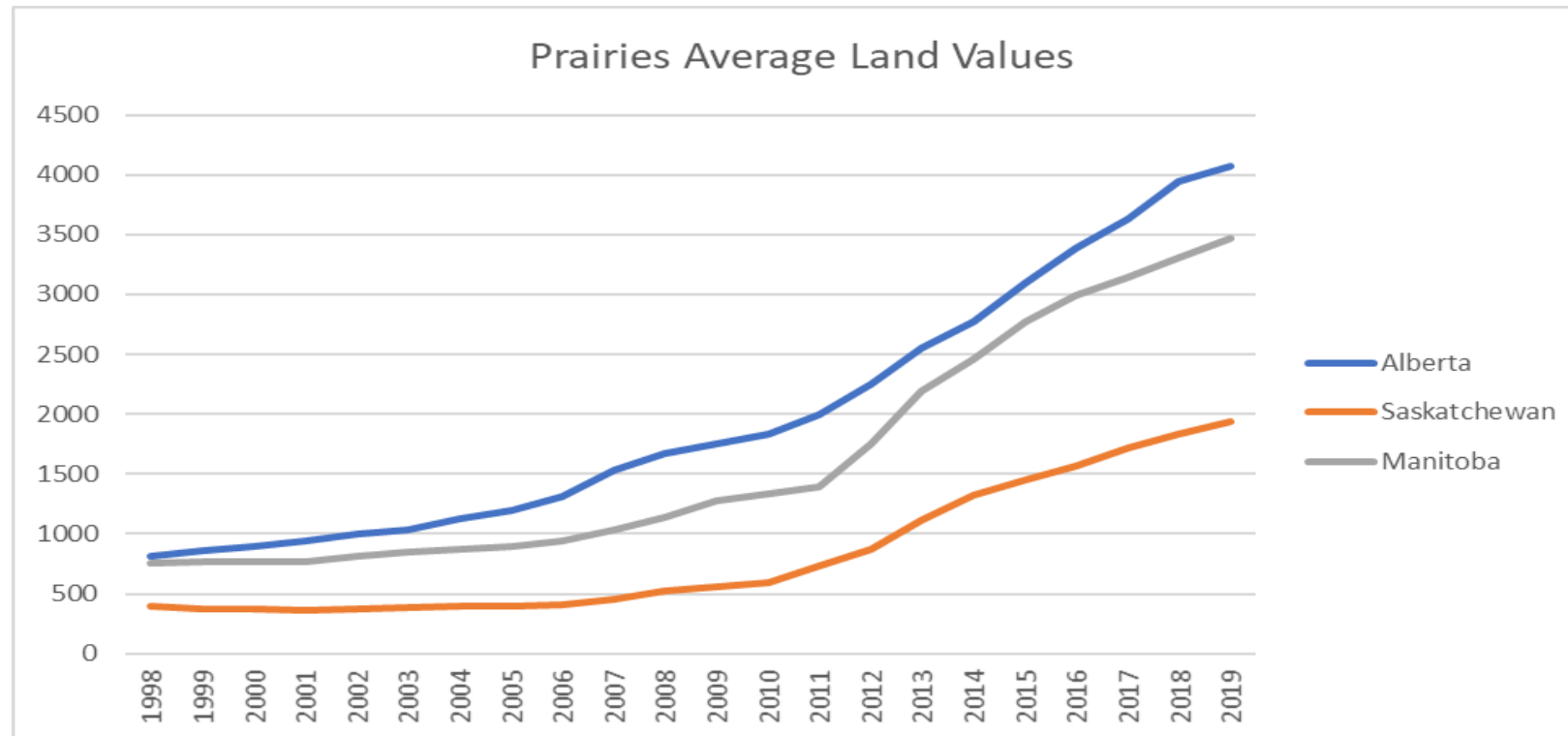
Higher machinery purchases

- 2WD farm tractors up 47% YOY
- 4WD farm tractors up 72% YOY
- Combine sales up 38% YOY

Source: Association of Equipment Manufacturers



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Source: FCC

Industry Outlook 2021

- Canadian farmland value up 5.4% in 2020 (5.2% in 2019)
- Largest increases were seen in B.C. (8%) and Quebec (7.3%) while Alberta saw the largest increase on the Prairies at 6%
- Major drivers of land prices:
 - Crop income (yields and prices)
 - Interest rates
- Extremely low interest rate environment currently coupled with record high grain prices a recipe for land values to increase again

Industry Outlook 2021



Hogs

- Rallying prices
 - At 5 year highs
- Feed prices rising
- ASF resurgence
 - New mutant strains harder to detect

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 2021

Risk Management Program Update

- During early parts of last year hog farms were hit hard by extremely low prices
- Industry had been calling for government support of \$20/market hog during this time
- On March 25th during intergovernmental meetings, changes to AgriStability program were agreed on between Feds and provinces.
- Most significant change is adjusting the reference margin limits
- Change will be implemented going forward and will also be retro active to 2020

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Cow/Calf

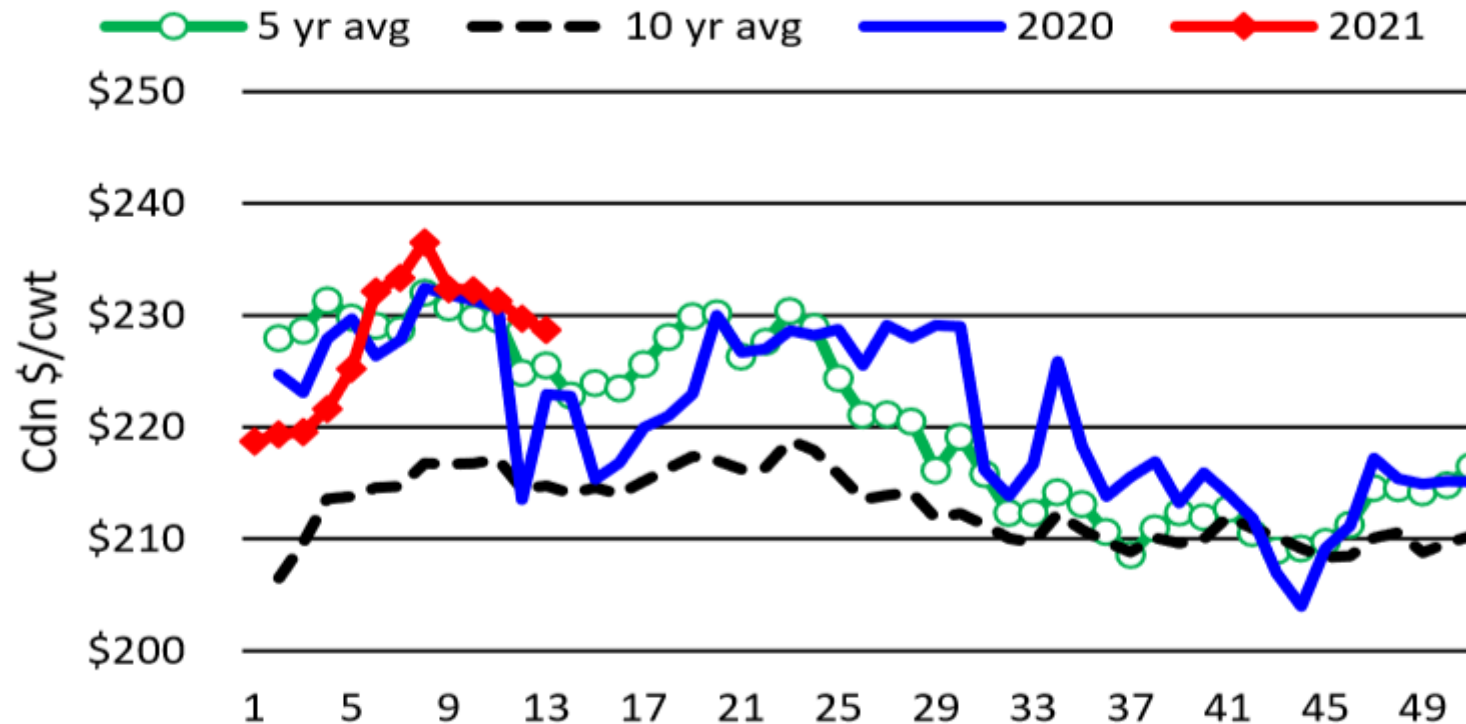
- Prices strengthening
 - calves valued more than backgrounders
- Grass quality to be determined

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.

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Alberta Weekly 5-600 lb Steer Price



Source: Canfax

Industry Outlook 2021



Feedlots

- Cattle on feed lower than same time last year but still 6% higher than average
- Backlog due to temporary plant closures
- Feed prices pressuring margins

Safe Guards

- Verify inventory and require manifests and/or proof of purchase or sale
- Verify AgriStability status and CPIP contracts
- Ensure lands properly captured in loan documents and registered at land titles
- Check risk management practices. Scrutinise business plans.

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Wineries

- Large wineries ‘weathering the storm’
- Craft wineries struggling
- Contract growers impacted by craft clients

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 2021



Cannabis

- Retail sales increasing
 - Changing price point
- Cultivation capacity finding equilibrium
- Drive for lower cost of production
 - Potential in outdoor growth

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 2021



Food and Beverage

- Sales increased for the sector by 3.5% over the year*
- Labour shortages continue
- Demand expected to shift back to foodservice and away from grocery

* (source: FCC Food and Beverage Report 2021)

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.*

Contacts

Farm Management Consulting

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Appendices – Our People

The MNP Advantage:

- Offices in strategic urban and rural locations from coast-to-coast
- Experience with 18,000 commercial and 300 Hutterite Colony farm clients
- Over 60 years service to agriculture has given us unparalleled and unrivalled access to the industry from the producer level all the way up to industry associations and government.

Nobody does it better.

Appendices – Our People

“Think Global, Act Local”

- Over 85 offices from coast-to-coast.
- Member of Praxity Global Alliance of Independent Firms giving us worldwide presence
- The only professional accounting firm with a dedicated Farm Management Consulting group
- We have specialists located in the areas necessary to meet the needs of our agricultural clients

Appendices – Our People

Over 600 professionals focused on the agriculture industry with niche specialities in:

- Farm Management
- Crops
- Livestock
- Farm income stabilization programs
 - AgriStability and AgriInvest
- Agriculture specific accounting & tax
- Food & Ag Processing
- Hutterite Colonies

Appendices – Our People

Farm Programs

Farm Programs are a complex and highly specialised service-line.

With several hundred file preparers preparing over 9,000 applications a year backed up by 100 internally certified specialists MNP is the only firm in Canada to:

- Take a full-service approach to Farm Programs.
- Develop a specialised team to maximise program-revenue for our clients.
- Prepare such a large volume of applications.

Appendices – Our People

Farm Programs

A Full-Service approach means that MNP does more than just complete the forms – we know what and how much we are applying for which means:

- We know when payments are wrong and when it is worth following up and/or appealing.
- We get what we claim 90% of the time.
- We have a robust track record of reviewing non-MNP prepared applications and collecting under-claimed amounts.
- Only firm in Canada with ability to analyse interaction between risk management programs enabling them to be truly used for risk management with our ARMP tool.

Appendices – Our People

- The 25 professionals in MNP's Farm Management Consulting group bring to bear a combination of on-the-farm experience and formal education
- Education and experience include:

Bachelors of Science in
Agriculture (B. Sc.)

Professional
Agrologists (P. Ag)

Certified Agricultural
Consultants (CAC)

Former and current
farm managers and
producers

Appendices – Our People

Within the Farm Management Consulting team we have niche professionals in:

- Crop production and marketing (dryland and irrigated)
- Intensive livestock production and marketing
- Supply managed (dairy and poultry)
- Commodity and food processing
- Exotics
- Greenhouse and Market Gardening
- Orchard Fruit

Appendices – Special Situations

Working closely with Corporate Recovery Services, the Farm Management Consulting team have assisted with the provision of:

- Initial assessment of a debtor
- Monitoring
- Restructuring
- Liquidation

Appendices – Special Situations

The Farm Management Consulting team has provided the following services to Corporate Recovery Engagements:

- Assisting with taking possession of farm operations
- Determining and executing strategies for ongoing operations
- Providing executive management of day-to-day farm operations
- Consulting on key decision points in farm operations
- Preparation of risk analysis and mitigation strategies
- Providing input into realization plans