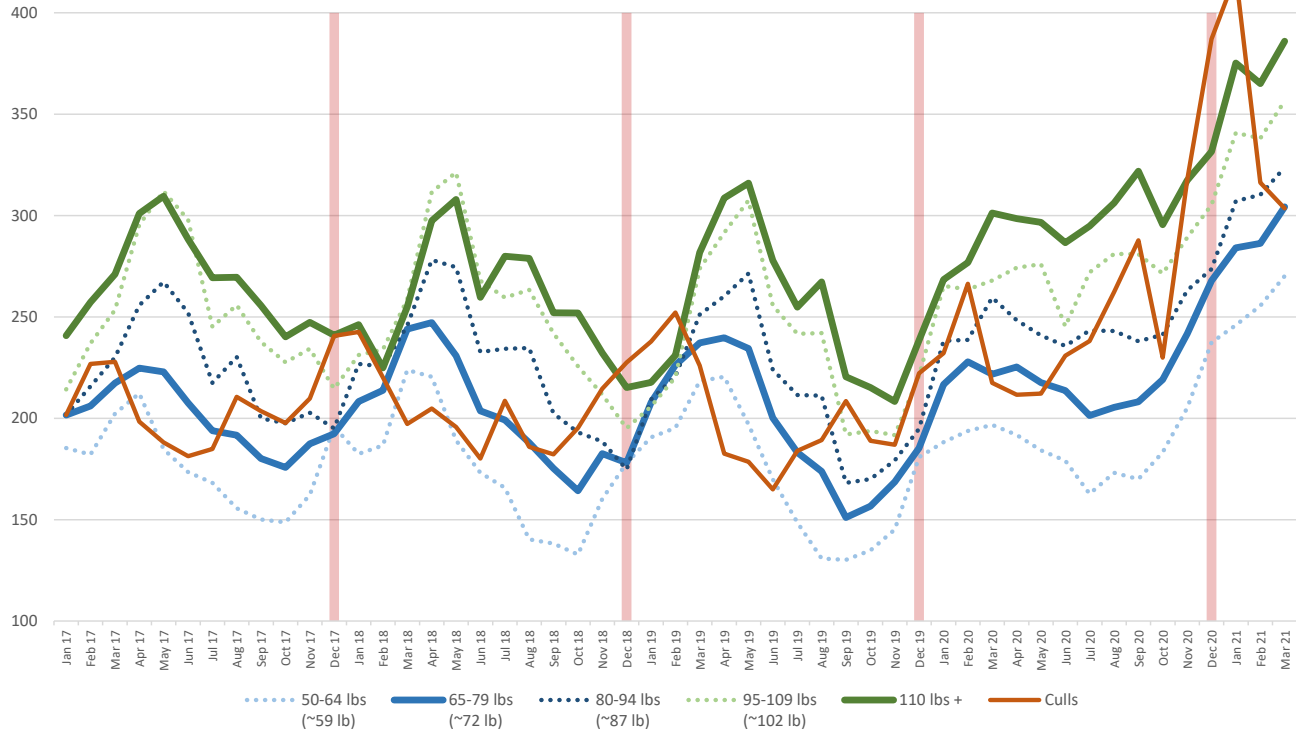


**NALC Backgrounder:  
Lamb Markets & Producer's Advantage Contracting with NALC**



**Ontario Average Monthly Pricing (\$/lamb)**  
Jan 2017 - March 2021; December highlighted



**Ontario Market Results - Annual Average Value, Weight and Price**

	2015	2016	2017	2018	2019	2020	5-year Average (2016-2020)
Finished Lamb Value (\$/head)	\$ 226	\$ 220	\$ 251	\$ 248	\$ 237	\$ 279	\$ 247
Finished Lamb Weight (kg)	48.9	49.5	48.3	49.0	48.4	47.6	48.6
Finished Lamb Price (\$/kg)	\$ 4.63	\$ 4.44	\$ 5.21	\$ 5.07	\$ 4.90	\$ 5.86	\$ 5.08
Feeder Lamb Value (\$/head)	\$ 188	\$ 184	\$ 201	\$ 202	\$ 195	\$ 220	\$ 200
Feeder Lamb Weight (kg)	32.7	32.7	32.7	32.7	32.7	32.8	32.7
Feeder Lamb Price (\$/kg)	\$ 5.74	\$ 5.62	\$ 6.14	\$ 6.16	\$ 5.97	\$ 6.70	\$ 6.11
Sheep Value (\$/head)	\$ 172	\$ 188	\$ 205	\$ 203	\$ 197	\$ 255	\$ 210
Sheep Weight (kg)	64.4	65.7	66.9	65.2	66.0	66.0	66.0
Sheep Price (\$/kg)	\$ 2.68	\$ 2.86	\$ 3.06	\$ 3.11	\$ 2.99	\$ 3.86	\$ 3.18

**Notes:**

The Ontario market is the largest lamb market in Canada and has detailed weekly and monthly reporting. Results at Ontario auctions drive pricing for auctions across the prairies as buyers in Ontario participate in western auctions to procure supply.

The comparison between NALC's pricing and Ontario shows that even NALC's floor pricing on finished and feeder lambs outperforms Ontario auction results, especially clear after freight, shrink and auction fees are factored in. Both NALC contracts contain market adjustments that increase pricing to consistently exceed returns producers would achieve from selling their lamb as a commodity at auction. When markets go up, so does NALC's contract pricing.

## Basis Calculations to Compare Ontario Markets to NALC Pricing

What is a basis? The term "basis" is used in the livestock industry to measure the pricing spread between different geographic markets. In this analysis, basis is used to represent the actual marketing costs a Western Canadian producer faces to sell to Ontario auctions instead of selling to nearby NALC. We looked at both Alberta and Manitoba basis calculations to represent the entire prairies and since we operate farms in both provinces we have a good handle on marketing costs from each of these areas.

	From Alberta			From Manitoba		
	Finished Lambs <sup>1</sup>	Feeder Lambs	Cull Sheep	Finished Lambs	Feeder Lambs	Cull Sheep
<b>Animal weights</b>						
Avg weight per head, departing AB (kg)	52.8	35.6	72.5	52.2	35.2	71.7
Avg weight per head, arriving ON (kg) <sup>2</sup>	48.6	32.7	66.0	48.6	32.7	66.0
Actual shrink	8.0%	8.0%	9.0%	7.0%	7.0%	8.0%
Comparative shrink <sup>3</sup>	6.0%	5.0%	9.0%	5.0%	3.0%	8.0%
5-year Average value <sup>2</sup> (\$/kg)	\$ 5.08	\$ 6.11	\$ 3.18	\$ 5.08	\$ 6.11	\$ 3.18
<b>Shrink loss (\$/head)</b>	<b>\$ 16.10</b>	<b>\$ 10.87</b>	<b>\$ 20.75</b>	<b>\$ 13.27</b>	<b>\$ 6.45</b>	<b>\$ 18.24</b>
<b>Transport</b>						
Head per load <sup>4</sup>	390	600	300	390	600	300
Weight per load (kg)	20,594	21,350	21,747	20,373	21,120	21,511
Freight (\$/load)	\$ 9,500	\$ 9,500	\$ 9,500	\$ 7,200	\$ 7,200	\$ 7,200
Freight (\$/head)	\$ 24.36	\$ 15.83	\$ 31.67	\$ 18.46	\$ 12.00	\$ 24.00
Layover <sup>5</sup> (\$/head)	\$ 1.00	\$ 1.00	\$ 1.00	\$ -	\$ -	\$ -
<b>Transport Cost (\$/head)</b>	<b>\$ 25.36</b>	<b>\$ 16.83</b>	<b>\$ 32.67</b>	<b>\$ 18.46</b>	<b>\$ 12.00</b>	<b>\$ 24.00</b>
<b>Auction Fees<sup>6</sup></b>						
Commissions	\$ 5.28	\$ 5.28	\$ 5.28	\$ 5.28	\$ 5.28	\$ 5.28
OSMA fees	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80
Feed	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Insurance	\$ 3.55	\$ 3.55	\$ 3.55	\$ 3.55	\$ 3.55	\$ 3.55
HST <sup>7</sup>	\$ 5.70	\$ 3.71	\$ 7.41	\$ 4.32	\$ 2.81	\$ 5.62
<b>Total Auction Costs (\$/head)</b>	<b>\$ 11.63</b>	<b>\$ 11.63</b>	<b>\$ 11.63</b>	<b>\$ 11.63</b>	<b>\$ 11.63</b>	<b>\$ 11.63</b>
<b>Total Marketing Costs (\$/head)</b>	<b>\$ 53.08</b>	<b>\$ 39.33</b>	<b>\$ 65.04</b>	<b>\$ 43.36</b>	<b>\$ 30.08</b>	<b>\$ 53.87</b>
Based on departing weight (\$/kg)	\$ 1.01	\$ 1.11	\$ 0.90	\$ 0.83	\$ 0.85	\$ 0.75
Typical Freight to NALC (\$/head)	\$ 3.00	\$ 2.50	\$ 3.00	\$ 13.00	\$ 7.50	\$ 13.00
<b>Net Basis (\$/head)</b>	<b>\$ 50.08</b>	<b>\$ 36.83</b>	<b>\$ 62.04</b>	<b>\$ 30.36</b>	<b>\$ 22.58</b>	<b>\$ 40.87</b>
<b>Net Basis (\$/kg)</b>	<b>\$ 0.95</b>	<b>\$ 1.04</b>	<b>\$ 0.86</b>	<b>\$ 0.58</b>	<b>\$ 0.64</b>	<b>\$ 0.57</b>
<b>Net Basis (\$/lb)</b>	<b>\$ 0.43</b>	<b>\$ 0.47</b>	<b>\$ 0.39</b>	<b>\$ 0.26</b>	<b>\$ 0.29</b>	<b>\$ 0.26</b>
<b>Results</b>						
5-Year Average Revenue in Ontario (\$/head) <sup>8</sup>	\$ 247	\$ 200	\$ 210	\$ 247	\$ 200	\$ 210
Net Revenue in ON after Marketing Costs (\$/head)	\$ 194	\$ 161	\$ 145	\$ 203	\$ 170	\$ 156
NALC Contract Floor Price <sup>9</sup> (\$/head)	\$ 248	\$ 180	N/A	\$ 248	\$ 180	N/A
Net Return from NALC Floor Price Only (\$/head)	\$ 245	\$ 177		\$ 235	\$ 172	
<b>Benefit of Contracting with NALC (\$/head)<sup>10</sup></b>	<b>\$ 52</b>	<b>\$ 17</b>		<b>\$ 32</b>	<b>\$ 2</b>	

- benefit presented excludes any upward market adjustment. This calculation is only using the floor pricing.

## Notes to the Basis Calculations

<sup>1</sup> Finished lambs in Ontario are the weighted averages of both 95-109 lb and 110+lb categories. Finished lambs for NALC should average 55 kg or 122 lbs at Canada Lamb Processors (CLP) in Innisfail, AB. Feeder Lambs focuses on the 65-70 lb category, NALC prefers feeder lambs approximately 75 lbs.

<sup>2</sup> Actual Ontario reported monthly markets were averaged between January 2016 and December 2020 to calculate a 5-year average. While it can be argued excluding 2020 as an outlier would be reasonable, we included this data in averages to ensure we are providing producers the entire results of the market, however irregular.

<sup>3</sup> Comparative shrink is the suggested shrink difference between selling to NALC or selling to Ontario. We routinely see 8-11% shrink shipping to Ontario with some shipments achieving less depending on rest periods and delivery timing to auction. For finished lambs sold on rail contracts, longer distances of transport tend to boost hot carcass yields - this means producers selling on the rail benefit from less saleable shrink. For feeder lambs we will be offering contracted suppliers reduced shrink calculations as part of the contract to share the shrink loss while ensuring all transactions are done on a certified full truck scale at our Finishing Unit where applicable.

<sup>4</sup> Head per load is the approximate total to achieve a loaded weight of 45,000 lb (20,400 kg). NALC typically ships less livestock per load than what is listed here - which means actual basis will be higher on average than what we present here.

<sup>5</sup> Layovers are the cost to unload livestock partway on their trip to Ontario for feed, water, rest (FWR). This will likely be a higher cost when new transport regulations come fully into force in February 2022.

<sup>6</sup> Auction Commissions and Insurance are based on the average between OSI and OLEX markets (\$6 + \$4 and \$4.55 + \$3.10 respectively)

<sup>7</sup> HST is mostly claimed back. It's charged on Freight and OSMA fees. It is not included in the basis calculation.

<sup>8</sup> This is the actual weighted average revenue reported by Ontario Sheep Farmers. The net return presented under this line is the revenue less all three categories of marketing costs (shrink, transport and auction fees). While often the return on private treaty deals can be better, the experience during market peaks like 2020 show that private treaty deals in Ontario can often be a much lower price when auction pricing is higher than normal.

<sup>9</sup> This floor price is the average of the \$11, \$10, \$9 base price at 27 kg hot carcass weight less approximately \$15/head for average quality deliveries. On feeder lambs it is based on our average floor price of \$3, \$2.60 and \$2 we are launching. All NALC contract prices increase when the market is higher. Even NALC's floor pricing outperforms Ontario's 5-year average for producers across the prairies! NALC buys culls on a cash basis, cull contracts could be considered on a case-by case basis.

<sup>10</sup> Our contracted finished and feeder lambs producers benefit from a very high floor price as well as a basis calculation for the market that is much lower than actual marketing costs. We are willing to overpay for contracted supply for committed suppliers, ideally with long term, multi-year agreements. Secured supply allows NALC to focus on strong market development in premium markets. The commodity pricing cycle the last several decades has been a major barrier to industry growth.

NALC's cash pricing should never exceed NALC's contract price. Over time, anyone's commodity cash price cannot exceed the Ontario Auction price less the full basis on any significant volumes as that market acts as the clearing ground for all surplus lambs and culls. At times of the year it may be possible for speculators to exceed Ontario pricing, typically during rising markets. NALC's contract offering is designed to provide professional lamb farmers in Western Canada a dependable high floor price that is boosted when commodity markets spike, even temporarily.