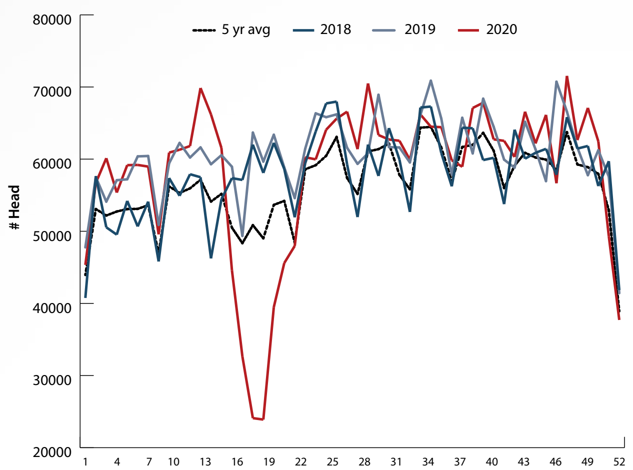
Canfax

The cattle market started the year with a stronger market tone as strong domestic and international meat demand was expected to absorb the extra North American meat production in 2020. At the start of the year, all cattle types were trading higher than the previous year and feedlots were retuning back to profitability after a tougher couple of years in 2018 and 2019.

A strong market and higher prices were expected in 2020, but that quickly changed in March as concerns arose about the possible impact COVID-19 could have on the supply chain and beef demand. Prices started to deteriorate in March, and by April packing plants were facing operational slowdowns, or having complete shutdowns as a significant portion of their workforce was impacted by COVID-19. Impacts were felt across North America, but western Canadian processing levels were some of the hardest hit, while eastern Canadian plants saw very limited production impacts.

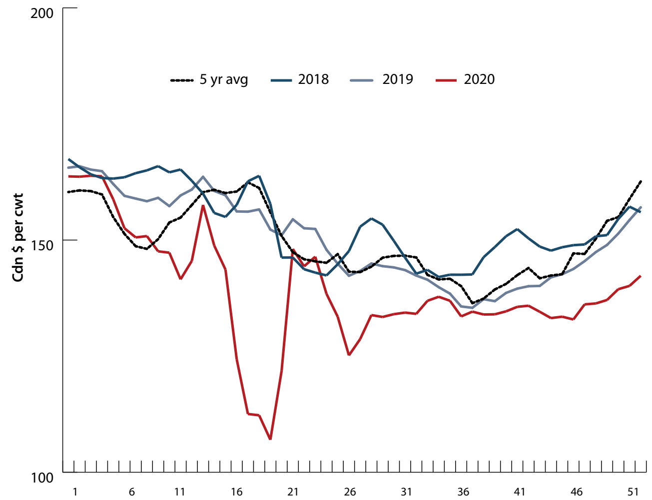
In late April, Canadian weekly cattle slaughter dropped down to 24,000 head, the smallest slaughter level on record going back to 1973. The two major Canadian processing plants saw the greatest reduction, as the Cargill plant in High River, Alberta was shut down completely for over two weeks, and the JBS plant in Brooks, Alberta was running well below half capacity. In a matter of seven weeks in April and May, Canadian packing plants processed 150,000 head less than 2019, which created a significant backlog of cattle that needed to be worked through. Given the larger numbers of cattle on feed at the start of the pandemic, this backlog of cattle weighed on the slaughter cattle market through all of 2020. As a result of the slowdown in fed cattle movement, placements were also delayed until later in the summer, which will also increase first quarter 2021 fed cattle marketings relative to what had previously been anticipated.

WEEKLY CANADIAN SLAUGHTER



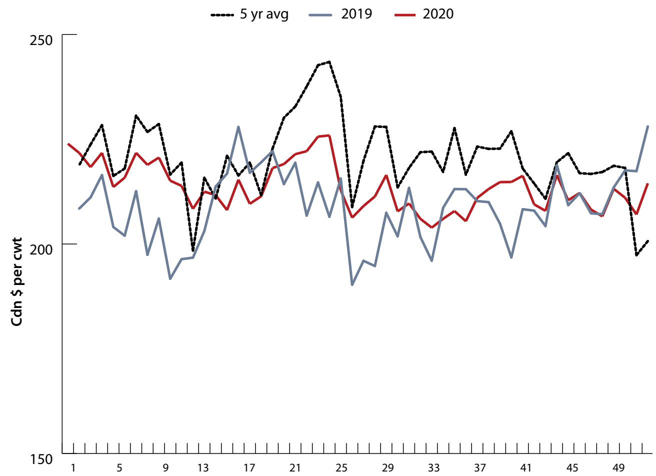
Source: CBGA

ALBERTA WEEKLY FED STEER PRICE



Source: Canfax

ONTARIO 5-600 LB FEEDER STEER PRICE



Source: Canfax

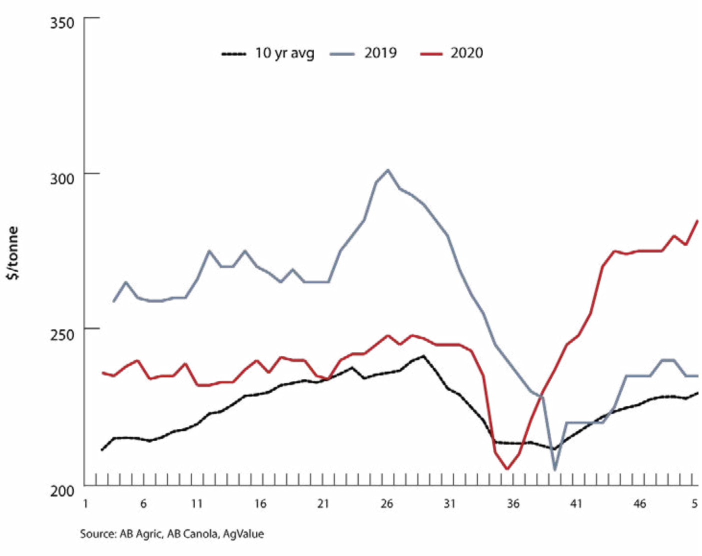
Prices

The market and supply chain issues caused by COVID-19 have weighed on the cattle markets this year. The fed cattle market has been hardest hit with limited processing capacity and an abundance of slaughter cattle available for processing. The second quarter saw extreme volatility for fed prices as only limited numbers of cattle were trading on the cash markets given production uncertainties. Alberta fed steer prices ranged between $107/cwt and $149/cwt in the second quarter before prices leveled of in the mid $130’s/cwt through the second half of the year. In the second half of this year, Alberta fed prices averaged at the lowest level since 2013. The Ontario fed market faired better than Alberta, as they did not have the processing issues this spring that the west had. Ontario fed prices have been higher than Alberta since the second quarter and have generally been above a year ago as well.

Despite the fed cattle market struggling this year, the calf and feeder market performed relatively well. After the feeder market dropped in the second quarter due to market uncertainty, prices rebounded and were close to 2019 prices in the third quarter with Alberta 850 lb steer averaging around $186/cwt for the quarter. Demand for feeder cattle did drop in the fourth quarter with 850 steer calf prices generally $10-$15/cwt below a year ago. Calf prices saw the least impact, as prices in the second half of the year averaged in line with 2019. Alberta 550 steer prices continued in the similar range they have been the last couple of years trading generally from $210 - $220/cwt. The stronger Ontario fed market also supported calf and feeder prices as Ontario prices were generally higher than a year ago for the different cattle types and traded at a premium to Alberta.

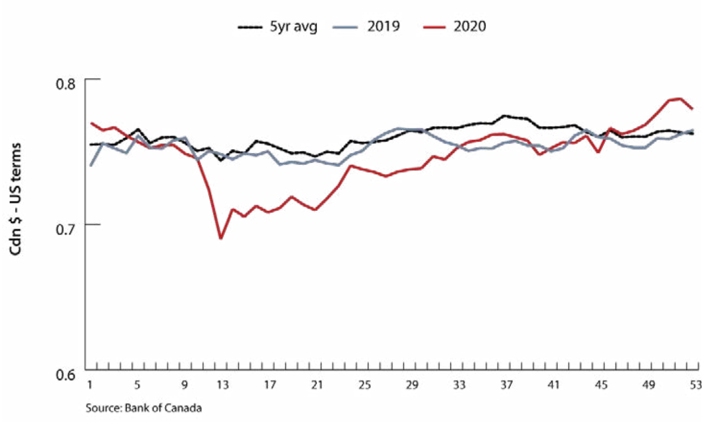
In addition to the volatility in the cattle markets related to COVID-19, cattle prices also faced other market pressure from major swings in the currency and grain markets. The Canadian dollar dropped to under 70 cents U.S. this spring, but generally trended higher the remainder of the year to hit over 78.5 cents and be at the highest level in two years. The fluctuations have been partly related to changes in the U.S. dollar, but as the Canadian dollar rises it is negative to the Canadian cattle market.

LETHBRIDGE BARLEY PRICE - WEEKLY HIGH

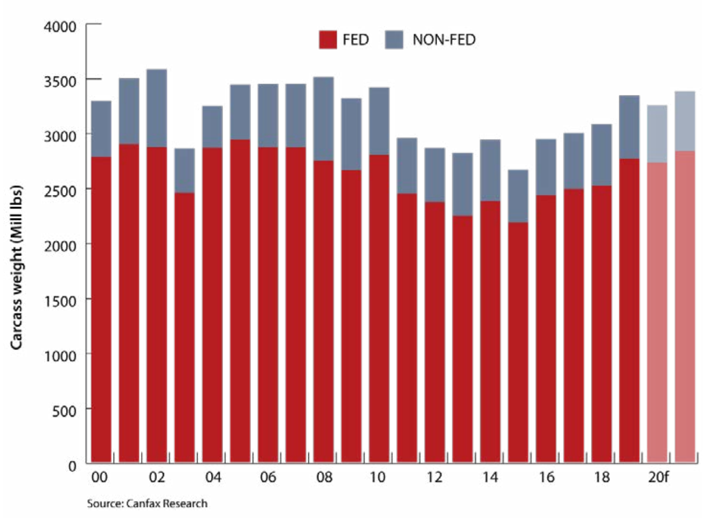


Feed prices had been holding relatively steady through the first half of the year as there were expectations for a record large U.S. corn crop, and ample feed grain supplies. Barley prices and feed costs in western Canada were higher than Ontario and the U.S., as barley supplies were tighter and strong export demand to China kept barley prices elevated. As the year progressed, U.S. corn crop production expectations were reduced, and China also stepped into the U.S. corn market which saw corn prices increase about $1/bushel from the summer lows into the late fall. Given the tight barley supplies in western Canada, feedlots were importing corn to fill their feed requirements and these market shifts drove Canadian

WEEKLY CANADIAN DOLLAR



CANADIAN BEEF PRODUCTION



feed grain costs higher. Higher feed costs added to feedlot losses and also added pressure to calf and feeder prices later in the year.

Despite the major production issues due to COVID-19, Canadian fed beef production is expected to be equal to a year ago as packers ramped up the fed kill and carcass weights averaged about 5 to 10 pounds larger than a year ago. The non-fed kill saw significant reductions this year as Canadian packing plants focused on the fed kill after COVID-19, and producers also had better grazing and feed conditions to potentially reduce the cull rate in 2020 or hold their cull cows back until the new year. Non-fed beef production is projected to be about 20 per cent below last year. Slaughter cattle exports are slightly higher than a year ago, which would bring total Canadian beef production about 2 per cent below 2019, but about 6 per cent above 2018. Despite the Canadian beef cow herd being only 3.56 million cows, and the smallest cow herd since 1990, in the past five years Canada has seen strong growth in its beef production through feedlot expansion and increased processing rates. Competitive basis levels have meant more cattle have stayed in Canada for finishing and processing, and feeder imports have also been increasing to support more feedlot and packing plant utilization. Canadian cattle slaughter hit a low in 2015 at just under 2.5 million head and has since expanded to just over 3 million head the last three years.

Trade

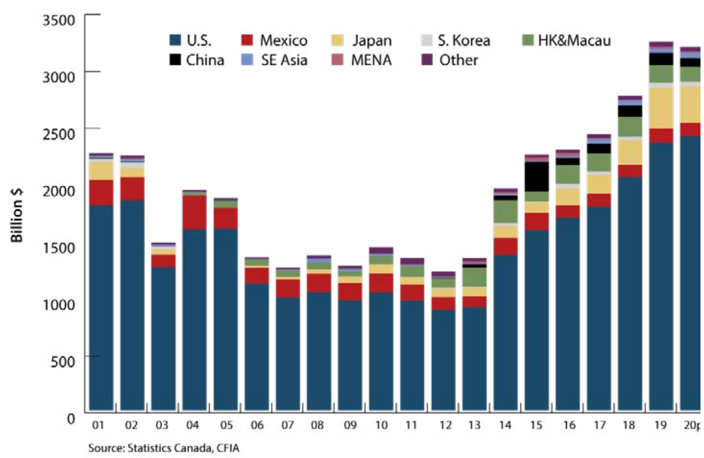
The Canadian beef industry remains very export dependant. Although live cattle exports have been declining as the Canadian herd has shrunk, it has still been exporting about 600,000 to 700,000 head per year, with slaughter cattle accounting for about 75 per cent of live cattle exports.

The major shift in live cattle trade over the last couple of years is the fact that Canada has become a net importer of feeder cattle from the U.S. In 2019, Canada was a net importer for the first time in many years, with feeder imports exceeding exports by almost 75,000 head, and this year Canada will be a net importer of over 200,000 feeder cattle.

Beef exports have been on the rise over the last five years as strong international demand and increasing Canadian beef production has supported beef exports. Beef exports increased by about $1 billion dollars from 2015 to 2019 to hit over $3.2 billion in 2019. Despite production issues, and export volumes possibly down about 6.5 per cent, exports could still be near $3.2 billion in value this year. The U.S. continues to be the main export destination taking about 75 per cent of Canadian beef exports. Japan has moved solidly into second place, taking 10.6 per cent and Hong Kong/Macau is third taking about four per cent.

Beef imports did see an increase this year after trending lower for the past five year. Production issues and record high wholesale beef prices had retailers and food service users looking overseas to ensure consistent supplies. Beef imports increased about 22 per cent this year, back to levels not seen since 2015 and 2016.

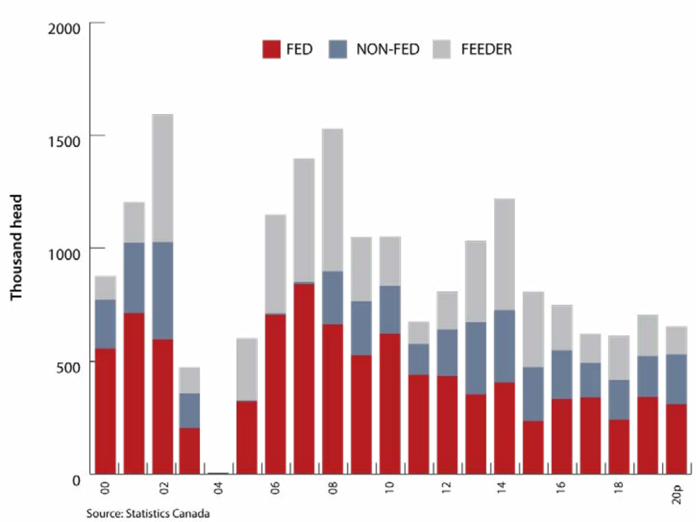
CANADIAN BEEF EXPORT VALUE



Demand

There were major shifts in consumption patterns as restaurants were either closed or had to operate at limited capacity this year. This shifted a significant amount of beef to be sold through retail channels. Despite all the economic challenges this year, beef demand performed well. The slow down in packing capacity this spring created a shortage of some cuts of meat at retail and this resulted in retail prices hitting record high levels in the summer, but even as production returned to normal, retail beef did correct but remained above a year ago. The overall beef demand index is expected to be higher this year given beef consumption levels and the higher retail beef prices. Beef continues to be the top expenditure for Canadians at the meat counter.

LIVE CATTLE EXPORTS



RETAIL BEEF PRICES