Western Canadian Pricing

Shared Value for Shared Success

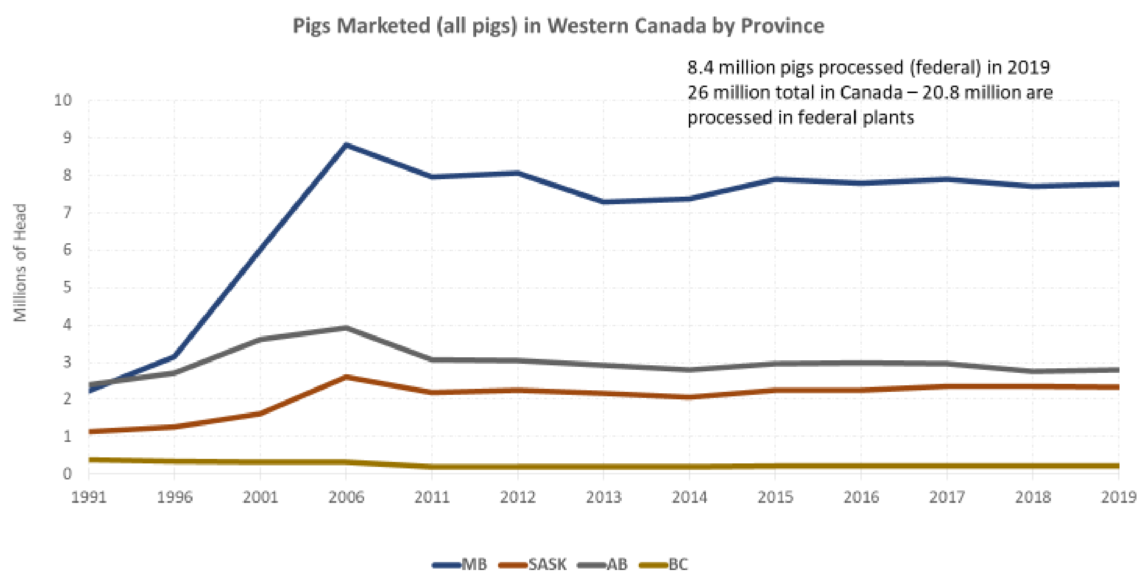
Summary of the recent discussions between representatives of BC Pork, Alberta Pork, Sask Pork and the Manitoba Pork Council with Donald's Fine Foods, Maple Leaf Foods and Olymel

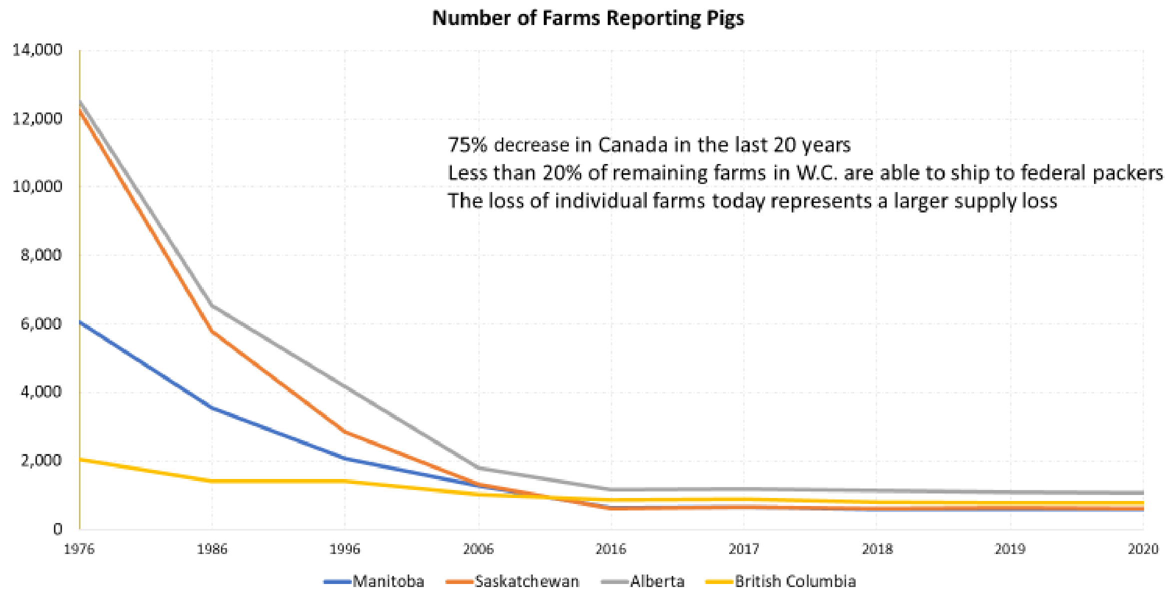
Background information and analysis from Commodity Professionals Inc., MNP and DGH Engineering is also recognized and appreciated

Background

Western Canada has experienced several ups and downs in the pig industry causing producers and packers to enter or exit the industry, depending on timing. Unfortunately, when producers exit the industry, the decision is often based on low pig prices, which have translated into thinner margins and significant financial losses. When it comes to packers, the decision more often results from aggressive competition, cashflow problems, labour issues, mergers and acquisitions or the costly need to update facilities.

Growth of the Canadian hog industry has remained stagnant over the past two decades, with the number of market hogs remaining at approximately 26 million with 20.8 million pigs being processed in federal facilities in Canada. At the same time, the number of farms reporting hogs has decreased by more than 75%. In western Canada, less than 20% of the remaining farms have the capacity and quality assurance certification (CQA/CPE programs) to produce hogs for federal packers.





With no growth and almost no new construction on the production side, the industry can not survive. In fact, the need for renewal, modernization and new entries in western Canadian pig farming will be critical to addressing packer efficiency and growth. To answer that concern, the few remaining packers have been acquiring smaller competing packers and accumulating existing production assets thereby increasing their sow holds and contracted finishers. While this has helped the packer to stabilize the downturn in available market hogs it has increased their costs and exposure into the future as these older assets have a limited life.

Some packers have tried to improve payments to producers; unfortunately, this piecemeal approach to pricing has not solved the inherent problem facing producers – that being the need to elevate floor price. This is critical to achieve price stability, future investment, and a reduction in overall industry volatility.

Pig producers in western Canada have argued that their pricing is more often under the cost of production than is needed for a business to survive, let alone thrive. To this end, non-reinvestment in primary hog production is the very apparent result. Western producers have traditionally been significantly underpaid in comparison to other regions, thereby compounding the problem.

To help address this issue, on May 19, 2020 the four western pork boards (BC Pork, Alberta Pork, Sask Pork, and the Manitoba Pork Council) wrote to and requested a formally meeting with Donald's Fine Foods, Maple Leaf Foods and Olymel [Appendix A]. The request was to meet, if possible before June 30, 2020, to discuss the pricing concerns and to dialogue toward better opportunities for the industry in western Canada. As of July 10, 2020, the request had been acknowledged and meetings were conducted with Mr. Allan Leung (CEO Donald's Fine Foods) and his executive team. As well as Mr. Michael McCain (CEO Maple Leaf Foods) and his executive Team. The four boards appreciate the frank and open conversions as well as the time commented to the discussions.

On July 16, 2020, the four western Canadian pork boards received a reply from Mr. Rejean Nadeau (CEO Olymel) [Appendix B]. The boards are hopeful that a meeting might be schedules with Olymel representatives in the very near future.

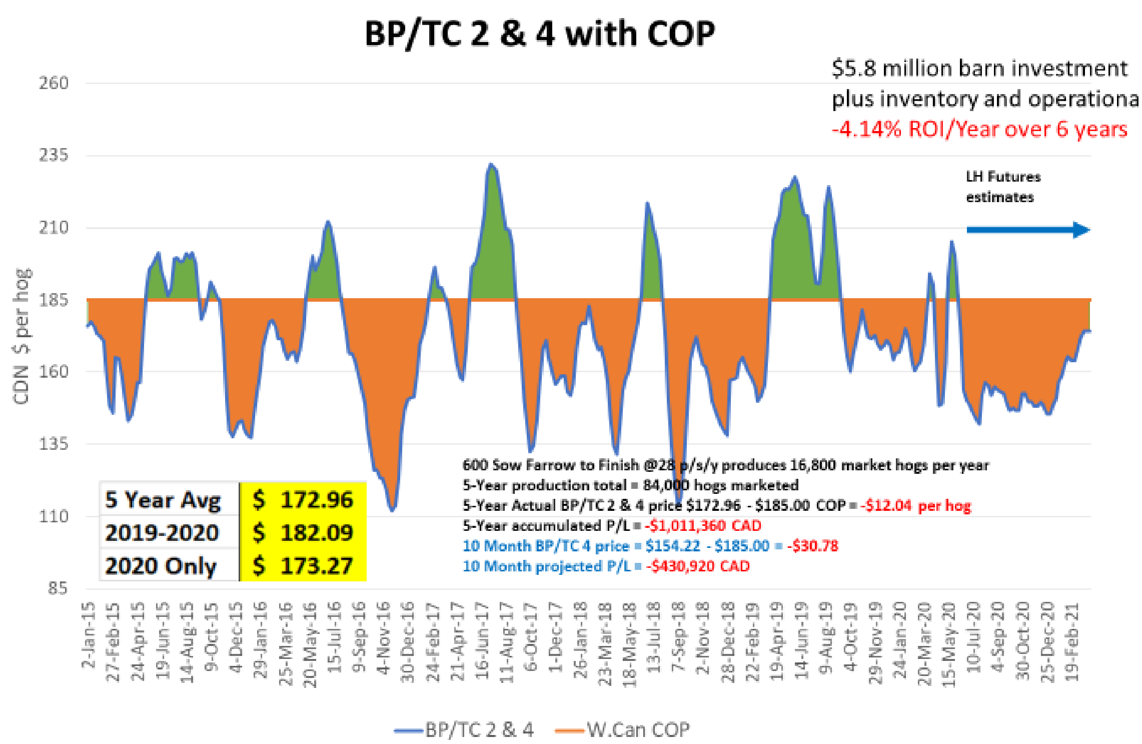
The following information provided is a summary of the discussions, presentation information provided by the board representatives, and some of the actions that have taking place over this timeframe regarding the pricing concerns. While the board representatives did not meet to formally negotiate pricing structure changes, producer concerns regarding pricing where discussed and potential models using cut-out values were offered.

In the following examples, a model using a 600-sow farrow to finish operation with 28 pig/sow/year marketed and a cost of production of CDN$185/pig [Appendix C] was used to illustrate the current pricing situation. Readers can adjust numbers accordingly to their situation; however, it was felt that this was a good representative model to cover the western Canadian picture.

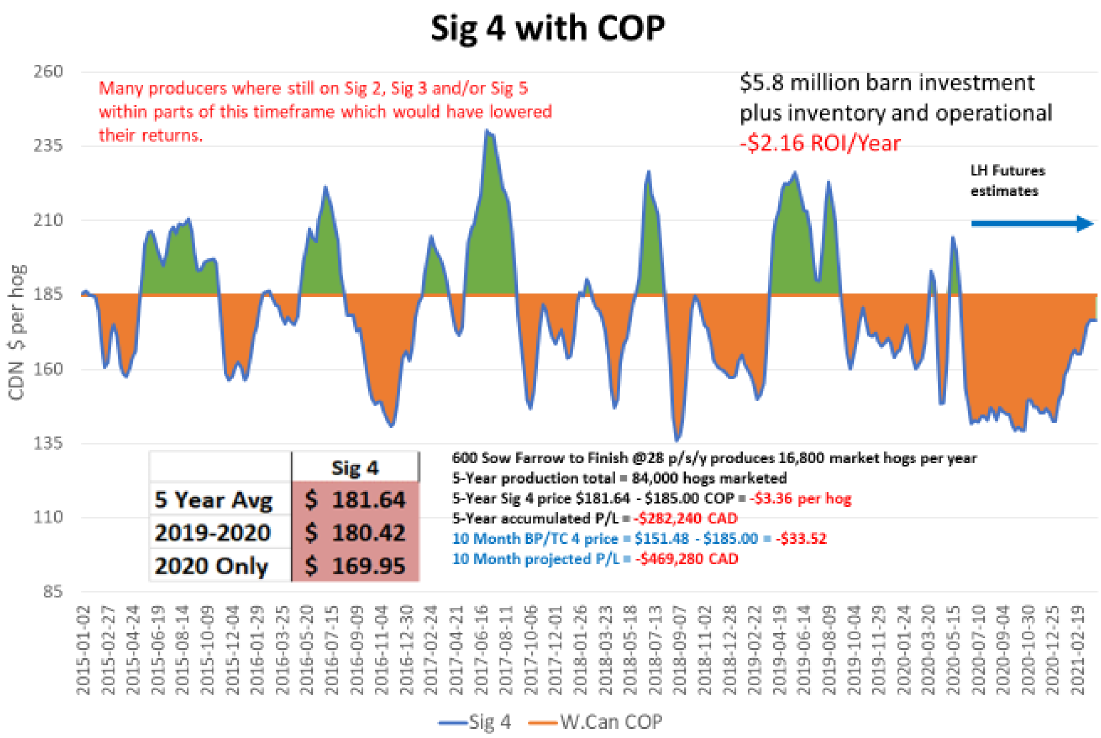
Using packer formulas and published pricing data the following graphs highlight a reasonable understanding of the past 5 years as well as the expectation for producers in the coming 10 months of 2020-2021. It should be noted that neither forward contracts nor Agri-Stability were factored into these models as the issue discussed was related to fundamental pricing concerns.

The following three graphs highlight the past 5 years through individual packer formulas. Please note that the model farm used in the examples is very efficient without swine health issues and operating a conservative budget given a new barn facility. It is recognized that cost of production may vary given specific circumstances and that the revenue would likely be lower on an industry average.

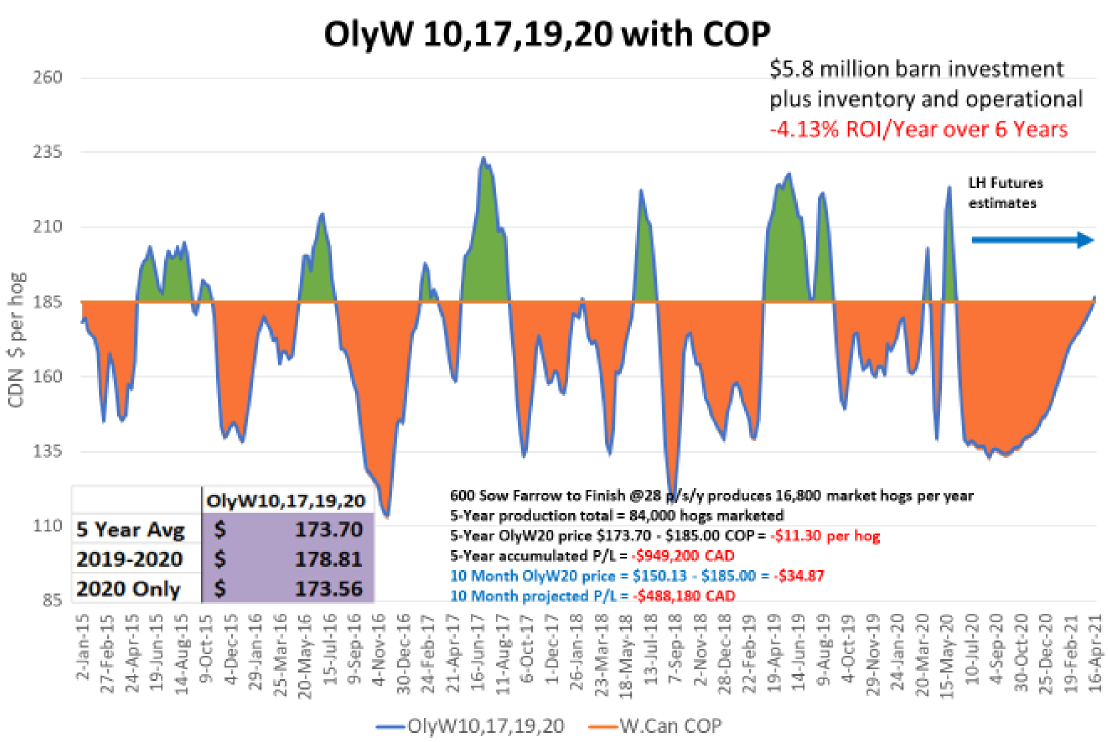
1) **Donald's Fine Foods**



2) Maple Leaf Foods



3) Olymel



Over the past five years a producer with a 600 f/f operation would likely have **lost approximately $1 million** as the value per pig received was below the average cost of production of $185/hd for most of the time. In addition, the same producer is looking at **a loss of over $400,000** over the next 10 months. Over this period the average **return on invest (ROI)** would be **approximately -4 percent per year**. This is the money that the business needs to simply pay its production costs. Profits start after these losses are covered. It is profit, as is the case for packers, that allows for reinvest into the business to make improvements and/or expand to meet market demands.

Operating in a deficit situation for most of the year with an unmanageable negative cashflow situation is a business nightmare. The nature of this problem has created negative credit support from suppliers and lenders. It has eliminated new growth, compromised maintenance in existing barns, and places biosecurity and disease prevention in jeopardy. All of this opens the industry to potential unfixable animal welfare and food safety issues that could significantly harm the overall positive reputation our entire industry has worked too hard to lose.

Unfortunately, due to significant economic losses, more commercial producers in western Canada are selling pigs to backyard small landholders, non-livestock farms, and auction markets which elevates the potential for fundamental trade paralysing disease issues. In addition, the number of producers that are quite likely reducing their biosecurity protocols due the unrecoverable expense is compounding the overall industry concerns. These issues must be reversed but can only be addressed by achieving long-term profitability.

In 2019, the Régie des marchés agricoles et alimentaires du Québec (“the Regis”) received and accepted evidence provided by Les éleveurs de porcs du Québec (EPQ) highlighting the (1) inequity of the shared value of the pig between the producers and processors; (2) the continued decline in production and reinvestment back into primary production; (3) the lack of pricing clarity and value through the use of U.S. pig price (i.e. LM_HG201); and (4) that cut-out value (i.e. LM_PK602 and the 680 Report) was a more representative benchmark to set price.

The Regis noted [61] … “Effective and orderly marketing assumes fairly sharing the value of pork between partners of Quebec’s pork industry.” One would believe that to be appreciated in all provinces and amongst business partners.

While the recent effects of COVID-19 may have spiked the LM_PK602 value due to plant closures in the U.S., this is an anomaly in time and certainly not indicative of the historical value of the LM_PK602. Therefore, striking a balance between packer and producer margins can be found in the use of the cut-out to better reflect a fair share of the pig’s value. But more importantly, it could help us arrive at a fair benchmark for pricing.

LM_HG201 Reports - Explanation

Forest Lavoie Conseil

Ownership / Catégories	Description	% hogs
A. Producer Sold	• **Producer who owns hogs and that does not own more than 5 % of a Packing Company**	**67.0 %**
i. « Negotiated et Negotiated Formula »	• Spot Market • Price establish 14 days or less prior of killing date	2.4 %
ii. « Other Market Formula »	• Contract that are not based on USDA reports (Swine or Pork) • Mainly contracts based on CME	10.8 %
iii. « Swine or Pork Market Formula »	• Contract that are based on USDA reports (Swine or Pork)	34.7 %
iv. « Other Purchase Arrangment »	• Everything else • Window Contracts, Cost of Production Formula, Specific premiums (paylean free, organic, humane, etc.)	19.2 %
B. Packer Sold	• **Producer who owns hogs and owns more than 5 % of a Packing Company but sells it to another Packing Company**	**3.2 %**
C. Packer Owned	• **Producer who owns hogs and owns more than 5 % of a Packing Company and sells it to his Packing Company**	**29.8 %**

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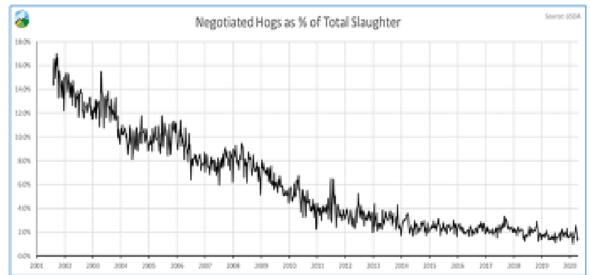
$$\text{Base Price} = \begin{array}{c}\text{The average LM\_HG201 from}\\ \text{the previous Friday to the current}\\ \text{Thursday}\end{array} \times 1.7750 \times \begin{array}{c}\text{The average Bank of Canada}\\ \text{Daily Closing C\$: US\$}\\ \text{exchange rate from the previous}\\ \text{Friday to the current Thursday}\end{array}$$



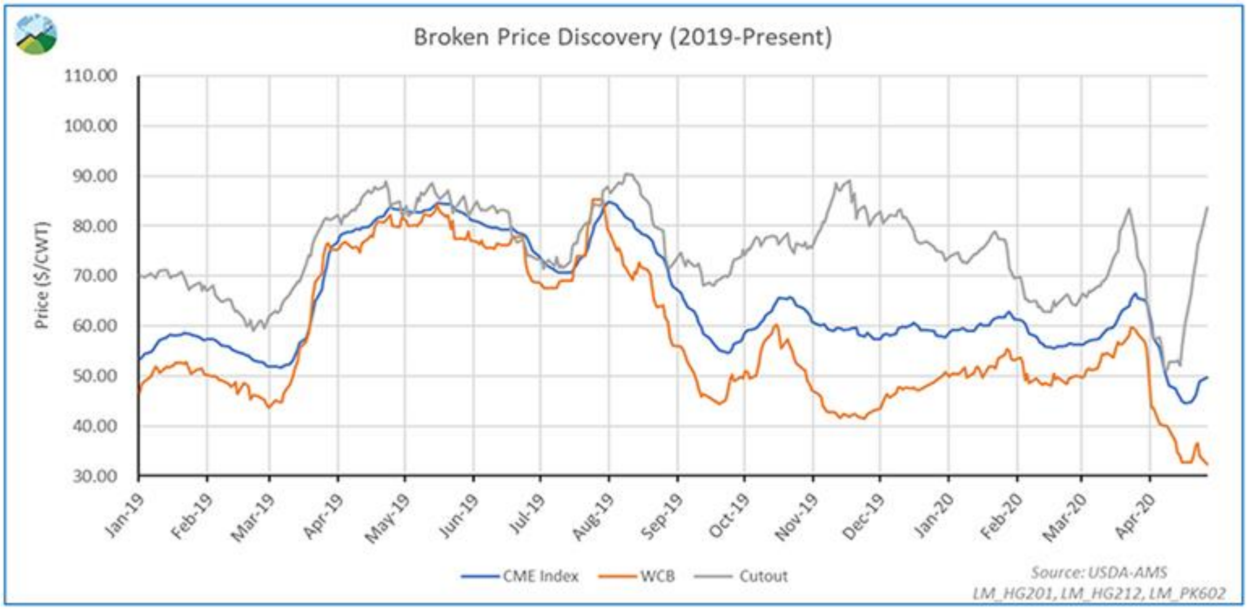
U.S. market volatility not the same picture in Canada (Price signals to hold back pig numbers)

The cash price paid for the 2.5% of barrows and gilts purchased on a negotiated carcass weight basis in 2015 was crucial to determining the price for roughly three-fourths of the combined 65.8% of hogs purchased on Market Formula, Other Market Formula, Other Purchase Agreement, and Packer Sold [Ron Plain, Us Market Hog Sales]. At this time, that negotiated formula represents less than 1.5% of the pigs. Some may argue that the LM_HG201 includes 34.7% of pigs from the, Swine and Pork Market Formula, that use a cut-out value; however, the percentage of those pigs using cut-out is completely unknown as there is no report mechanism to quantify the value.

"In 2003, the CME took the additional step to change the settlement procedure from the cash quote to the index. This was the first hint that the negotiated market was fading, and it was a reasonable effort to address the situation. Unfortunately, the cash negotiated quantity of hogs has done nothing but evaporate until we find ourselves in a current scenario where — even pre-COVID — we were trading roughly 1.5% of our daily harvest with negotiated animals. With the closing/slowing of packing plants, we currently have no economic price discovery matrix for a spot market pig whatsoever." [Joseph Kerns, Don't let perfect be the enemy of good, May 18, 2020]

"Negotiated hogs are just a sliver of the total at this time. If that volume falls further, futures will be more dependent on the cut-out price for price discovery and ultimately, index settlement", (CME Group Report Vol 18 No. 68 April 7, 2020). The CME has been indicating to the industry and investors that a better system is needed as the freely marketed pig USDA values are coming from a diminishing percentage of the marketplace and those sells are too often absent.

To this point, in 2015 the CME proposed a CME Pork Cut-out Index with a five-business day weighted average of prices for the carcass value of hogs. The use of cut-out value pricing formulas is becoming a growing trend in the North American market as the correlation between Lean Hog Index and pork cut-out widens.

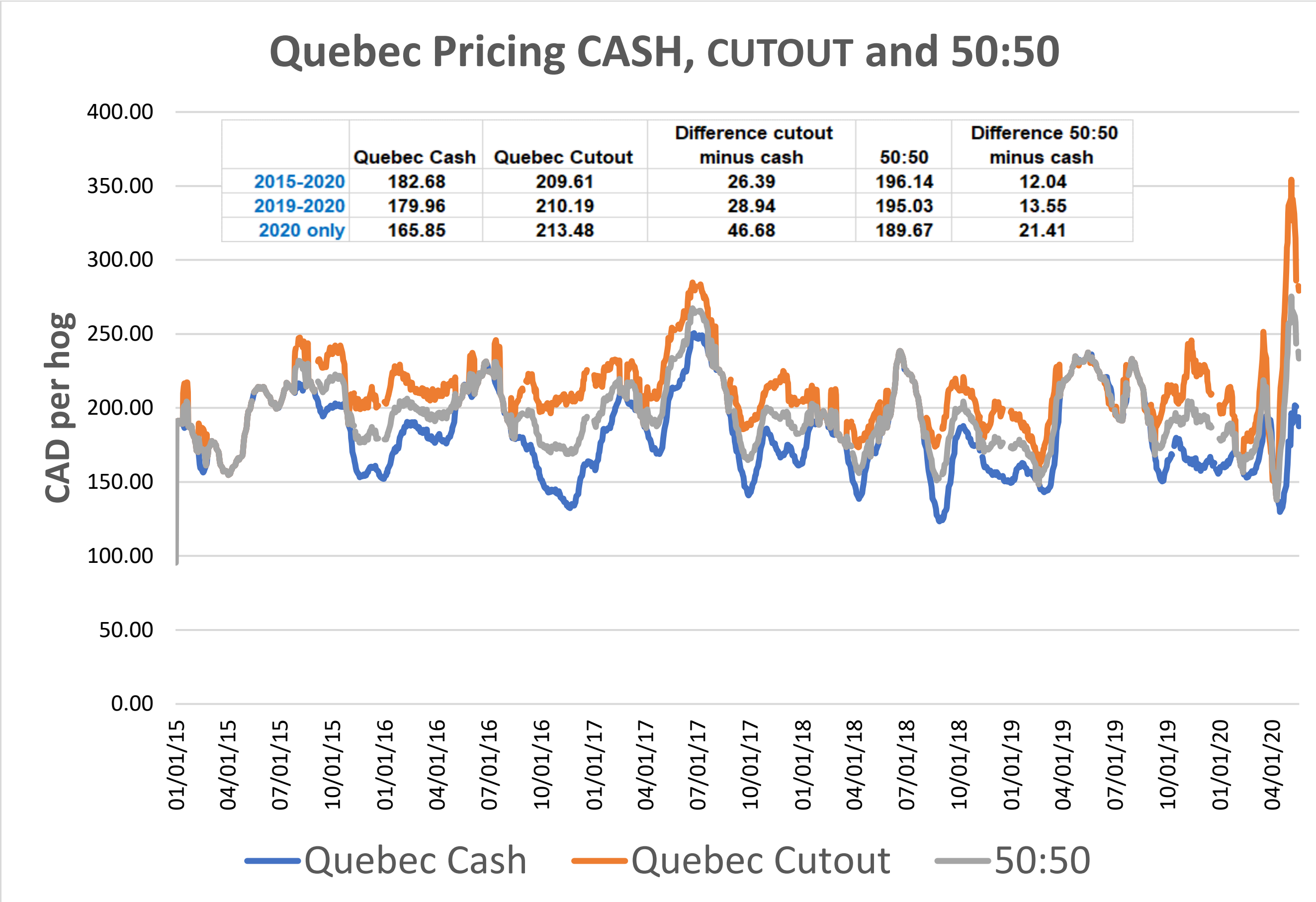


Unfortunately, in Canada we often forget that the U.S. pricing indicators such as the LM_HG201 were also designed to send direct signals to the U.S. marketplace as it relates to supply and demand. While the 2020 supply of U.S. pigs maybe high and therefore price signals are pushing prices down, this is having the reverse effect in Canada. Supplies in Canada are lower than packer demand/need but the pricing in western Canada is telling producers to reduce supply and / or exist the industry.

This was one of the strong noted arguments of the Regis in the 2019 Quebec pricing Decision. Regis [60] … "The Regis can only be surprised that Quebec production is declining when buyers are investing in new slaughter capacities. It is hard to believe that the optimism is based on the ability to buy pigs outside of Quebec, or worse, the fact that Quebec producers are, and will continue to be, supported by the ASRA program."

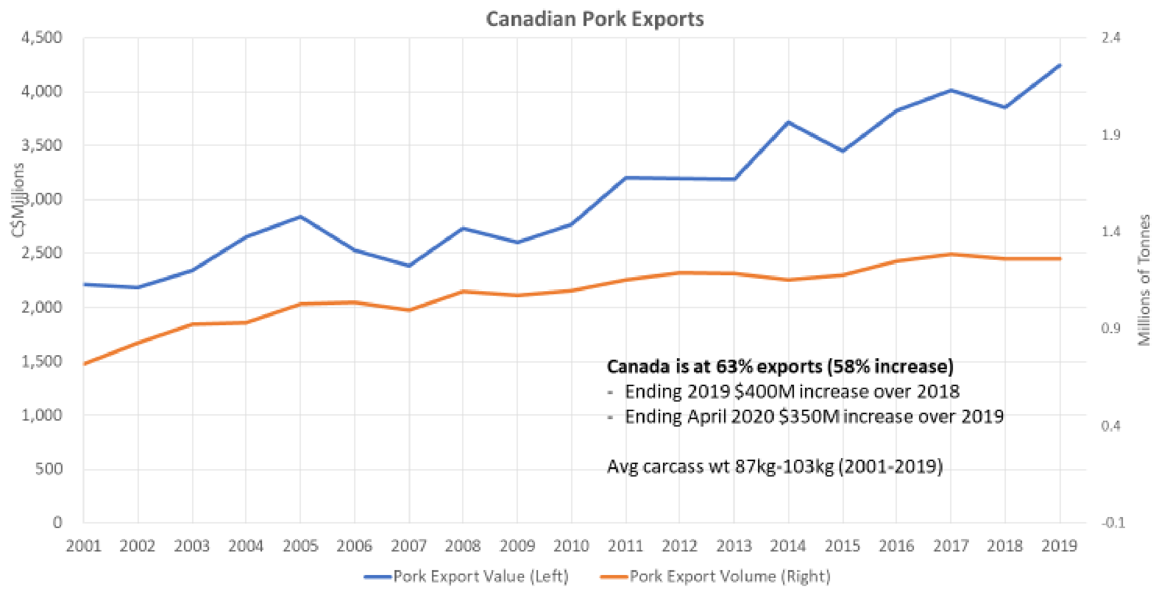
In western Canada, an outside observer might question the industry when producers are losing money while packers purchase pigs from southern Ontario and transport them to Manitoba, Saskatchewan, and Alberta for processing. Where a producer is unable to grow his business or keep up with maintenance, packers are reinvesting profits into other parts of their own businesses, purchasing competitors or seeking opportunities outside of the region or into other food sectors. As well, increased export sales with significantly higher returns over previous years are the norm for only a part of the industry. However, continuous hope for government support programs (i.e. AgriStability) has been a crutch that is quickly disappearing, requiring the overall industry to make change now.

"Pork cut-out value better reflects the value in the market; and therefore, the solution would be to use both price and cut-out in a transition period" (Forest Lavoie, October 2017). Today we are seeing cut-out incorporated into formulas in Quebec, Ontario, and Manitoba as well as in a growing number of U.S. contracts.



	Quebec Cash	Quebec Cutout	Difference cutout minus cash	50:50	Difference 50:50 minus cash
2015-2020	182.68	209.61	26.39	196.14	12.04
2019-2020	179.96	210.19	28.94	195.03	13.55
2020 only	165.85	213.48	46.68	189.67	21.41

Finding a reasonably equitable method of sharing the value of the pig is fundamental to the long-term sustainability of the industry for both producers and packers. The fact that the overall growth in the western Canadian hog sector is near zero, and existing barn maintenance is at an extremely low level, suggests an industry in significant decline if not directing toward collapse.



Producers have been operating for a great period at below cost of production levels in comparison to packers over the last decade. As such, the disparity between the two groups is widening every year. This is most notable in the growing Canadian pork export market with its continued widening of the dollar value earned to flattened volume of pork sold.

As we have seen through the COVID-19 situation, governments are unwilling to provide the market protection that once was taken for granted. They also question why the industry is not building the necessary safeguards internally through improved shared value. The futures market offers no security or relief in 2020. The global politics that affect U.S. pricing are not indicative of the Canadian situation, but our system is placing too much of those inherent risks on the Canadian producer.

However, the current move by producers to cull the sow herd is an action playing out in both the U.S. and Canada. Estimates from industry, based on USDA current culling number, would likely see upwards of a 250,000 reduction in 2020 sow numbers or an estimated reduction of 7 million market pigs in 2021.

Therefore, some other tangible mathematical means of sharing value is needed to ensure the profitability for both producers and packers. Without this change, we will be unable to maintain current production levels, and the proper signals will not be present to facilitate new investment and growth.

With renewed commitment to improve pricing and relationships, the industry will see investment to increase hog numbers, which will support packers and improve quality, global accountability and access while safeguarding herd health for a stronger Canadian pork industry.

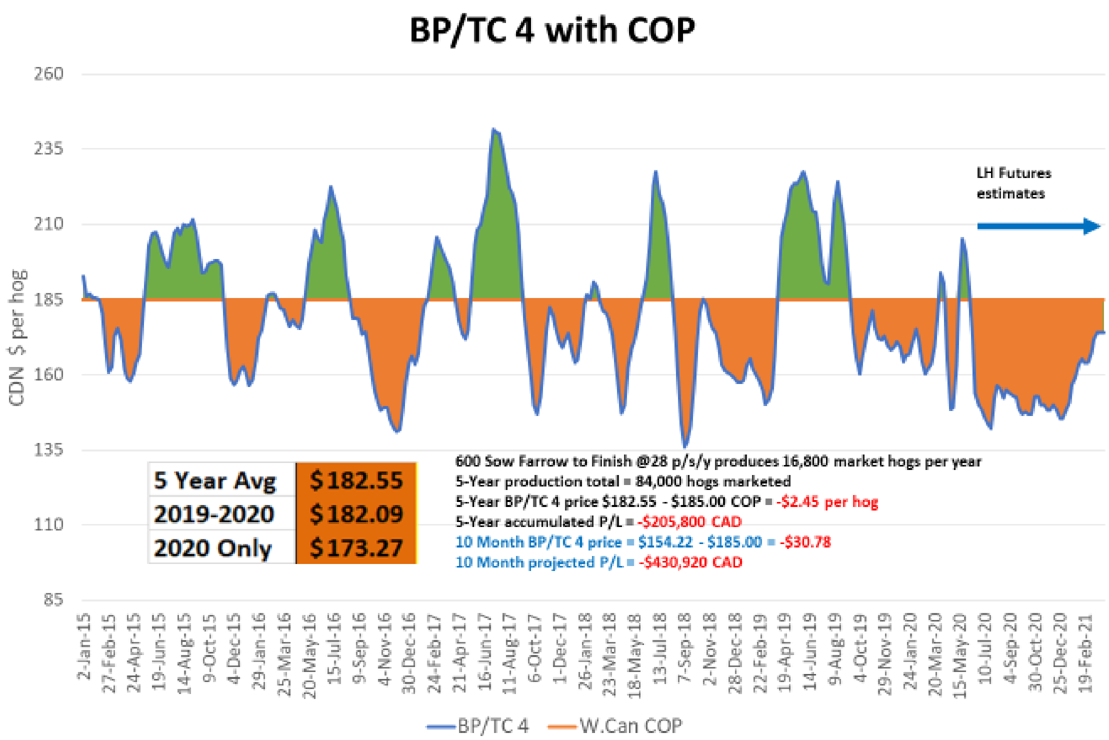
The following graphs are used to highlight what a producer (in the model provided) has faced financially over the past 5 years as well as what that financial situation is potential going to look like in the next 10 months given the current pricing formulas. As well, some projections using packer interim pricing relief and/or proposed changes.

Donald’s Fine Foods’ contract pricing model

At a cost of production of $185/hd (MNP estimates for Alberta) and using the current BP/TC 2 and 4 pricing, a 600 sow F/F farm **lost more than $1 million over the past five years**. In the 10-month timeframe May 2020 through February 2021 the same producer is projected to lose another **$430,920.**

A reasonable business person would have to question the reality of an industry that has built its business on suppliers who would have invested $5.8 million (construction only) into a pig barn to achieve a **$1.43 million loss in less than 6 years for a -24.7% return on investment**. This situation can only lead to the collapse of the industry through the loss of none integrated producers and some significant packing capacity.

While the change to the BP/TC 4 price was an improvement the true losses noted -**$1,011,360 occurred. Even at the BP/TC 4 pricing over the past 5 years,** it still would have left the pig producer -**$205,800** in the red and they still are facing an **addition loss of $430,920** over the next 10 months.

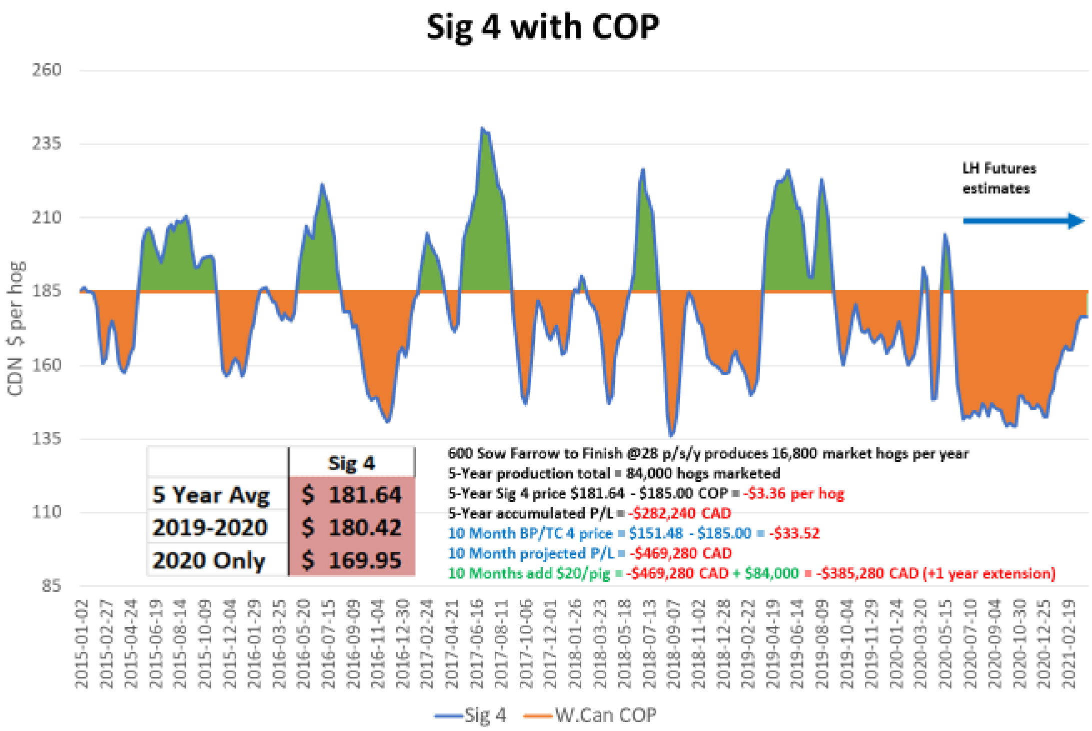


At the time of the meeting, Donald’s Fine Foods has announced that they will operate a floor price of $1.40/pig over a four-week period to help address the current pricing situation while they look at further option for the future. While this extra cash infusion is welcomed; unfortunately, the losses for producers continue to accumulate at a significant rate with little support on the horizon.

Maple Leaf Foods' contract pricing model

At a cost of production of $185/hd and using the current Sig 4 pricing, a 600 sow F/F farm **lost approximately $282,240 over the past five years**. **However, we place caution on this optimistic value as many producers operated on a combination of Sig 2, Sig 3 and/or Sig 5 contracts over that same time frame.** Regardless, In the 10-month timeframe, May 2020 through February 2021, the same producer is projected to **lose another $430,920.**

Before meeting with Maple Leaf Foods, the company issued a letter to their producers offering $20/pig for 13 weeks if an extension of one year was added to their current contract. This interim help is also appreciated but will not address the systemic pricing problem for producers in western Canada nor the **pending $385,280 shortfall** over the next 10 months.

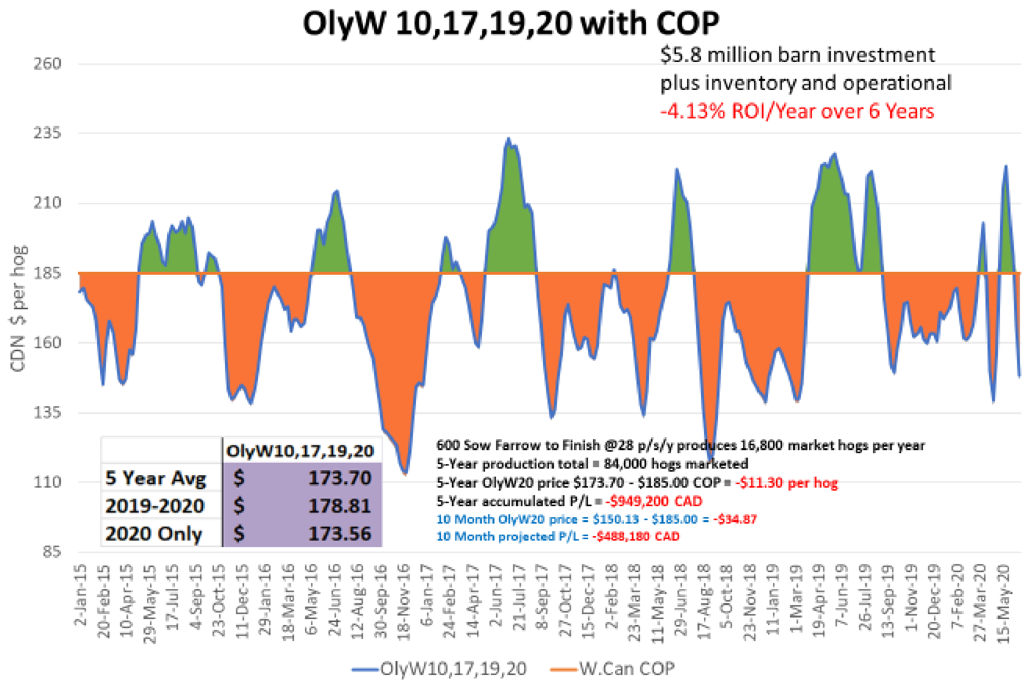


One can argue that a cost of production of $185 is higher than our US competition; however, it represents an average and certainly would be a reflective C of P, if not higher, for a producer looking at investing in new barn construction. Similar concerns could be argued on packer efficiencies when operating under capacity in comparison to the US packing industry.

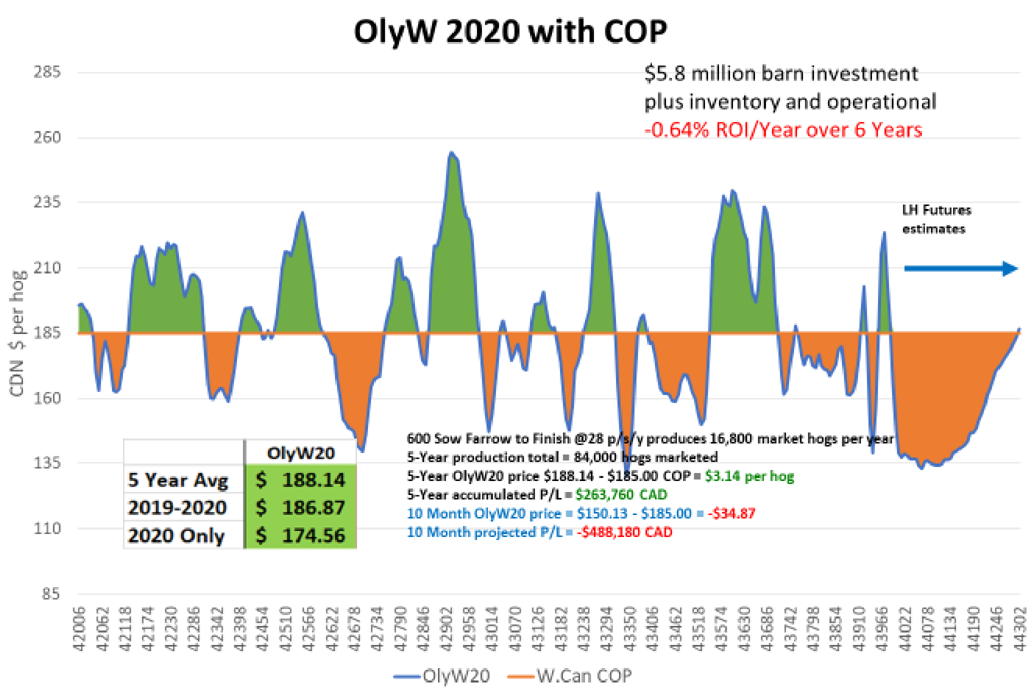
The COVID-19 issues certainly factor in a great deal of the uncertainty and pricing problems in 2020. However, from the 5-year analysis it is evident that the pricing structure itself also plays a key factor in the negative financial situation for producers in 2020.

Olymel's contract pricing model

At a cost of production of $185/hd and using the current Olymel contract pricing over the past 5 years, a 600 sow F/F farm **lost approximately $946,200**. In the 10-month timeframe, May 2020 through February 2021, the same producer is projected to **lose another $469,180. Through this example the producer has** achieve a **$1.42 million loss in 6 years for a -24.4% return on investment**.

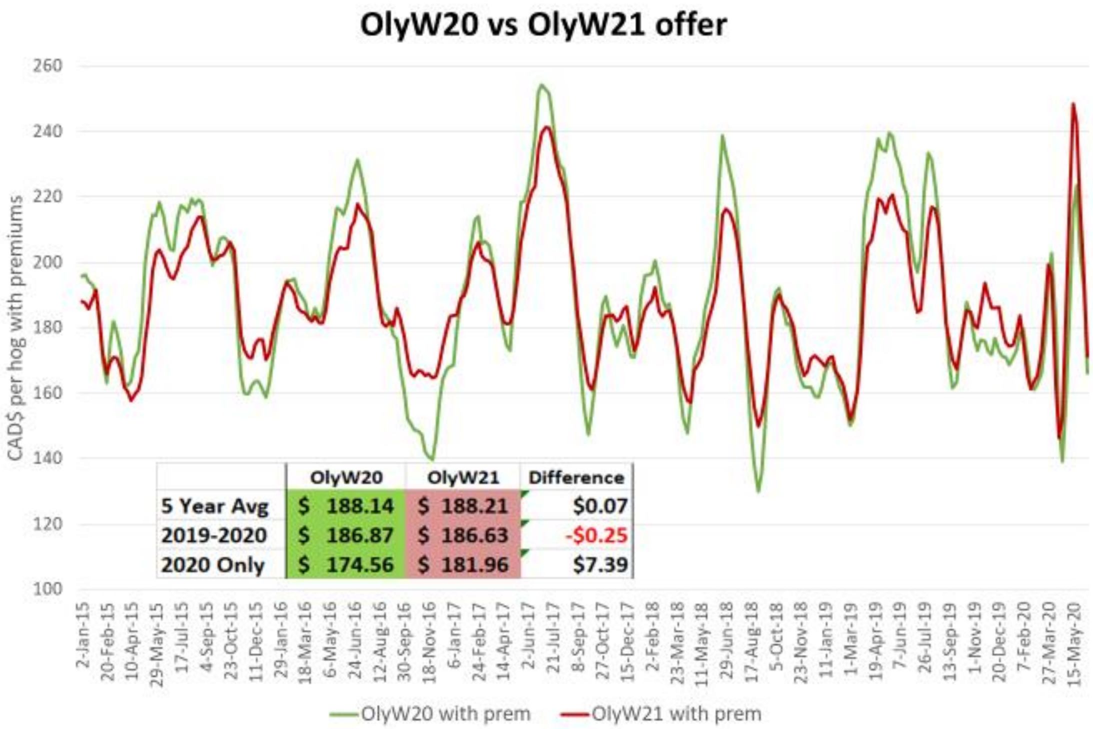


Through analysis using the Olymel 2020 contract the picture would have been somewhat different if this pricing had been used throughout the timeframe there would have been a positive return of $3.15/pig.



Unfortunately, with the current market realities **there will still be a projected -$488,180 return over the next 10 months.**

At the end of June 2020, Olymel has recently announced changes and if offering the new Olymel 2021 contract which includes 50% of the HM-LM201 price plus 45% of the PK0602 cut-out value. A new grid index and premiums are also offered on top of the calculated price. **This new OLYW2021 contract increases the 5-year average price over the OLY2020 price be $0.07 or to a level of $3.21/pig.** It will better address the HM_LM201 price lows with the added PK_602 values but does eliminate the use of the Olymel forward contract business risk management tool.



This new contract does address producer desires for cut-out value inclusion and helps reduce the negative pricing valleys. However, the nature of the formula with an index factor, like other packers, takes away some of the price peaks as does using only 90% of cut-out in the formula. On a positive note, the Olymel 2021 formula would only require a small change to create large gains and improve the industry outlook.

<u>HyLife's contract pricing model</u>

(Please note that HyLife was not approached by the boards; however, it was felt that their pricing changes required recognition for their positive steps forward)

During the month of April HyLife met with their independent producers, regarding a new hog pricing formula. At that time, a new pricing formula was introduced which utilizes the existing CME price with a new factor, premium structure, and weight-based grid, as well as incorporating a window price using USDA pork cut-out prices.

HyLife has noted that the recent and rapid shut down of pork processing plants in the U.S. due to COVID-19, has resulted in unprecedented volatility in both the CME and Pork Cutout Price. As a result of the rapid and material change in the U.S. pork cutout price, they made the decision to implement a new pricing program with a phased in approach. As a result, modified their pricing formula as defined below.

<u>New Pricing Model effective May 4, 2020 hog slaughter.</u>

Price ($/CKG) = CME Price * 1.885 * Exchange Rate * carcass weight
Total $ per hog = Price ($/CKG) + Program Premium + Weight Premium

<u>*If the CME price is less than 90% of USDA Cut-out, then **CME price + $ 7.50 US = CME Plus Price** and the CME Plus Price replaces CME Price in the formula unless the CME Plus Price = 90% of USDA Cut-out at which time the CME Plus Price becomes the CME Price.*</u>

If CME price is between 90% and 100% of USDA Cut-out, then CME Price = CME Price

If the CME price is greater than 100% of the USDA Cut-out, then CME Price = 100% of USDA Cutout Price
<u>NOTE:</u> The modification to the new pricing formula is <u>*underlined and italicized*</u> above.

This is a clear demonstration as in the Quebec decision that cut-out (the prime indicator of wholesale meat prices need to drive the method of sharing the value of the pig. Through this new formula HyLife is also demonstrating its willingness to address producer pricing concerns and strengthen their relationship with their producer suppliers.

<u>**Summary of Packer Changes**</u>

Packer	Current Pricing	Changes	Results
Donald's	Sig 4 pricing which is the LM_HG201 + premiums Forward contract program in place	Floor price of $1.40 for 4 weeks Other premiums and forward contract remain.	Adds extra $20-25/pig in the short term. No change to current formula going forward.
Maple Leaf Foods	Sig 4 pricing which is the LM_HG201 + premiums Forward contract program in place	An additional $20/pig for 13 weeks if a one-year extension is signed. Other premiums and forward contract remain.	Extra $20/pig for 13 weeks but producers will be held to an extra year on their existing contracts. No change to current formula going forward.
Olymel	LM_HG204 + premiums Forward contract program in place	50% LM_HG201 + 45% PK_602 cut-out value + premiums Changes to "Factor" and indexing. No forward contract program in place.	Equals a $0.07/pig increase. Could equal additional $7-8/pig in 2020 with futures depressed.
HyLife	LM_HG201 + premiums	LM_HG201 + use of a 90-100% window within PK_602 cut-out values + premiums	Equals an estimated $20/pig increase over past formula.

Conclusion

Moving toward a pricing structure that incorporates cut-out value would help to reduce the volatility in the market and send favourable signals that profitability is possible. This in turn would help ensure quality assurance and biosecurity protocols are more readily affordable. Only with profitability will producers be able to start to rethink investment strategies and contemplate new growth in the industry.

A closer look at U.S. and E.U. pricing trends also show greater movement toward the wholesale value of the pork. Approximately 40% of the Canadian pigs are now paid through mechanisms that incorporate the USDA reported cut-out value (PK_602). The market risk to both producer and packer are greatly reduced when cut-out is taken into the pricing equation while giving greater opportunity to address other important industry issues for the benefit of long-term sustainability and profitability.

As an example, using the current BP/TC 4 or Sig 4 cash formula and bonus structures with a percentage of the USDA cut-out value also yields greater certainty for producers. This in turn, would drive the industries ability to supply pigs for needed packer capacity shortfalls.

The extreme price drops noted in the previous graphs severely harmed producers and are not indicative of a shared value system. In the last five years the cash price has rarely exceeded the cut-out value yet the disparity between the two has been very large and is trending in that direction.

In addition, packer hog purchase discounting by using "**The Factor Method**" (Factor = 74/80 x 2.2046 x 100/?) is a problem. Simply eliminating the "factor" and applying a transparent grid might also help Canadian producers. Asking Canadian producers to be more competitive with U.S. producers does not work when Canadian producers are paid a discounted U.S. price.

The four boards appreciated the candid discuss with Donald's Fine Foods and Maple Leaf Foods and look forward to potential changes they might make for the long-term survival of pork producers and packers in western Canada. In addition, the change to using PK_602 in the new Olymel 2021 formula is appreciate but some additional fix is required with the factor or index. The boards also look forward to discussing these issues with Olymel representatives when they are able to meet.

Going forward the four provincial pork boards will also look to collectively discuss the pricing issue with the four western provincial governments to better position the industry for success in the future. In addition, the boards would also ask that producers support pricing efforts by enrolling in cost of production studies offered by the associations and provide settlement data to help increase the opportunity to build a better pricing system. To truly improve the pig industry in western Canada all involved need to contribute.

To that point, there is a critical lack of information on the Canadian pork cut-out values, as is readily collected by USDA for the American market. It is important to have Statistics Canada and Agriculture and Agri-Food Canada initiate the collection of such statistics to bring more clarity into the Canadian marketplace. Similarly, for a country that exports more than 60% of its pork, Canada should enhance its export data sets as well so that better decision making can be made throughout the industry.

The four western boards feel that a new pricing approach that incorporates cut-out value and eliminates the severe pricing volatility would be a starting point for discussion. Several examples have been investigated and that information was provided after the meetings as discussion points for consideration. Those graphs are provided in Appendix D.

May 19, 2020

Michael H. McCain	Rejean Nadeau	Donald Leung
President & CEO	President & CEO	Chairman
Maple Leaf Foods	Olymel	Donald's Fine Foods
6897 Financial Drive	2200 Avenue Pratte	11528 Eburne Way
Mississauga, ON L5N 0A8	St. Hyacinthe, QC J2S 4B6	Richmond, BC V6V 2G7

Dear Sirs:

Reference: Western Canadian pork chain value sharing

As we work our way through the COVID-19 pandemic crisis we are seeing more evidence of the overwhelming disconnect between the value of the pig that our producers receive versus the value processors receive.

In addition, the discrepancy in pricing formulations between regions of Canada has created a significant disparity, especially in Western Canada. To have spreads of over $100/pig between provinces, record USDA posted cutout values and severely depressed USDA live pig prices signal a need for change in the Canadian pricing mechanism.

As global demand increases, and as pig supplies in Western Canada decrease, the normal economic principles of supply and demand are not working. Having a pricing system based off the U.S. pig price is increasingly concerning, as a smaller number of U.S. pigs are part of the data collection. In addition, as the economic and trade implications facing the two countries are not similar, supply and demand for pigs differs. As processors look to fill increasingly empty shackle space, the price of Western Canadian pigs continues to remain low, and the lack of growth or even renovation in Western Canadian pig barns is not sustainable. The value sharing model is so out-of-alignment that no other country on the planet is facing similar challenges.

The boards of directors for the BC Pork Producers Association, Alberta Pork, Sask Pork, and Manitoba Pork Council are asking that Maple Leaf Foods, Olymel and Donald's Fine Foods meet with the boards to discuss a solution to this long-standing problem. It is our hope that we can change the system in Western Canada to better reflect a value sharing model as is being used in Quebec and at HyLife Foods in Manitoba.

Our current pricing system forces pig producers in Canada to rely on the goodwill of the federal and provincial governments and taxpayer dollars to support producers' very survival. Unfortunately, these available support mechanisms have become less meaningful or timely for producers. Pig producers across Western Canada have made significant investments in their facilities, and we estimate the replacement value of these barns to be over $5 billion. Without a reasonable return, the future of these barns is in jeopardy.

Over the last 10 years, as the industry has struggled with this issue, there has been a great deal of reconfiguring in the industry with isowean and market pigs being shipped into the U.S. market to achieve a workable solution. We have also seen packers buying facilities from producers who have been forced to exit the industry. These are not the stories that paint a picture of growth, civic pride or an industry that works together for a strong future.

For too long, the producer and packer have been at odds with each other and it has created an unmanageable and antagonistic relationship that is weakening the industry as well as the brand in the global marketplace. This approach must come to an end. We need to recognize the value of all players in the value chain and work together to address our collective issues. We have an incredible opportunity to tell consumer-appropriate stories, grow our collective businesses, and instill pride in what we do. But this will only be possible when the value chain is working together towards a shared profitable future.

Our industry needs to ensure that both packers and producers have an opportunity to be financially successful. Both must also be able to address societal obligations related to our environmental footprint, food safety and animal care, biosecurity (i.e. PEDv, ASF, etc.), labour safety and sustainability, and fair business practices. As such, both packers and producers need to manage and maintain the goodwill of government and the public for success. The image portrayed can be of benefit when working together or a hinderance when we are at odds. Producers like packers cannot invest back in their farms to address market or societal demands if they are not able to report positive profitability and a sustainable EBITDA.

Now is the greatest time for our industry to rally for change in the face of the unprecedented crisis that faces our nation. It is a time to give hope and to strengthen our economic wellbeing heading into the future. Now is the time to be the global pork player that Canada has the potential to be, but it starts with shared value and is built on the principles of integrity, respect, and a trusted relationship.

Therefore, the pork boards from BC, Alberta, Saskatchewan, and Manitoba invite Maple Leaf Foods, Olymel and Donald's Fine Foods to meet with us by June 30, 2020 to develop a reasonable method to ensure both producers and packers receive a fair share of the value derived from the pig.

We look forward to your response and engagement in resolving these concerns for the benefit of the whole industry.

Sincerely,

Brent Moen
Chair, Alberta Pork

Toby Tschetter
Vice-Chair, Saskatchewan Pork

George Matheson
Chair, Manitoba Pork Council

Jack Dewitt
President, BC Pork Producers Association

cc: Curtis Frank, Maple Leaf Foods
Paul Beauchamp, Olymel
Allan Leung, Donald's Fine Foods
Andrew Dickson, Manitoba Pork Council
Mark Ferguson, Saskatchewan Pork
Christine Koch, BC Pork Producers Association
Darcy Fitzgerald, Alberta Pork

DONALD'S FINE FOODS

June 11, 2020

Brent Moen	Toby Tschetter	George Matheson	Jack Dewitt
Chair	Vice-Chair	Chair	President
Alberta Pork	Saskatchewan Pork	Manitoba Pork Council	BC Pork Producers Associations

Dear Sirs:

Reference: Western Canadian pork chain value sharing

Thank you for your letter dated May 19, 2020 detailing the concerns and challenges that the western hog producers are facing and the need for further discussions on the future of the Western Canadian hog industry. Donald's Fine Foods (DFF) welcomes these meetings and discussions, as we appreciate the long, respected relationships that we have built with our producers and recognize that Hutterite and family farms have a long and storied history within Canada and continue to play an essential role in helping feed Canadians and the rest of the world.

Although the COVID-19 pandemic crisis is a challenging time for all involved, it demonstrated the critical role producers and packers play in the food supply chain. Over the last three months, DFF has worked through high employee absenteeism and incurred substantial additional costs to keep our employees safe and production levels at near pre-COVID-19 levels; therefore, ensuring that producers continue to have a place to ship their hogs and customers have products to fill their shelves.

Donald's Fine Foods has always maintained a positive relationship built on honesty, respect, and integrity, with the producers that ship to our facilities and shares many similar concerns as those of our producers. Over the years our pricing has evolved with the market, providing better returns and additional options for those producers who ship to Britco and Thunder Creek Pork. Our pricing programs continue to cater to a wide range of producers based on hog weight size, herd population, specialty programs, and genetics. In 2019, our pricing programs were based on the *USDA LM_HG201 National Daily Direct Hog Prior Day Report - Slaughtered Swine* pricing and offered a light and heavy grid option both with a 116 core window index, a \$1.50/hog Duroc bonus, a \$1.50/hog weight bonus, and a \$2.00/hog Sunday loading bonus. This pricing program paid an average 2019 base price of \$1.6222/kg and a 111 index for an average price of \$1.80/kg prior to any Britco freight savings and bonus payouts listed above. In 2020, a new Duroc Specialty Program was introduced with a wider grid, a core window index of 117, a \$2.50/hog Duroc Bonus, and a \$1.50/hog weight bonus.

As we compete in domestic and international markets, we continue to review different pricing models that benefit all parties, strengthen the Canadian hog industry, and won't put our facilities at an unfair competitive advantage compared to the larger Canadian, U.S.A., and international packers. Specific attention is being paid to the discrepancy in pricing formulation between regions in Canada, specifically

11528 Eburne Way, Richmond B.C. V6V 2G7

the Quebec pricing formula, as we try to determine the specific program requirements and how the pricing programs impact each packer based on their size, end customer markets, and level of integration – including how they would affect any future decisions for our primary production facilities. As well as trying to determine how these pricing formulations will impact the Canadian hog industry going forward – will it grow the overall industry and provide additional returns for all or push smaller packers out of primary processing and incentivize larger packers to further integrate their production requirements?

Independent hog producers, Britco Pork, and Thunder Creek Pork are all equally needed to maintain a healthy and robust hog industry in Western Canada. Donald's Fine Foods accepts your invitation and looks forward to meeting with the pork boards from B.C., Alberta, Saskatchewan, and Manitoba to discuss the future of the Western Canadian hog industry.

Sincerely,

Allan Leung
CEO, Donald's Fine Foods

cc: Donald Leung, Donald's Fine Foods
Andrew Dickson, Manitoba Pork Council
Mark Ferguson, Saskatchewan Pork
Christine Koch, BC Pork Producers Association
Darcy Fitzgerald, Alberta Pork

June 12, 2020

Brent Moen	Jack Dewitt	George Matheson	Toby Tschetter
Chair	President	Chair	Vice Chair
Alberta Pork	BC Pork Producers Association	Manitoba Pork Council	Saskatchewan Pork

Dear Sirs:

Reference: Your letter dated May 19, 2020

We are in receipt of your letter regarding Western Canadian pork chain value sharing. As per your request, we are happy to meet you to discuss the issues raised in the letter with a view to ensuring we have a common understanding of how to make our Canadian pork value chain as strong and competitive as possible in all market conditions.

We believe it would be most valuable to review the following:

1. **The competitiveness of the Canadian pork industry in a North American and global context**
   We believe it would be particularly valuable to explore the Canadian industry's position relative to U.S., European and South American competitors in Asian markets. We can elaborate on how these factors inform Maple Leaf's business model and long-term viability.

2. **Maple Leaf's hog purchase pricing mechanism**
   In this area we can explain the scope and depth of the "U.S. National Market" reference price, its stability over time and the risk management services that go with contracts. We can review these issues in the context of some actual market conditions in recent years.

3. **Our shared interest in increasing capital investment in finished hog production in western Canada**
   In this discussion we can talk about Maple Leaf's capital incentives and their uptake. We are also interested in your ideas on overcoming structural cost challenges and incenting industry growth in Western Canada. We can share our approach to continually driving cost competitiveness in Maple Leaf Agri-Farms.

4. **The importance of the Canadian Pork Excellence (CPE) program**
   In this area, we should focus on the program's contribution to the industry's competitive position in export markets and also the critical importance of the strengthened biosecurity and traceability components as we strive to protect our industry from African Swine Fever.

Maple Leaf Foods Inc., 6985 Financial Drive, Mississauga (Ontario), Canada L5N 0A1 Tel.: 905 285-5000 Fax: 905 285-6000

Brent Moen	Jack Dewitt	George Matheson	Toby Tschetter
Chair	President	Chair	Vice Chair
Alberta Pork	BC Pork Producers Association	Manitoba Pork Council	Saskatchewan Pork

5. **How we can collaborate more as a value chain in securing better government support for margin loss protection and disaster recovery**
   We believe we can forge a stronger partnership to advocate for the long overdue improvements to AgriStability and AgriRecovery while also ensuring that the government is well prepared to support us through an ASF disaster.

In the current circumstances, we believe that a “virtual meeting” is best and can likely be arranged quite quickly. Please be in contact with my Executive Assistant, Giselle Valdeiro at Giselle.Valdeiro@mapleleaf.com regarding your availability. Our team looks forward to the discussion.

Best,

Michael H. McCain
President & Chief Executive Officer

Curtis Frank
President & Chief Operating Officer

Maple Leaf Foods Inc., 6985 Financial Drive, Mississauga (Ontario), Canada L5N 0A1 Tel.: 905 285-5000 Fax: 905 285-6000

Feeding the world

July 14, 2020

Western Provincial Associations

Brent Moen Chair – Alberta Pork	Toby Tschetter Vice Chair – Saskatchewan Pork
George Matheson Chair – Manitoba Pork Council	Jack Dewitt President – BC Pork Producers Association

Dear Sirs,

Thank you for the letter dated May 19, 2020 referencing the Western Canadian Pork Value Chain.

We understand the concern your respective producer organizations have for the members in these unprecedented times. We greatly value our relationships with our producer partners and will continue to seek ways to improve as necessary. Over the past 2-3 years, we have made significant changes, offering a wider grid, improving the pricing formulation, and introducing the proximity bonus last fall, all of which has resulted in producers receiving an increase of more than $12 per market hog on average. During this time, we recognized the challenges producers have faced and to stay competitive within the prairie region these changes needed to be made.

Over the past several months, it became abundantly clear that further changes were required to address the immediate impact of Covid-19 on hog markets and price formulation. With that in mind, Olymel created the OlyWest 2021 Hog Supply Agreement that uses a pricing mechanism that includes both a more stable hog price and the pork market. Changing the hog reference and sharing the cutout value addresses both the short-term crisis and a longer-term need. We believe that this change will have an immediate impact for producers by putting more dollars in their pockets when they need it the most. We will continue to monitor the situation to determine further changes as required.

Our western Canada Hog Procurement team has demonstrated Olymel's willingness to be adaptive and introduce change as described above. They will be more than pleased to meet with the Western Provincial Pork associations to discuss the changes that we have introduced and listen to any ideas that your respective organizations may have.

Again, we thank you for your concern.

Respectfully,

Rejean Nadeau
Olymel S.E.C

Cc: Paul Beauchamp
Casey Smit
Ian Moon

APPENDIX C

Cost of Production Summary – Year end 2019 – MNP numbers of Alberta
PER HOG MARKETED - Farrow to Finish

Production Expenses	
Feed	124.58
Livestock and AI	4.75
Vet and Supplies	5.78
	135.11
Gross Margin	**37.33**
Operating Expenses	
Custom work	2.75
Freight and trucking	6.48
Fuel	0.25
Marketing fees	1.00
Insurance	2.75
Repairs and maintenance	6.94
	20.18
Contribution Margin	**17.15**
Admin & Overhead	
Amortization	4.07
Interest and bank charges	2.51
Interest on long-term debt	1.85
Office and other	0.37
Professional fees	0.64
Property taxes	1.13
Utilities	4.30
Wages and benefits	15.79
	30.64
Total Cost less feed	**61.35**
Total Cost of Production	**185.93**

Production Expenses

Feed

The costs of the ingredients are tracked by MNP from various sources and are assumed to be purchased off farm. Barley prices are collected from three elevator locations in Alberta (Acheson, Brooks, and Sexsmith). These are prices farmers would receive for selling barley so an assumed margin of $16 per metric tonne is added to make a representative price of buying the grain from a feed company. The prices are forecasted by forward prices available at those same elevators. Wheat pricing is followed the same way as barley is.

Corn prices are tracked and calculated using the Chicago Mercantile Exchange (CME), an assumed basis and the exchange rate to convert it to Canadian dollars. Soybean meal is calculated in the same manner as corn.

Canola meal is recorded from the Canola Council of Canada. Forecasted prices are calculated using a short-term historical spread between canola meal prices and soybean meal futures, then that spread is applied to soybean meal futures going forward. Canola oil is also recorded form the Canola Council of Canada but forecasted using the short-term historical spread against soybean oil futures.

Premix costs are taken from actual feed purchases and are $885/mt for dry sows, $1,125/mt for the lactation ration, $1,432/mt for the nursery ration, $1,272/mt for growers, and $643/mt for the finisher ration.

The rations for the model are as follows:

	Dry Sow % Ration	Lactation % Ration	Nursery % Ration	Grower % Ration	Finisher % Ration
Barley	64.51%	33.27%		28.65%	59.55%
Corn			35.60%		
Wheat	16.18%	32.00%	18.30%	38.33%	15.00%
Soybean Meal	2.81%	17.84%	23.10%	16.56%	4.35%
Canola Meal	10.00%	8.40%		10.00%	15.00%
Canola Oil	0.50%	2.50%		3.00%	2.60%
Premix/Other	6.00%	6.00%	22.90%	3.50%	3.50%

Consumption of feed is assumed as shown below:

Ration Type	Tonne/pig
Dry Sow	0.829
Lactation	0.252
Starter	0.028
Grower	0.121
Finisher	0.158

Livestock and AI, Vet and Supplies

The expenses are taken from actual farm financials and averaged out on a per head basis.

Operating Expenses

Custom Work, Insurance, Repairs and Maintenance

The expenses are taken from actual farm financials averaged out on a per head basis.

Freight and Trucking

Freight and trucking costs are made up of two functions, fuel and labour. The changes in cost year over year are tracked and applied to the previous years' cost to make the current cost.

Fuel

Fuel prices are tracked through the Kent Group and uses an average of wholesale diesel prices for Calgary and Edmonton. The changes in cost year over year are tracked and applied to the previous years' cost to make the current cost. The fuel prices include the carbon levies that came into effect in January 2018

Marketing Fees

Marketing fees $1.00 per head on all pigs over 50kgs live weight as per the Alberta Hog Marketing Levies Order.

Administration & Overhead

Amortization, Office and Other, Professional Fees, and Property Taxes

The expenses are taken from actual farm financials averaged out on a per head basis.

Interest and Bank Charges

Interest was calculated using an average operating line of $7.09 per head and commercially available interest rates.

Interest on Long Term Debt

Interest was calculated using a total long-term debt per pig of $39.04 and commercially available interest rates.

Utilities

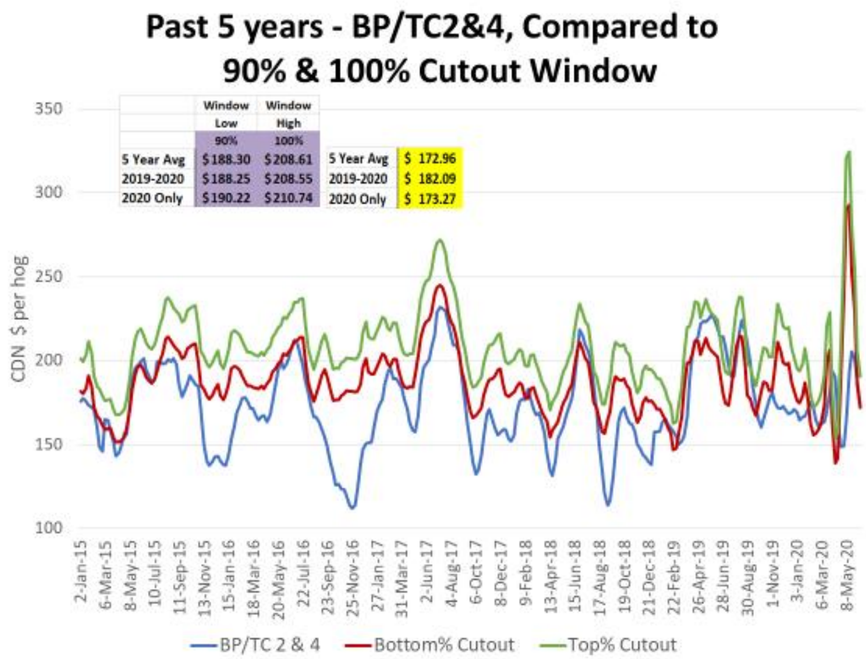
Prices are tracked from AltaGas, Direct Energy, and Epcor for electricity and natural gas. The changes in cost year over year are tracked and applied to the previous years' cost to make the current cost. It I unknown at this time the exact additional costs the carbon levies will have on utility costs, but for the purposes of this model it is assumed that an additional $0.015 per kilowatt hour will be charged for electricity.

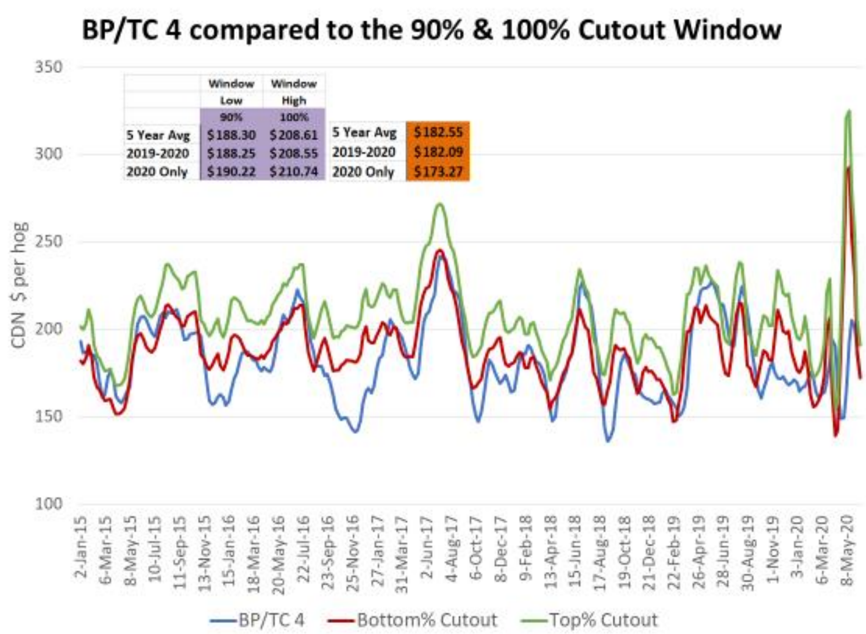
Wages

Wages are tracked from Statistics Canada using the average weekly wages for agriculture in Alberta. The changes in wages year over year are tracked and applied to the previous years' cost to make the current cost.

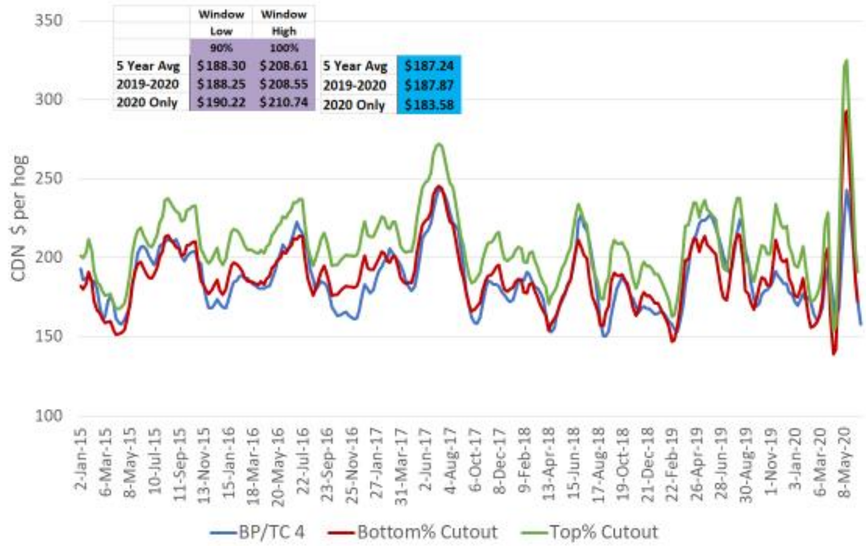
APPENDIX D

Donald's Fine Foods

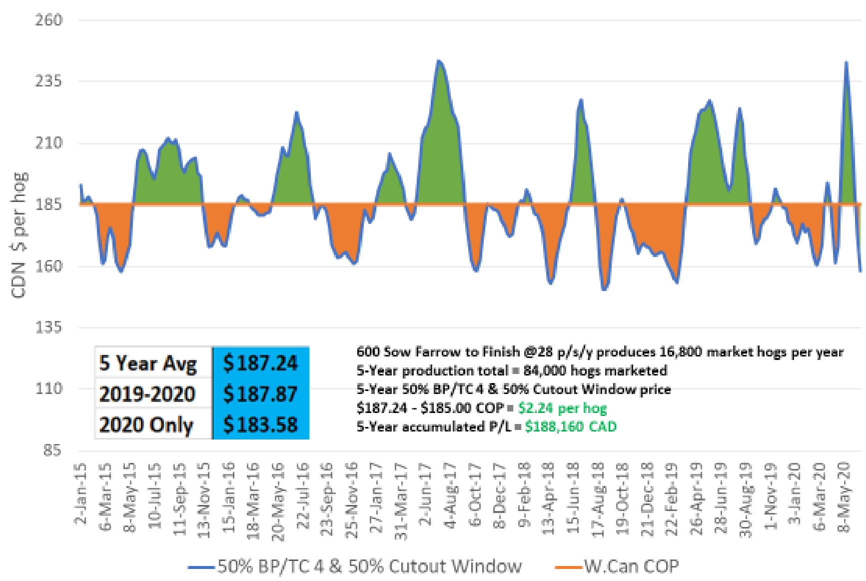


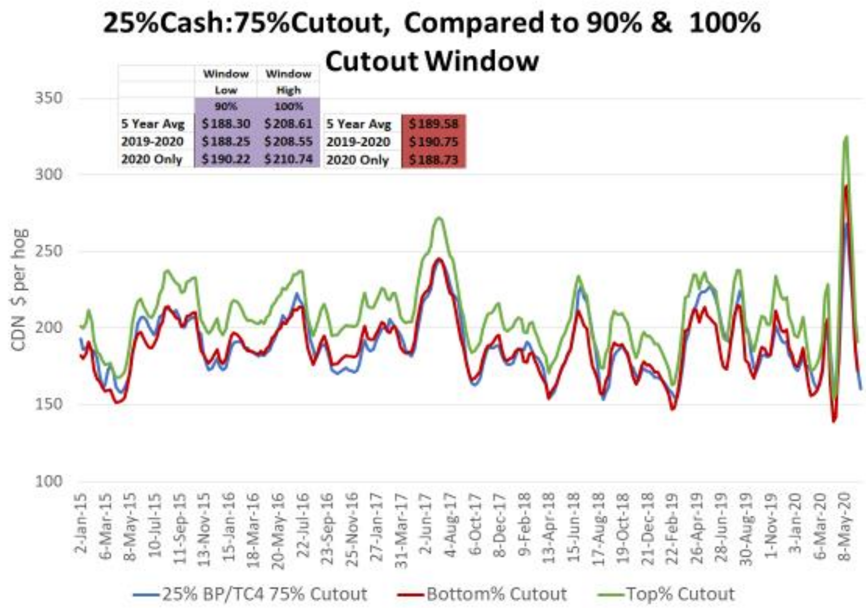


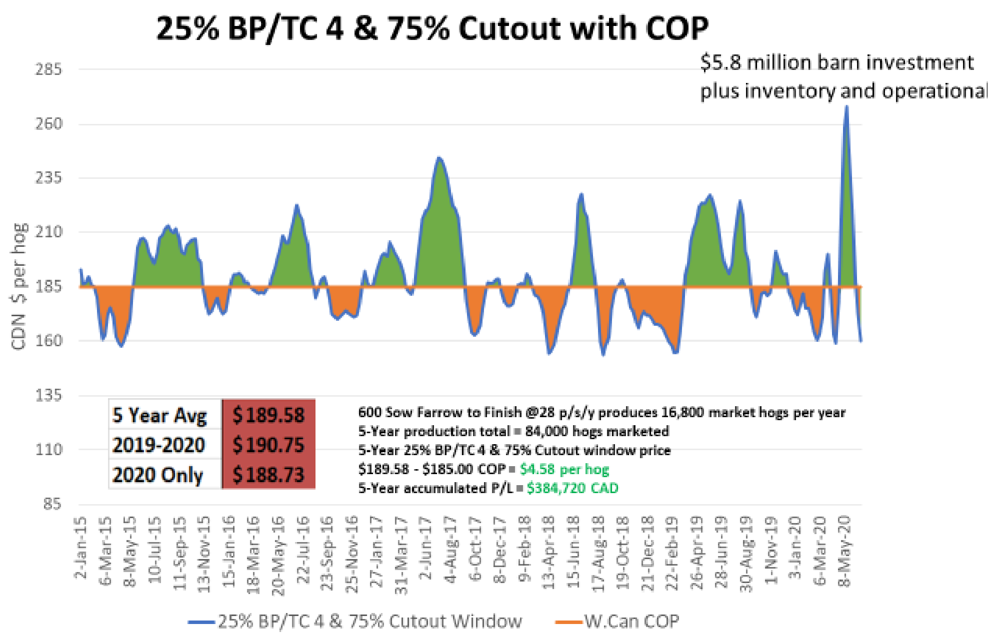
50% Cash:50% Cutout, Compared to 90% & 100%Cutout Window



50%BP/TC 4 & 50% Cutout Window with COP



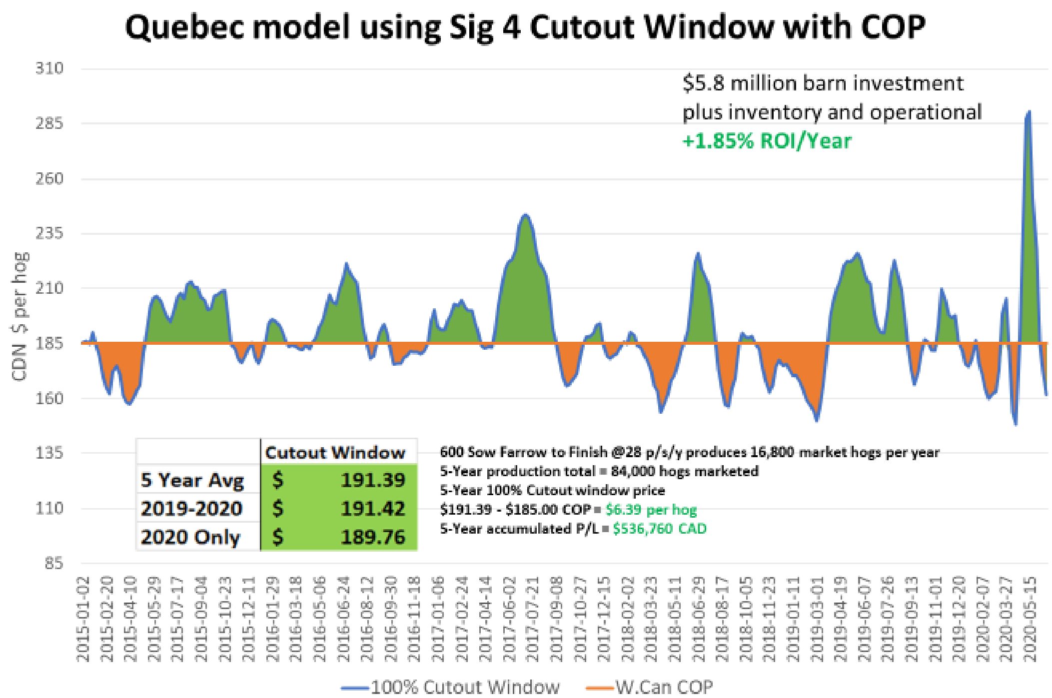

25%Cash:75%Cutout, Compared to 90% & 100% Cutout Window
Window Low 90%
Window High 100%
5 Year Avg $188.30 $208.61
2019-2020 $188.25 $208.55
2020 Only $190.22 $210.74
5 Year Avg $189.58
2019-2020 $190.75
2020 Only $188.73
CDN $ per hog
25% BP/TC4 75% Cutout
Bottom% Cutout
Top% Cutout

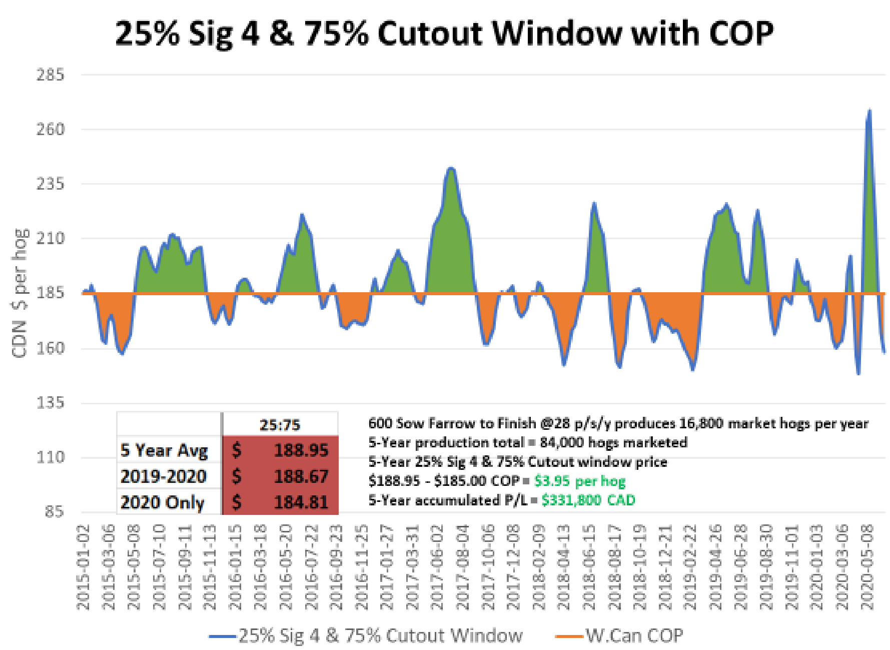

25% BP/TC 4 & 75% Cutout with COP
$5.8 million barn investment plus inventory and operational
CDN $ per hog
5 Year Avg $189.58
2019-2020 $190.75
2020 Only $188.73
600 Sow Farrow to Finish @28 p/s/y produces 16,800 market hogs per year
5-Year production total = 84,000 hogs marketed
5-Year 25% BP/TC 4 & 75% Cutout window price
$189.58 - $185.00 COP = $4.58 per hog
5-Year accumulated P/L = $384,720 CAD
25% BP/TC 4 & 75% Cutout Window
W.Can COP

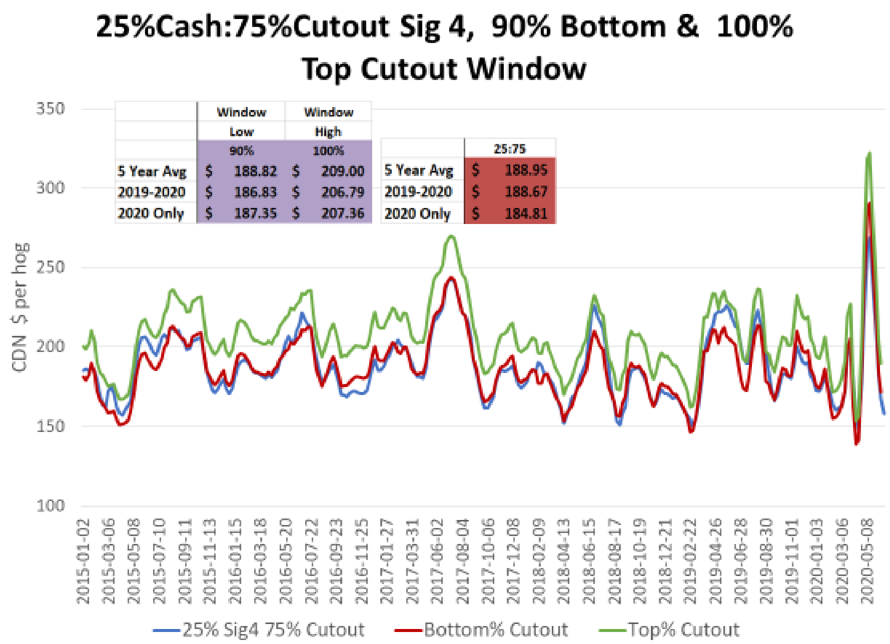
CANADIAN Variables		BP/TC 4 NEW
Live Weight (lbs)	275.5	276
Carcass Weight(ckg)	1.000	1.002
Cdn Yield	0.80	
Metric	2.2046	
Index		1.110
Formula % Premium		100.0%
Term Adjustment per ckg		$ 1.00
Freight Bonus		$ 0.50
Duroc Bonus		$ 2.50
Weight premium		$ 1.50
Health & Welfare Bonus		
Ractopimine free		
Loin Premium		
Partner premium		
Loose Housing Premium		
Conversion		1.7750

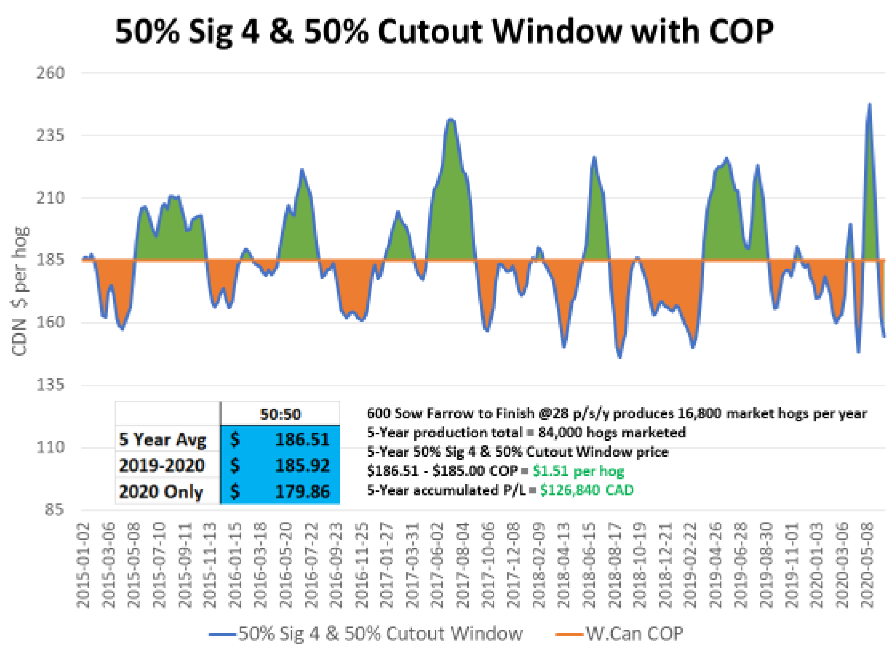
APPENDIX D

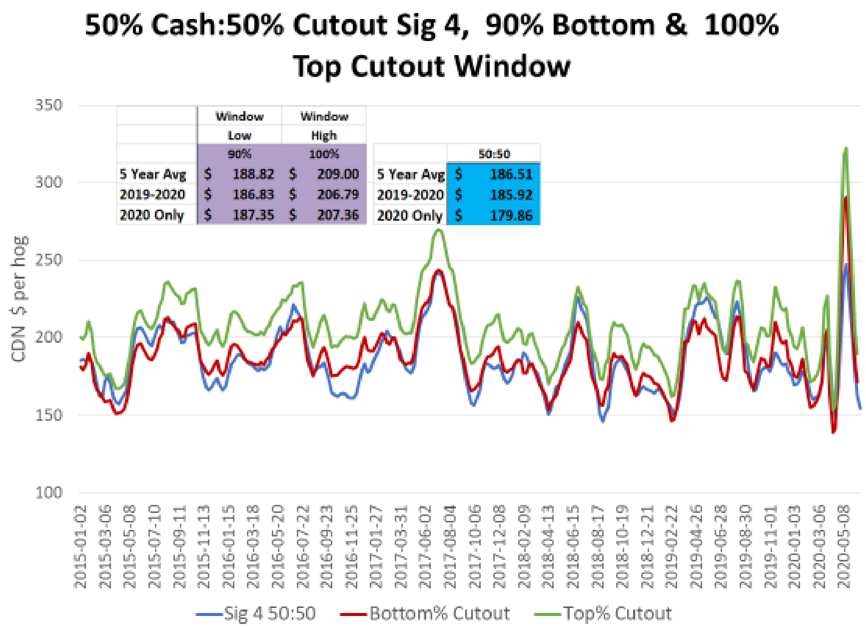
Maple Leaf Foods






25%Cash:75%Cutout Sig 4, 90% Bottom & 100% Top Cutout Window
Window Low 90%
Window High 100%
5 Year Avg $ 188.82 $ 209.00
2019-2020 $ 186.83 $ 206.79
2020 Only $ 187.35 $ 207.36
25:75
5 Year Avg $ 188.95
2019-2020 $ 188.67
2020 Only $ 184.81
CDN $ per hog
25% Sig4 75% Cutout
Bottom% Cutout
Top% Cutout


50% Sig 4 & 50% Cutout Window with COP
CDN $ per hog
50:50
5 Year Avg $ 186.51
2019-2020 $ 185.92
2020 Only $ 179.86
600 Sow Farrow to Finish @28 p/s/y produces 16,800 market hogs per year
5-Year production total = 84,000 hogs marketed
5-Year 50% Sig 4 & 50% Cutout Window price
$186.51 - $185.00 COP = $1.51 per hog
5-Year accumulated P/L = $126,840 CAD
50% Sig 4 & 50% Cutout Window
W.Can COP



CANADIAN Variables		ML Sig 4
Live Weight (lbs)	275.5	276
Carcass Weight(ckg)	1.000	1.002
Cdn Yield	0.80	
Metric	2.2046	
Index		1.095
Formula % Premium		100.0%
Term Adjustment		
Freight Bonus		$ 0.95
Duroc Bonus		
Weight premium		$ 1.25
Health & Welfare Bonus		
Ractopimine free		$ 1.00
Loin Premium		$ 2.00
Partner premium		$ 2.00
Loose Housing Premium		
Quality Bonus		
Conversion		1.7750