Ontario Sheep Industry Research Strategy

FACT PACK

Purpose of the Fact Pack

This document is designed to ensure that at the start of the research strategy development day, everyone in the room has a similar understanding of the sector. This document will highlight the operating environment as well as some historic trends for important inputs for our business such as oil and feed costs.

Please take the time to read over this information since it may be utilized during the day.

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Sheep Sector Profile

The sheep industry in Ontario consists of approximately 4,000 producers. Sheep inventories rose 0.7% from January 1, 2012 to January 1, 2013, to 892,700 as farmers continued to increase their flocks. While the number of ewes decreased 0.7%, the breeding flock increased overall as the number of replacement lambs went up 5.4%. The number of market lambs increased 2.4% from 2012. (Statistics Canada, 2013)

33,137 sheep and lambs were imported in 2012 which is up 69.8% from 2011. The number of sheep and lambs slaughtered in 2012 increased 2.4% from 2011 to 519,126. 15,215,5888 kg of sheep and lamb meat was imported in 2012 down by 17.1% from 2011.

Canadian consumption of lamb is low in relation to other countries however consumption has been rising over the past 15 years up until 2012, 0.87 kg per capita in 2012. Consumption reached a historic high of 1.08 kg / person / year in 2007. The decline is primary due to the economic recession and the drop in household spending at restaurants.

13% of Canadian households purchased lamb at least once during the past year. On average, each lamb buyer purchased just under four times during the year, for a total of four kilograms, spending just over $48 in total. Not surprisingly, overall lamb purchase incidence is highest around the Easter period. Prices generally relate to volumes across all retail types, with higher prices leading to lower volumes. (Lamb Value Chain Consumer Report, George Morris Centre)

Ontario is by far the best developed lamb market, despite just 16% of households in the province buying lamb during the year. Ontario lamb purchases account for 57% of total Canadian fresh lamb volume and 53% of frozen lamb volume. (Lamb Value Chain Consumer Report, George Morris Centre)

Canadian, New Zealand, American and Australian lamb prices are interrelated. The Canadian producer price is affected by the American price. Fluctuations on the US market account for 31% of the changes in the Canadian producer price. In the long term, the Canadian price is affected by the American, New Zealand and Australian price. Canada’s price has no influence on any of these three country’s markets.

Challenges, Issues, Opportunities

Producers are facing low prices. The Business Risk Management Program supported by the Provincial Government is an asset to producers and serves as an insurance based program.

Ontario sheep producers do not have access to medications and wormers that are available in New Zealand, Australia and the US. Due to the small sheep industry in Canada, pharmaceutical companies do not see value in the market since they would have to pay a significant amount of money to obtain Canadian approval of the drugs.

As feed costs continue to rise, producers have had to try and cut costs by feeding alternative feedstuffs or changing management practices in order to balance cost of production with reduced market prices.

Higher lamb and feed costs have been passed onto consumers. With increased wholesale and retail prices comes consumer resistance. The Canadian price elasticity for lamb is far higher than the other meats. Many consumers view lamb as a high-end meat. A 10% increase in price of lamb results in a 15.89% decrease in demand for the product.

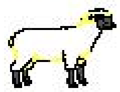
A concern for many sheep producers is the increasing price of land due to competition from cash croppers, who are responding to high crop prices. Former forage land is being converted to row crop production, with subsequent upwards pressure on all land values, including pasture and forage land rentals.

Protection of endangered wildlife species poses a concern for producers who have perennial forage and pasture land, as regulations to protect breeding habitat may interfere with farming practices.

Other challenges seen in the industry include processor regulations, US Border closure to sheep as well as predation.

Agriculture and Agri-Food Canada   Agriculture et Agroalimentaire Canada

SHEEP SUPPLY CANADA



Year To Date for the Month Ending January 2013

Fed. & Prov. Slaughter (head)

preliminary	2013	2012	% chg
B.C./Alta/Sask./Man.	7,403	7,170	3.2
Ontario	17,295	15,370	12.5
Quebec & Atl. Provinces *	5,142	9,577	-46.3
Canada	**29,840**	**32,117**	**-7.1**

* Provincial Stats for Quebec and Atlantic Provinces not included for Jan. 2013.

Federal Slaughter			
East for January	6,069	5,774	5.1
West for January	5,126	4,749	7.9
East YTD	6,069	5,774	5.1
West YTD	5,126	4,749	7.9

Provincial Slaughter	preliminary		
East for January *	**16,368**	19,173	-14.6
West for January	2,277	2,421	-5.9
East YTD *	**16,368**	19,173	-14.6
West YTD	2,277	2,421	-5.9

* Provincial Stats for Quebec and Atlantic Provinces not included for Jan. 2013.

Source: CFIA, Provincial Governments

Monthly Prices

Sungold Speciality Meats Ltd. Alberta

Slaughter Lambs		
Index 100 Rail Price	carcass basis, $/lb	2.34
Index range		95.67 - 108.12
Price range	(off of 100 base index, $/lb)	2.10 - 2.56
Feeder (50-100lbs)	liveweight, $/lb	1.10 - 1.30
Sheep	liveweight, $/lb	0.40 - 0.60

Ontario Auctions	2013	2012	% chg
Lambs	$/cwt, liveweight, weighted average		
< 65 lbs, new crop	182.87	260.97	-29.9
65-79 lbs	177.40	251.25	-29.4
80-94 lbs	151.80	222.79	-31.9
95-109 lbs	148.88	215.18	-30.8
Sheep	96.52	125.12	-22.9

Quebec Auction	2013	2012	
Lambs	$/cwt, liveweight, weighted average		
< 65 lbs, new crop	204.06	258.47	-21.1
65-79 lbs	184.33	232.44	-20.7
Sheep - Ewes	85.71	112.90	-24.1
Sheep - Ram	93.21	119.66	-22.1

Source: Sunterra Meats Ltd., Ontario Cattlemen's Association, Quebec Electronic Auctions

Imports

(Number of head from U.S.)	Year to Date December		
Pure-bred & Non Pure-bred	2012	2011	% chg
East	1,446	1,245	16.1
West	31,691	18,291	73.3
TOTAL	**33,137**	**19,536**	**69.6**

Source: Statistics Canada

Mutton & Lamb	Year to Date January		
(Metric Tonnes)	2013	2012	% chg
New Zealand	1,101	670	64.3
Australia	294	307	-4.2
Other	32	33	-3.0
Total	**1,427**	**1,010**	**41.3**

Source: CFIA

Exports

(Number of head)	Year to Date December		
	2012	2011	% chg
United States	2,569	9,008	-71.5
Other	179	37	383.8
Total	**2,748**	**9,045**	**-69.6**

Source: Statistics Canada

Mutton & Lamb	Year to Date December		
(Metric Tonnes)	2012	2011	% chg
U.S.	18.8	45.4	-58.6
Trinidad and Tobago	12.9	11.7	10.4
St Pierre-Miq.	9.2	11.2	-18.0
Cuba	9.0	14.5	-37.7
Saint Lucia	5.2	5.3	-1.4
Other	2.1	120.1	-98.3
Total	**57.3**	**208.2**	**-72.5**

Source: Statistics Canada

UNITED STATES

Total Sheep and Lambs

	Year To Date January		
	2013	2012	% chg
Slaughter ('000 head)	173	172	0.6
Avg Dressed Wt (lbs)	71	76	-6.6
Avg Dressed Wt (Kg)	32	34	-6.6
Lamb/Mutton (mil lbs)	12.3	13.2	-6.8
Lamb/Mutton (tonnes)	5,579	5,987	-6.8

U.S. Lamb & Mutton Exports (tonnes)

	Year to date December		
	2012	2011	% chg
Canada	370	561	-34.0
Mexico	3,096	3,010	2.9
Central & South America	119	403	-70.5
Caribbean	868	2,194	-60.4
Bahamas	251	562	-55.3
Total US Exports	**4,624**	**8,010**	**-42.3**

U.S Price Summary

		January	
		2013	2012
San Angelo Auction		U.S. $/cwt min./max	
Choice and Prime 1	40-100 lbs	153.40 - 169.90	187.02 - 207.42
Good 1	40-110 lbs	138.75 - 158.75	140.00 - 154.00

US Data Source: USDA

Note: Monthly price averages are calculated off of daily/weekly price reporting

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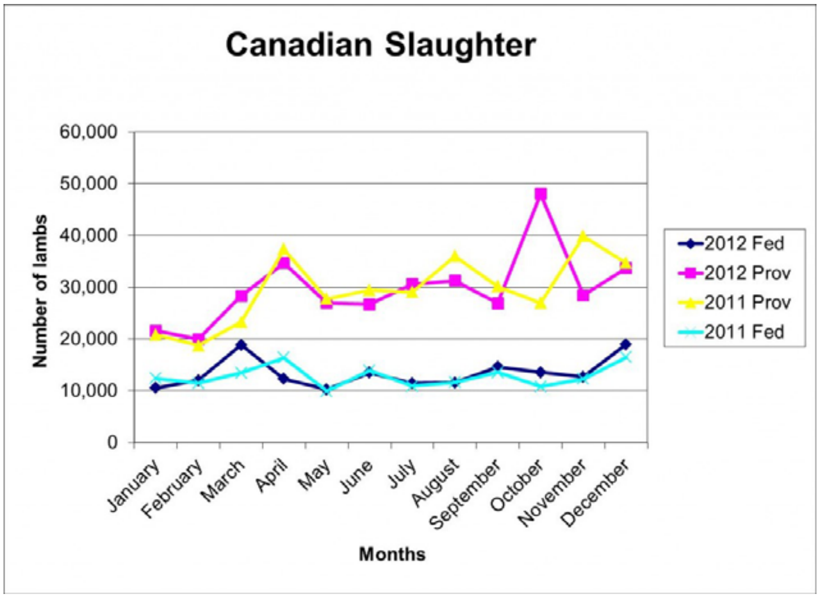
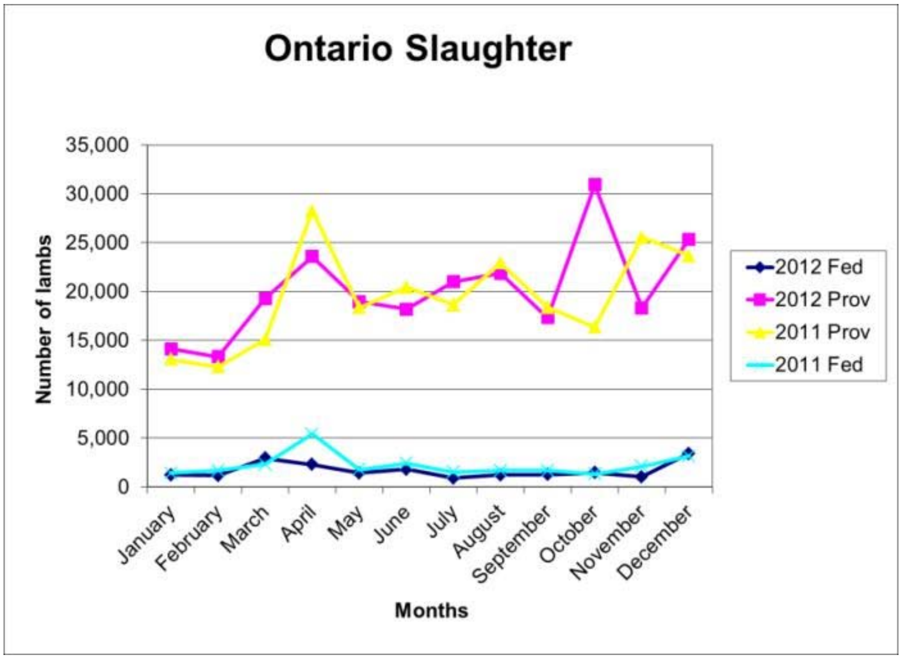
Canadian and Ontario Lamb Abattoir Statistics

By: Delma Kennedy

Canadian lamb slaughter has increased by 2% overall from 2011 to 2012. The Canadian slaughter graph below illustrates that most lamb is still slaughtered in provincial packing facilities. Slaughter in federal packing facilities increased by 4.7% and slaughter in provincial packing facilities increased by 0.8% in 2012.

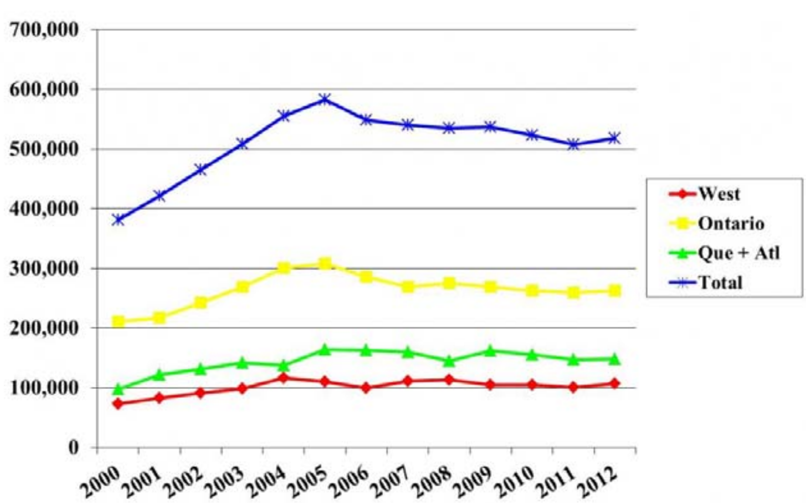


In Ontario, the overall lamb slaughter increased by 1.2% in 2012 compared to 2011. As illustrated in the Ontario slaughter graph below, the Ontario statistics follow the same trends as the Canadian statistics with most lamb being slaughtered in provincially inspected facilities. In Ontario, the provincial packing plant slaughter increased by 4% and the federal packing plant slaughter decreased by 23.7% in 2012.



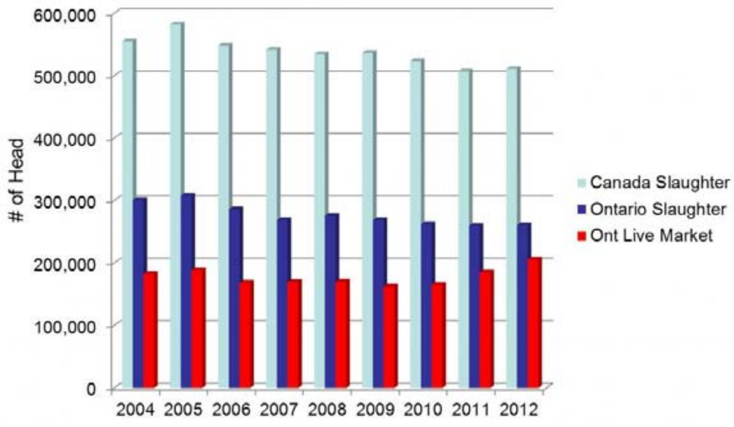
The percentage of sheep and lambs slaughtered in each region of Canada stayed consistent in 2012. The Canadian slaughter by region graph below illustrates that Ontario slaughters the most animals with Quebec and the Atlantic provinces having the next highest numbers followed by the west.

Canadian Slaughter by Region



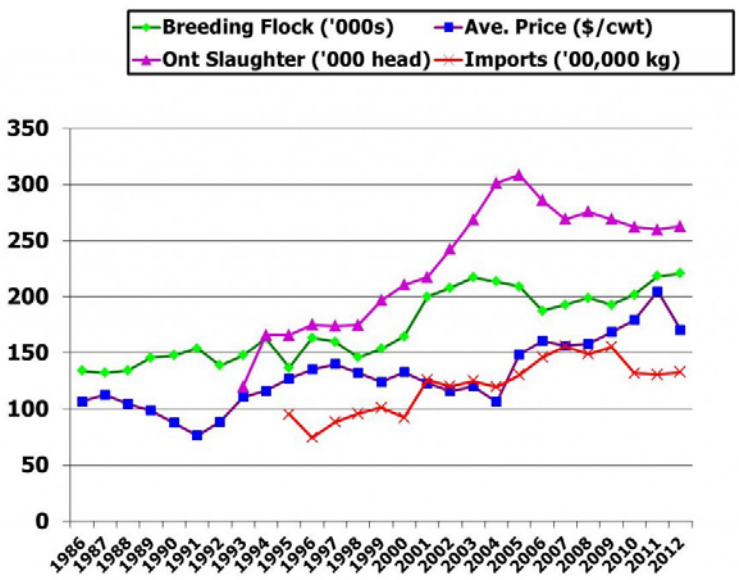
Ontario slaughtered 51 percent of the lambs processed in Canada in 2012. This has remained relatively constant since 2006. The number of lambs going through the live auction in Ontario increased by about 20,000 lambs between 2010 and 2011 and a further 20,000 lambs in 2012. As illustrated in the Slaughter and Live Market graph below, although the number of lambs going through the live auction increased significantly, the Ontario and Canadian slaughter numbers did not increase significantly over 2010.

Slaughter Volume and Live Market Volume



The graph below compares the Ontario breeding flock, Ontario price, Canadian dressed lamb imports and Ontario slaughter data. It is clear from this graph that the lower prices in 2012 did not result in increased slaughter or imported product. Over the past twenty years, there has been a trend towards increased breeding flock size, increased price, increased slaughter and more imported product.

Trends of Price, Flock Size, Slaughter and Imports



Source: These graphs have been generated from statistics available from Agriculture and Agri-Food Canada, Red Meat Information. The original data can be found at the following website: http://www.agr.gc.ca/redmeat-vianderouge/index_eng.htm

Sheep Industry Current Research Priorities

1. Improving lamb production per ewe in the flock

- Reducing pre-weaning lamb loss from conception onwards
- Improving efficiency of out-of-season breeding
- Improving Reproductive Efficiency (Including improving low lambing percentages)

2. Improving Profitability

- Reducing the cost of production
- Increasing Revenue- Improving Carcass Yield
- Develop Compensation Strategy to reward Producers for economically beneficial carcass traits

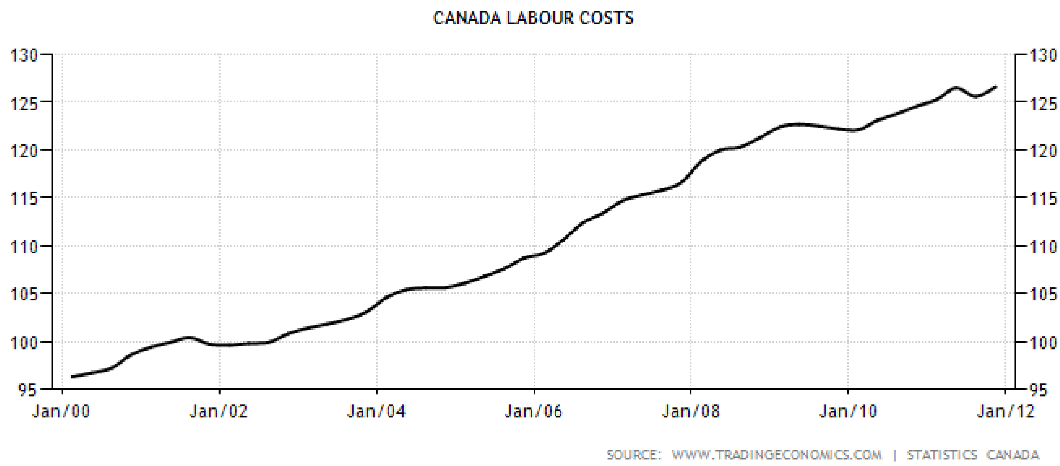
3. Health

- Developing/Validating new diagnostics, vaccines and animal health products
- Developing on-farm flock health procedures and strategies

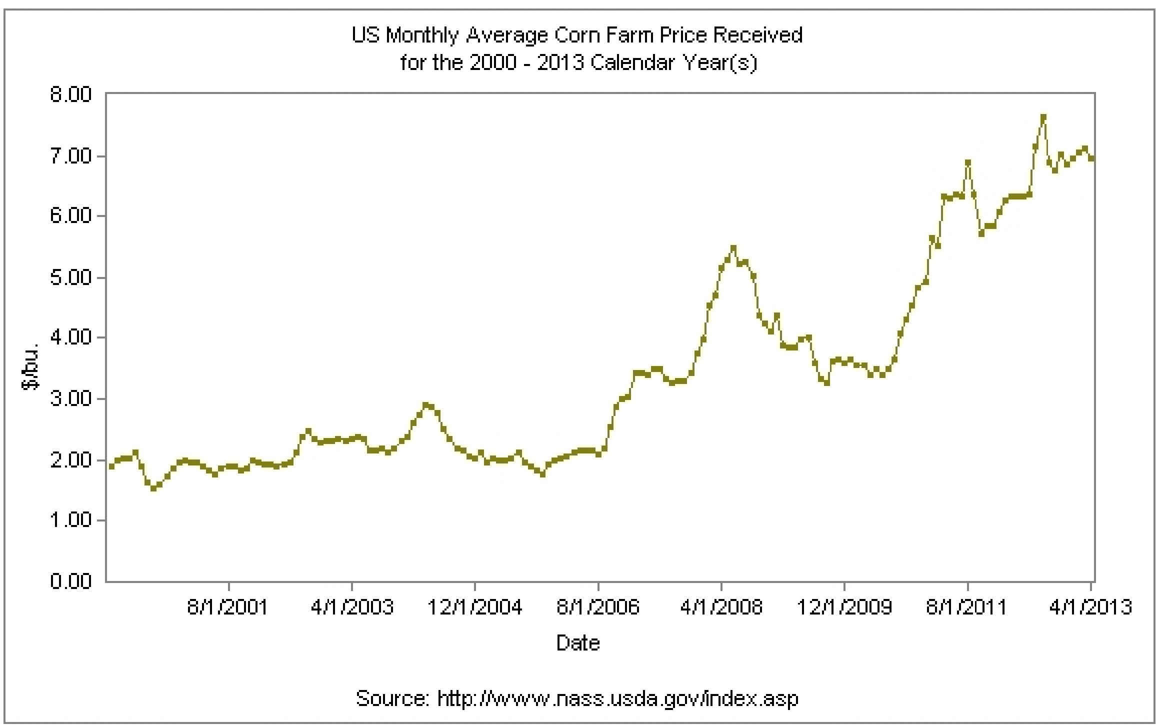
4. Predation

- Cost Benefit analysis of different preventative methods of predator control
- Predation reduction

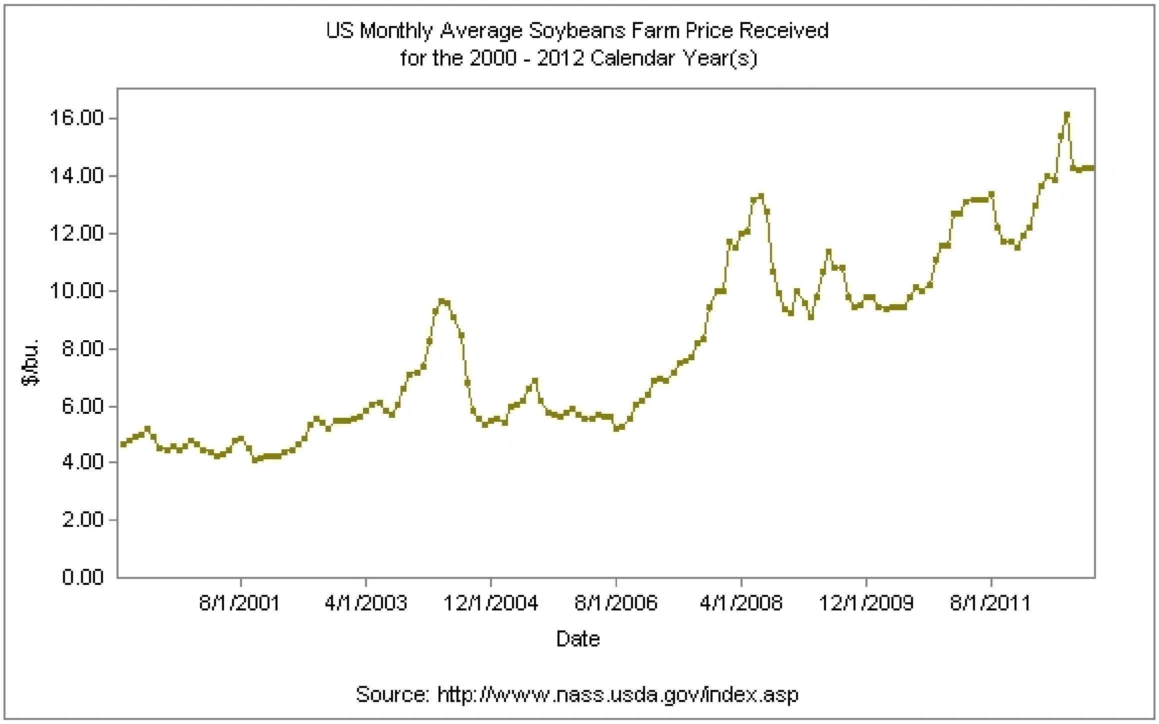
Labour Costs Trends - Canada



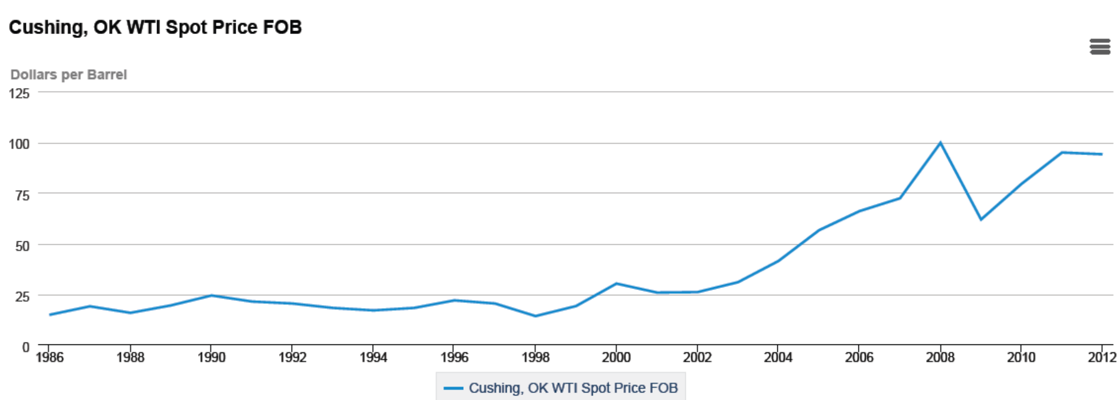
Corn Price Trends - US



Soy Bean Trends – US



Oil Prices Trends



World Bank sees slow oil price decline to $80/b in 2025

London (Platts)--June, 12, 2013

International oil prices are likely to decline slowly between now and 2025 to $80/barrel, a level consistent with the real cost of producing oil from Canada's tar sands, the World Bank said Wednesday in its Global Economic Prospects report. But the bank also warned that a major oil supply disruption caused by political turmoil in the Middle East could send prices spiking by $50/b or more.

The World Bank, which uses a simple average of Dubai, Brent and West Texas Intermediate crudes, expects the oil price to decline to $102.40/b this year and to $101/b in 2014 and 2015 from $105/b in 2012. It currently bases its long-term oil price assumptions on an estimated $80/b for Canadian oil sands output. However, "there are a number of risks to the baseline forecasts," the Bank said. "Downside risks include weak oil demand if growth prospects deteriorate sharply, especially in emerging economies where most of the demand growth is taking place," it said. "Over the longer term, oil demand could be dampened further if the substitution between crude oil and other types of energy accelerates."

The economies of oil-exporting countries are particularly vulnerable to shifts in oil prices, the Bank said. "In such an instance government revenues and current account balances would come under pressure," it said. The bank expects growth in the Middle East and North Africa region to slow to 2.5% this year from 3.5% in 2012, reflecting a second year of recession in Iran, subdued growth in Egypt and a "modest pickup" in Algeria. But if real oil prices were to fall to $80/b by the middle of next year -- the faster decline coming from "a shift in expectations about future prices" resulting from rising production and reserves in the US and other non-OPEC countries -- oil exporters in the Middle East and North Africa would see GDP fall by 1.4% relative to the baseline and current account balances deteriorate by 3.5% in 2014.

"In the current environment, regional oil exporters will no longer be able to rely on high and rising prices, but will increasingly need to rely on increased output. This in turn necessitates reforms that would allow them to invest heavily in infrastructure, and exploration to raise current production levels which have stagnated or been steadily declining in recent years," the bank said. "However, private capital and FDI inflows may fail to materialize because of security risks, poor legal environments for investment and political uncertainty to varying degrees in Algeria, Iraq, Libya and Yemen and international sanctions in the case of Iran."

Iraq, according to government estimates, needs capital spending of $30 billion annually on energy infrastructure to meet its oil production targets, the bank said. But it added that progress on this front was likely to be slow because of payment disputes with the Kurdish Regional Government and delays in passing a law governing oil and gas development. Algeria's efforts to raise private investment for upstream exploration, including shale gas, and refining, may also prove challenging given the political uncertainty generated by the presidential election scheduled for spring 2014 and reversals in investor-friendly provisions in investment laws, the bank said. The response of OPEC, and of Saudi Arabia in particular, will be key to the outlook for prices, the Bank said.

"A key uncertainty in the outlook is how OPEC (notably, Saudi Arabia) reacts to changing global demand and non-OPEC supply conditions. Since 2004 when crude oil prices started rising, OPEC has responded to subsequent price weakness by cutting supply, but has not been as willing to intervene when prices increase. However, as non-OPEC supplies continue to come on stream and demand moderates in response to higher prices, the sustainability of this approach may come under pressure," it said.

Ontario Farmland Values

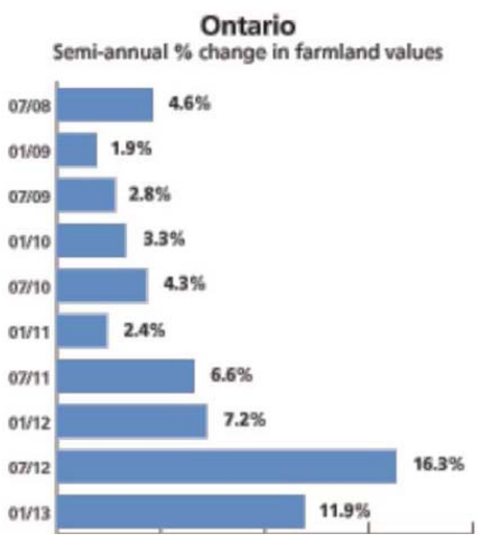
Farmland values in Ontario increased an average of 11.9% in the second half of 2012, following gains of 16.3% and 7.2% in the previous two reporting periods. Farmland values in Ontario have risen for the past 20 years.

Some cash crop producers leveraged their current land holdings to purchase less expensive land in other locations, such as in Northern Ontario, yet the resulting impact on farmland values was relatively modest. The southwestern, central and southern regions saw significant increases in the second half of 2012. Most areas experienced a high number of private transactions as well as those occurring through the tendering process or property auctions.

In most areas, the demand for farmland outweighed available supply, driving prices higher. Demand was strong from the dairy industry and large intensive livestock enterprises that need land to meet nutrient management and cropping requirements. Cash crop operators also wanted to grow their land base due to higher commodity prices and good crop yields.

With the current strong demand and prices for land, some producers planning to exit the industry chose to liquidate their land holdings instead of collecting rental income.

Spring 2013 Ontario Farmland Values



National Farmland Values Trends

The average value of Canadian farmland increased 10.0% during the second half of 2012, following average increases of 8.6% and 6.9% in the previous two six-month reporting periods.

Farmland values remained stable or increased in all provinces. Quebec experienced the highest average increase at 19.4%, followed by Manitoba at 13.9% and Ontario at 11.9%.

Saskatchewan and Alberta experienced 9.7% and 7.2% average increases respectively, followed by Nova Scotia at 6.8%, Prince Edward Island at 5.7% and British Columbia at 0.4%.

Average farmland values were unchanged in New Brunswick and Newfoundland and Labrador.

Canadian farmland values have continued to rise over the last decade. The current average national increase of 10.0% is the highest since FCC began reporting on farmland values in 1985. The second highest increase occurred in the first half of 2012, at 8.6%. The last time the average value decreased was by 0.6% in 2000.