

Farm Management Consulting



MNP Canadian Agriculture Industry Outlook Spring 2022

Presented by: John Loepky P.Ag

Date: April 2022

Ag Industry Outlook – Table of Contents

- Canadian Agricultural Industry Outlook 2022
 - Market Fundamentals
 - US Dollar – US Trade
 - Poultry
 - Dairy
 - Crops
 - Hogs
 - Beef
 - Wineries
 - Cannabis
 - Food and Beverage
- Contacts
- Appendices
 - Our People

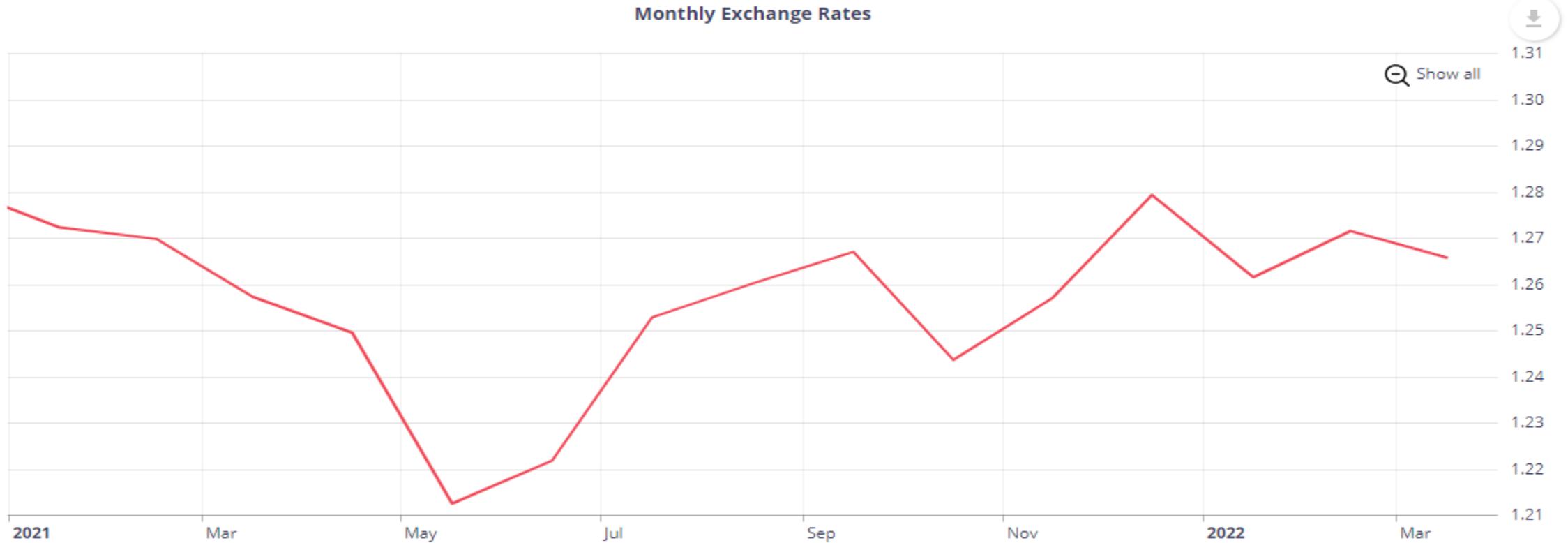
Industry Outlook 2022



The Market Fundamentals

- Supply - Demand
- Trade
- Supply Management

Industry Outlook 2022



Source: Bank of Canada

Industry Outlook 2022

USA and China

- Phase One expired on December 31st of 2021
- \$80 Billion of agricultural goods purchases by December 31, 2021
- China fell 25% short of the agreed upon purchases of US Agricultural products
- Biden Administration set to enforce the Phase One deal until fulfilled

Industry Outlook 2022

Guelph Statement – Ag Policy Framework

- Provincial ag ministers released the Guelph Statement in November
- The declaration outlined five priorities:
 - 1) Climate change and the environment
 - 2) Science, research and innovation
 - 3) Market development and trade
 - 4) Building sector capacity and growth
 - 5) Resiliency and public trust

Industry Outlook 2022

Global Freight Issues

- US Ports remain backed up
 - Resolution not likely until later this year
- Holiday season hangover, container traffic remains high
 - Nearly 80 ships were waiting to dock off of California coast over the holidays
 - \$24 billion worth of goods
- Average price to ship a standard container is up nearly 800%
 - \$11,000 per container

Industry Outlook 2022



Poultry

- Outlook for stability in 2022
- Profitability a mix of improving prices/consumption and rising feed costs
- Avian Influenza

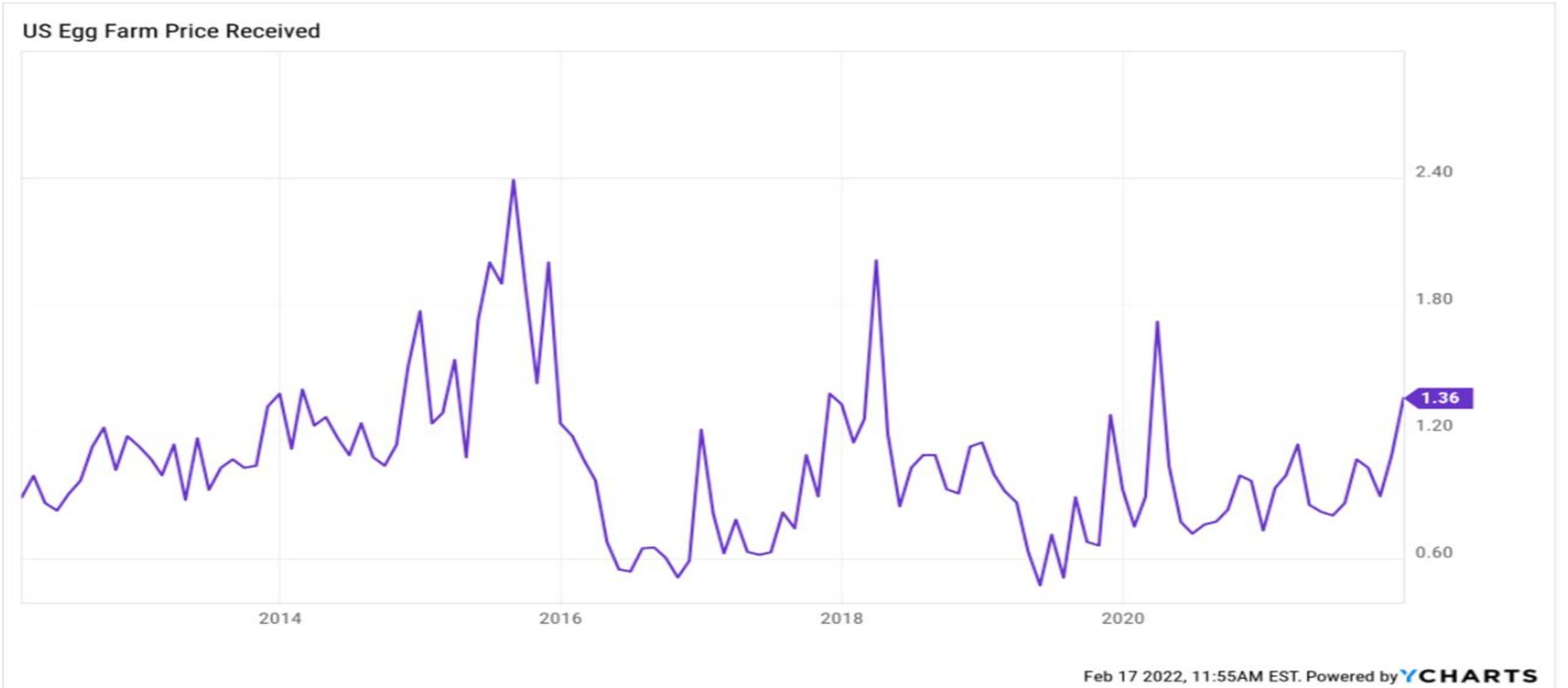
Safe Guards

- *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 2022

- Avian Influenza outbreak
 - Last outbreak in 2015 caused death of 50 million birds in the US
 - With US frozen chicken supply down 14% from a year ago, market is on edge
- Export Expectations
 - USDA had forecasted broiler production and exports to increase in 2022 due to strong demand and recent hatchery data

Industry Outlook 2022



Industry Outlook 2022



Dairy

- Consumer demand stable to decreasing depending on category
- Rising feed costs
- Support price increasing

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 2022

- Feed costs continuing to rise.
 - Purchased feed cost driven by high commodity prices
 - Homegrown feed cost driven by high fertilizer, fuel, labour costs
- Currently the price increases are not keeping up with cost increases, so margins are being compressed.
- Milk price increases starting to show in Feb/March

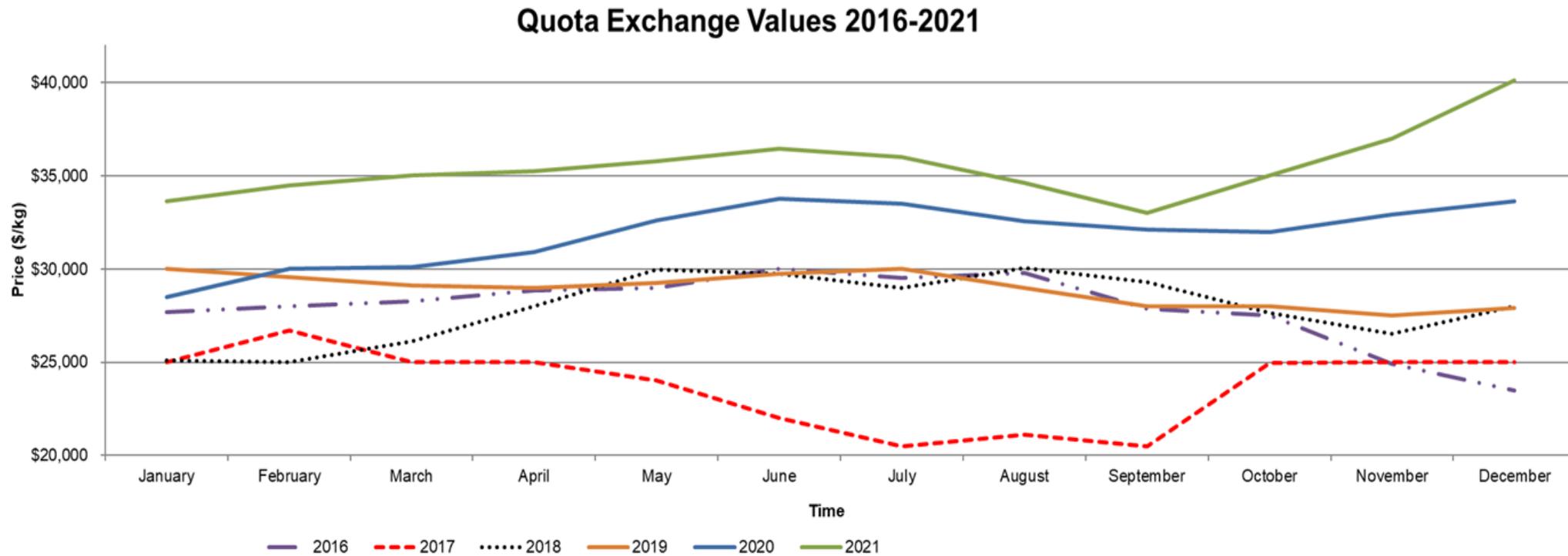
Industry Outlook 2022

CUSMA – TRQ Ruling

- The Dispute:
 - That Canada's practice of reserving 85-100% of the tariff rate quotas for processors is inconsistent with their obligations, as it denies the US dairy farmer the opportunity to use them and be able to benefit from CUSMA
- Decision
 - The panel deemed that Canada was in breach of its commitments as outlined in CUSMA, and that the US and Canada had until February 3rd to come to a resolution. This has timeline has come and gone, and a solution has not been determined, however Canada has submitted proposed changes.

Dairy Production

Quota Exchange Value - \$/Kg purchased



Source: Government of Canada- Canadian Dairy Information Centre

Industry Outlook 2022



Crops

- Ukraine Impacts
- 2022 Seeding
- Farm Equipment
- Farmland Values

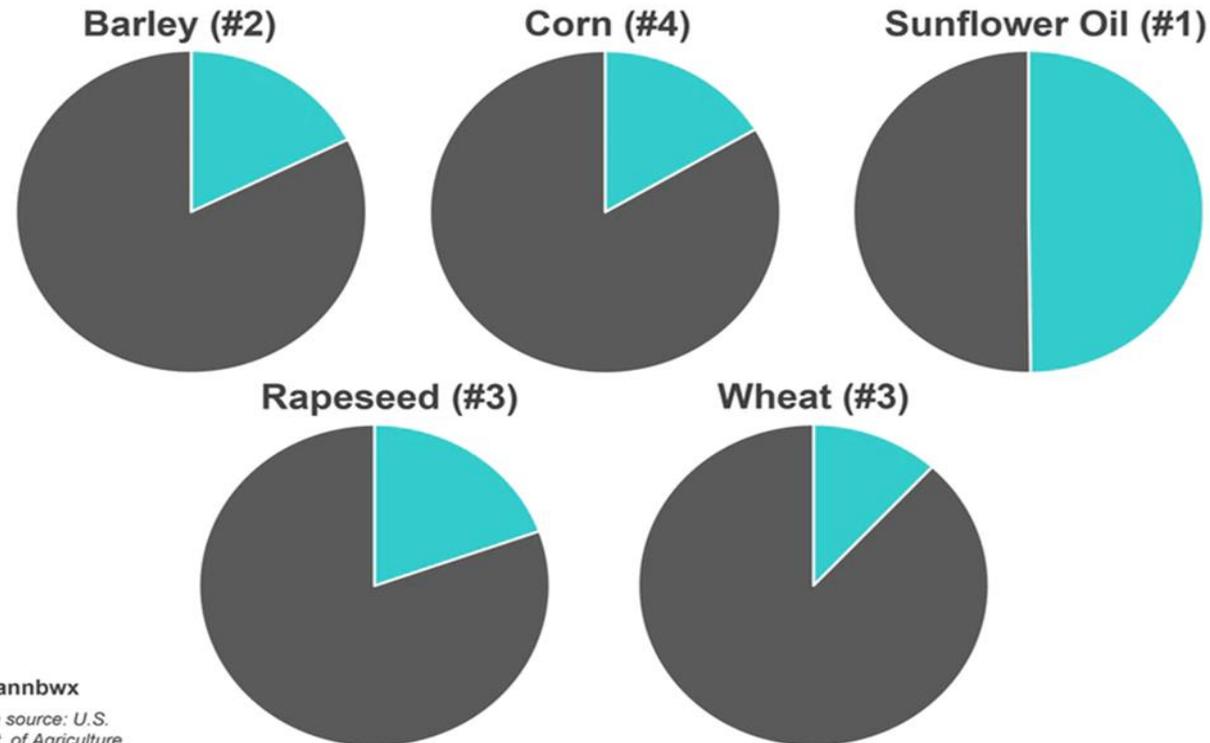
Safe Guards

- *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 2022

Ukraine's Projected Share of World Exports 2021/22

(Shown in teal; product ranking in parentheses)



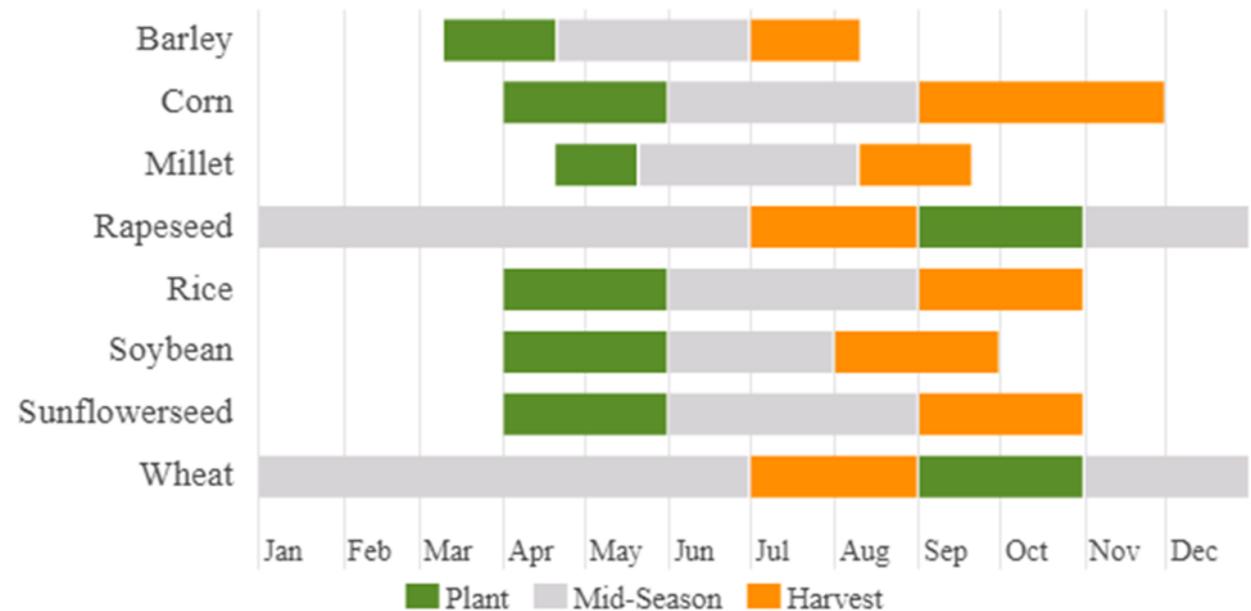
@kannbwx

Data source: U.S.
Dept. of Agriculture

Industry Outlook 2022

- Seeding
 - If conflict continues through seeding windows, could see partial or total losses on some crops

Ukraine — Crop Calendar



Industry Outlook 2022

“Immediate” Resolution

- Feed grains that had been deemed unavailable return to the world balance sheet
- Export expectations remain altered, but more hopeful
- Some production certainty returns to market
- Trade statuses with Russia are an unknown

“Drawn Out” Resolution

- 7 Million MT of wheat and 6 Million MT of barley remain inaccessible to world trade
- Overall global uncertainty on Black Sea exports remain
- Production risk in Ukraine continues to cause volatility in feed markets
- Global trade status with Russia remains or worsens

Industry Outlook 2022

- Price Volatility
 - Inputs
 - All Grains/Oilseeds
- Logistic Issues
- People Problems
 - Displacement of refugees, could cause further market disruption
- Conflicts spilling into other Countries

Industry Outlook 2022

Planting Intentions – USA

- Input challenges
- Wheat: 47.4 million acres
 - Down 1% from last year
- Corn: 89.5 million acres
 - Down 4% from last year
- Soybeans: 91 million acres
 - 4% higher than last year



Industry Outlook 2022

Grain Production - Canada

- Early National Estimates
 - Canola: Down 3% to 21.74 Million ac
 - Soybeans: Up 7% to 5.68 Million ac
 - Spring Wheat: Up 6% 17.42 Million ac
 - Corn: Up 1.2% to 3.53 Million ac
 - Oats: Up 8.3% to 3.7 Million ac



Industry Outlook 2022

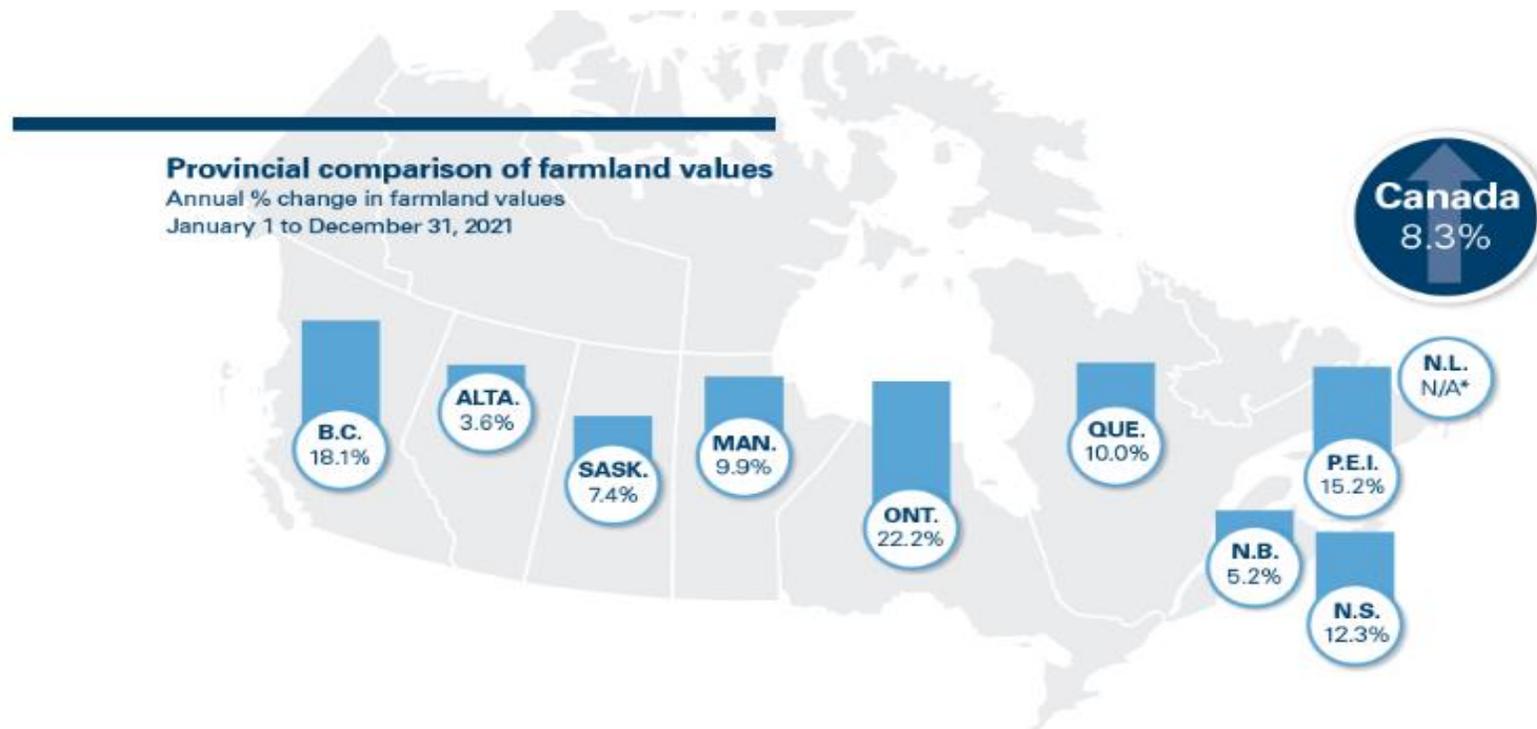
Lower machinery purchases

- 2WD farm tractors up 0.4% YTD
- 4WD farm tractors down 39.2% YTD
- Combine sales down 36.2% YTD

Source: Association of Equipment Manufacturers



Industry Outlook 2022



*There was an insufficient number of publicly reported transactions in 2021 to accurately assess farmland values in Newfoundland and Labrador.

Source: FCC computations

Industry Outlook 2022



Hogs

- Positive although shrinking margins this year
 - Strong prices being compressed by high feed
- Big ASF resurgence in China
 - 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 2022

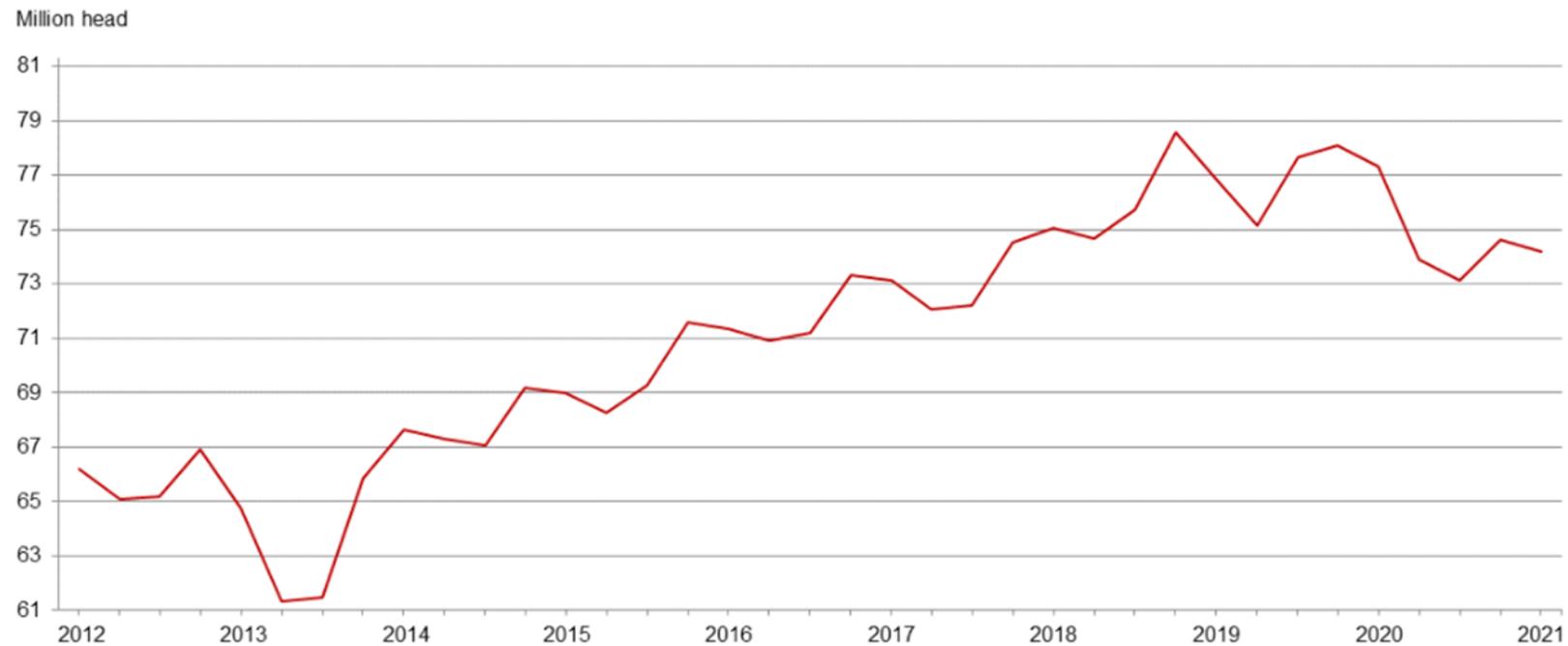
Manitoba Farrow to Finish Operation Gross Margin

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

	2018	2019	2020	2021	2022
Total Revenue Per Pig Sold	166.29	177.30	172.87	223.45	210.56
Total Production Expenses	118.60	119.71	126.68	174.57	200.32
Gross Margin	47.69	57.60	46.19	48.88	10.24

Hog Production – U.S.

- U.S Hog Inventory 74.2 million head – December 2021
 - 4% decrease from December 2020



Industry Outlook 2022

African Swine Fever

- AFS has been identified in the Dominican Republic and Haiti
- This could potentially cause major disruption in the North American market if this outbreak were to spread to Puerto Rico, which is a US territory
- The USDA and US customs are taking precautionary measures already, in case the virus were to spread.
- The main focus is to prevent the spread to the mainland US

Industry Outlook 2022



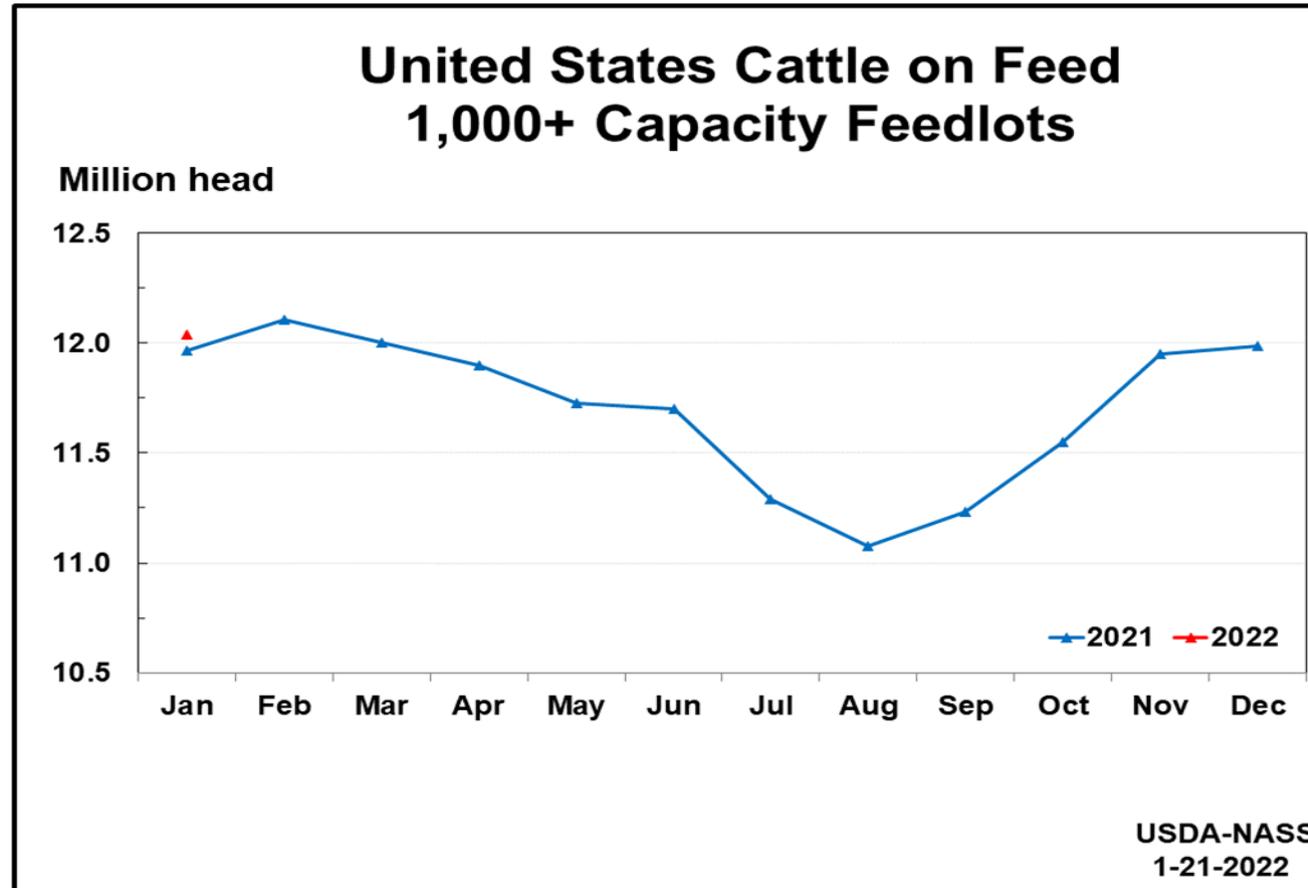
Cattle

- Drought in western provinces
 - Caused some herd dispersals
 - Lower inventories in industry
- Gov't support program (AgriRecovery) to assist with feed issues

Safe Guards

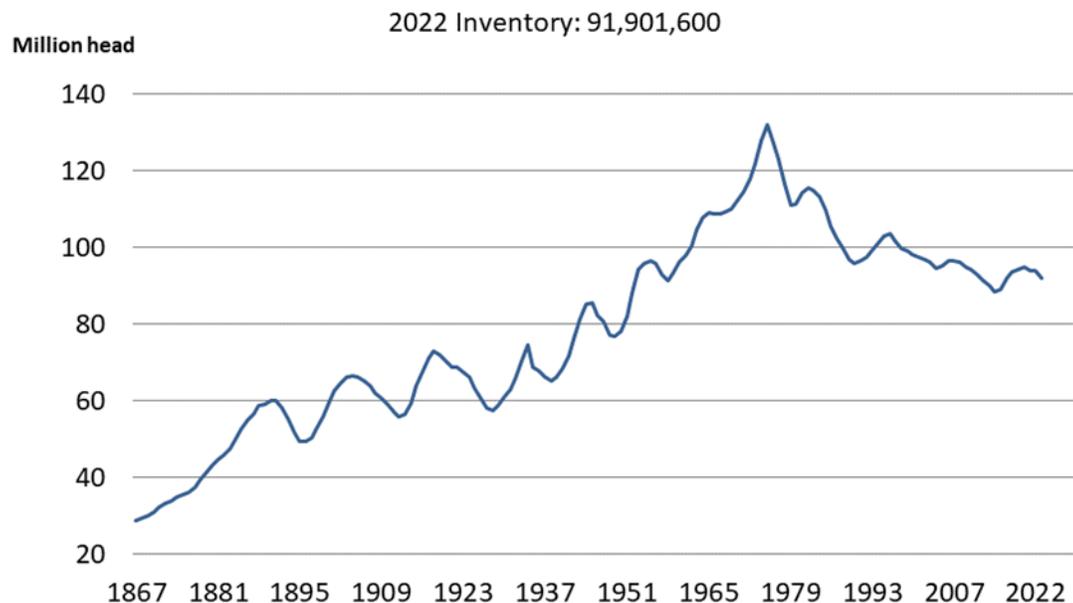
- Perform walk-through on short notice
- Verify inventory and require manifests and/or proof of purchase or sale. Look closely at inventory values.
- Verify AgriStability and risk management practices.

Industry Outlook 2022



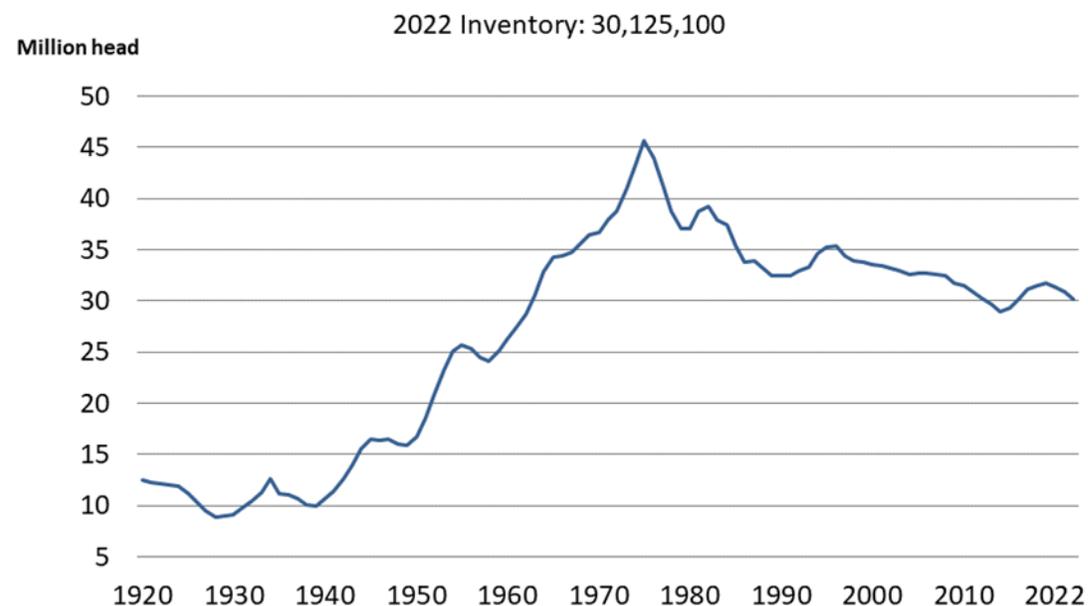
Industry Outlook 2022

All Cattle and Calves Inventory – United States: January 1



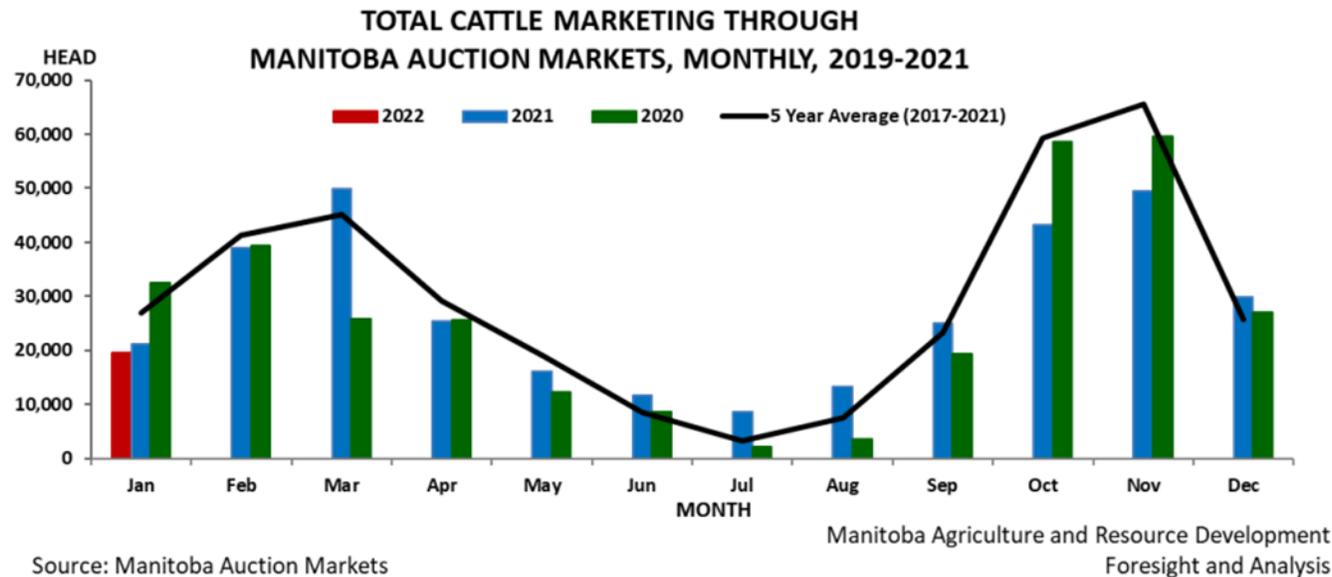
USDA-NASS
1-31-2022

Beef Cow Inventory – United States: January 1



USDA-NASS
1-31-2022

Industry Outlook 2022



- Steers 600-700 lbs
 - Feb 11, 2022 – 209.11
 - Feb 26, 2021- 206.47
- Heifers 600-700 lbs
 - Feb 11, 2022– 182.19
 - Feb 26, 2021– 185.67

Industry Outlook 2022



Wineries

- Supply chain issues continue
 - Causing delays in shipping and increasing cost of goods
 - Likely will lead to higher inventory stocks and potentially higher lending needs
- Mixed year for BC operations
 - Some operations inventory ruined by 2021 smoke

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 2022



Cannabis

- Retail sales continue to increase y-o-y
 - Result of more stores and lower price point
- Continued mergers and acquisitions of major firms
 - Market share still seen to be fragmented even after M&A
- Continued drive for lower cost of production

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 2022



Food and Beverage

- Margins getting tighter due to continued supply chain issues and material prices.
- Temporary Foreign Workers a focus as labour shortages continue
- Demand is shifting back to foodservice and away from grocery as restrictions ease

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

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

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”

- 130 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 AgrilInvest
- 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