

Middle Market M&A Update

Q1 2021



M&A Market Summary

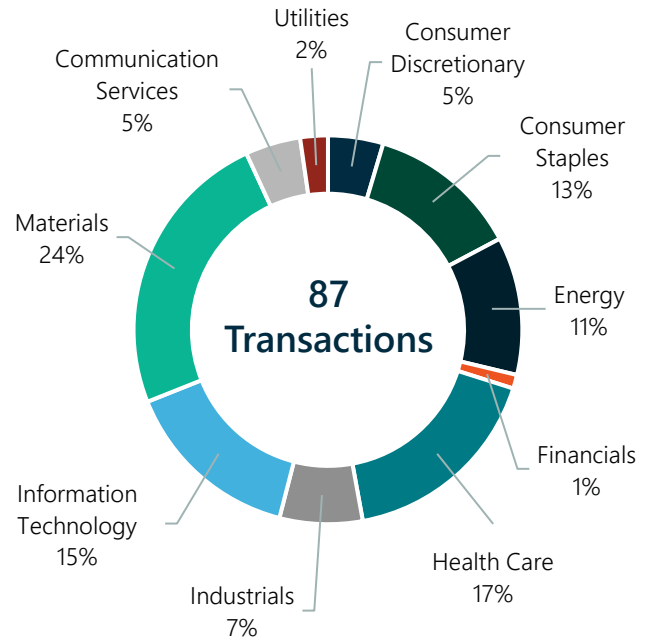
Canadian Mid-Market

Aggregate deal value for the quarter increased to \$5.8 billion across 87 transactions, the highest mid-market deal volume in Canada since Q4 2017. By comparison, Q4 2020 totalled \$4 billion in aggregate deal value across 66 transactions. Equity market strength and low interest rates have supported M&A volume over the quarter. Increased activity suggests that investor sentiment is increasingly positive.

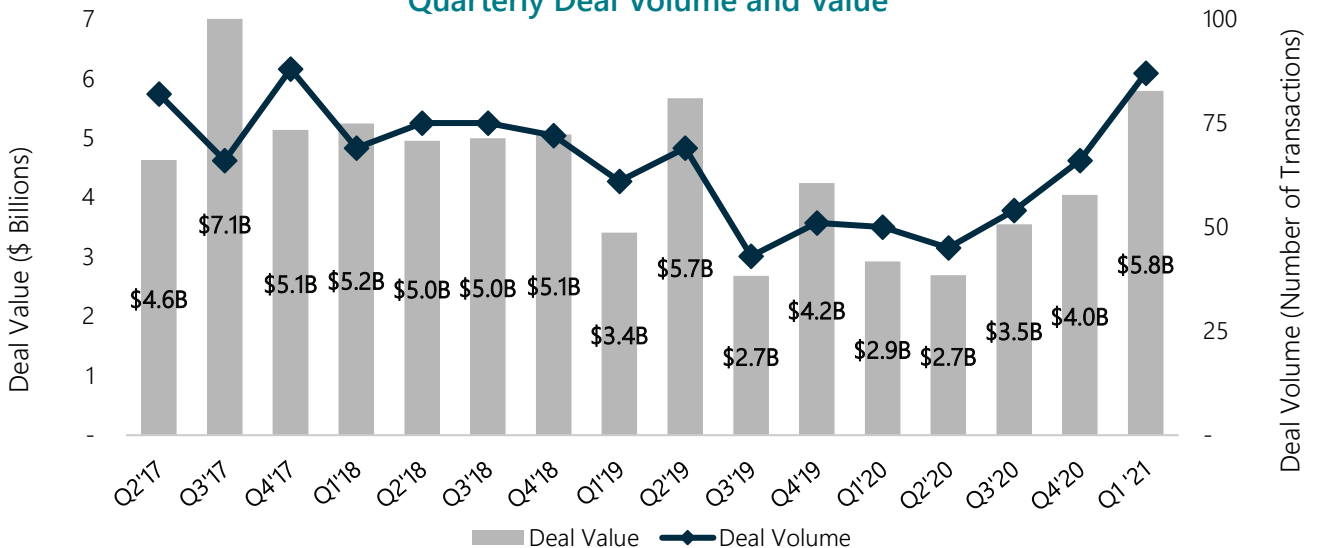
The chart to the right summarizes transaction volume per sector, as defined by the S&P/TSX Composite Index. The mix of transactions compared to last quarter indicates higher volumes in information technology, energy, and materials, offset by lower volumes in industrials and financials.

- Materials accounted for 24% of total deal volume with 21 deals made in the quarter, 15 of which relate to gold mining.
- Health care accounted for 17% of total deal volume, down from 20% in the previous quarter. There were 15 deals in the space, seven of which were made by companies in the cannabis/psychedelics space and five of which were made by digital healthcare solutions companies. HEXO Corp closed the largest mid-market health care deal in the quarter, acquiring Zenabis Global Inc for \$310 million.
- Information technology accounted for 15% of total M&A volume, including two large deals in software.

Q1'21 - M&A Volume By Sector



Quarterly Deal Volume and Value*



*Based on Canadian publicly disclosed transactions in the enterprise value range of \$5 million to \$500 million. Currency in USD. Source: S&P Capital IQ.

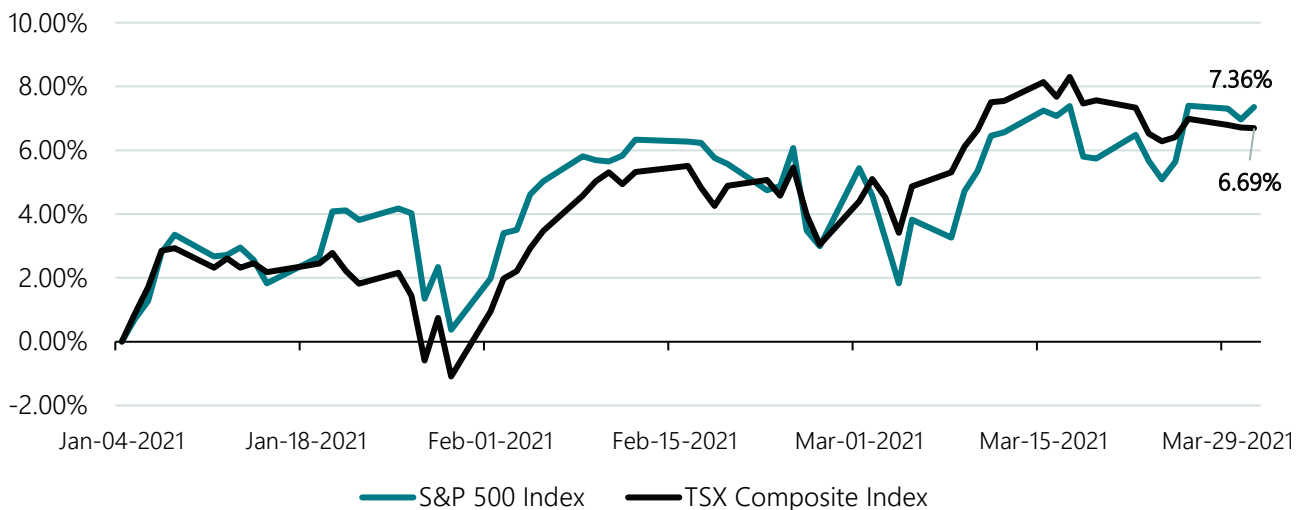
In Q1 2021, the TSX Composite posted positive gains for the fourth straight quarter, fueled by economic recovery and continued government stimulus. The health care, energy, financials, and consumer discretionary sectors all posted 13%+ gains, with only one sector, materials, posting a loss. Out of the 235 stocks that were in the TSX Composite over the quarter, 164 recorded a gain, with small caps outperforming large caps, and mid caps lagging. The index as a whole returned 6.7% in Q1 2021.

- The health care sector outperformed the broader market in Q1 2021, with a 32.7% return. Momentum for cannabis stocks continued to prevail with Aphria (+162%) and Canopy Growth Corp (+29%) making significant contributions to sector performance.
- The financials sector returned 13.7% in Q1 2021. National Bank (+19%), Bank of Montreal (+16%) and Bank of Nova Scotia (+14%) benefitted from rising long-term interest rates and a reduction in loan loss provisions, delivering quarterly earnings that were significantly better than analyst expectations. Given the large weighting of financials in the index, the sector's strong performance had a sizable influence on the overall return of the index.
- The materials sector was the only sector to deliver a loss in the quarter, posting a -12.9% return. Fears and risks of recession that were alleviated by economic normalization caused a drop in gold prices, which drove the poor performance of gold and precious metal stocks, with seven of the top ten detractors being gold and precious metal miners.

Q1 2021 Sector Performance*

Sector	TSX Composite	S&P 500
Healthcare	32.7%	3.3%
Energy	26.8%	29.1%
Financials	13.7%	16.9%
Consumer Discretionary	13.6%	4.1%
Industrials	7.4%	13.9%
Communication Services	6.6%	9.5%
Consumer Staples	3.0%	1.6%
Information Technology	2.4%	3.6%
Utilities	2.0%	4.7%
Materials	-12.9%	9.7%

North American Equity Indices - Q1 2021 Performance



* Sector performance based on the price change of each corresponding S&P 500 sector index over the quarter.
Sources: S&P Capital IQ, Linde Equity – TSX Quarterly Review and Raymond James – Quarterly Insights & Strategies.

Treasury Yields

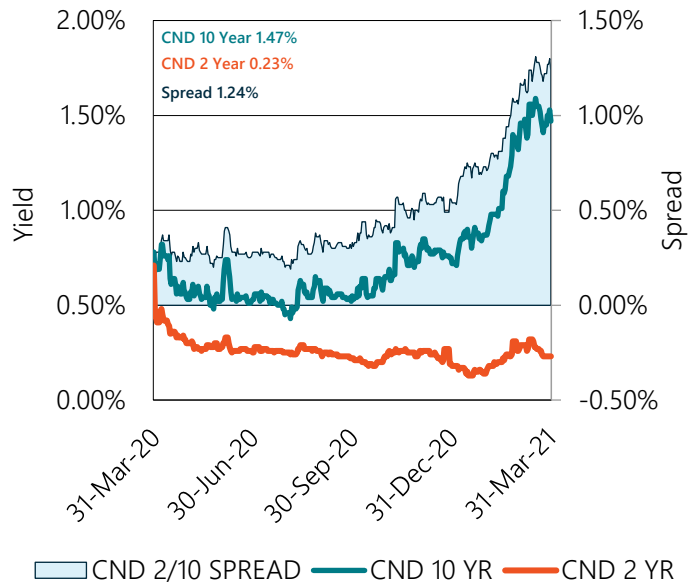
Canada

On March 10, 2021, the Bank of Canada (BoC or Bank) decided to hold its target for the overnight rate at the effective lower bound of 0.25%, which continues the BoC's decision to maintain the same overnight interest rate since March 2020. The Bank will continue its positive forward guidance, which is supplemented by its quantitative easing (QE) program. This program will continue at a pace of at least \$4 billion of large-scale asset purchases (Government of Canada bonds) per week. Interest rates are expected to remain at this level until the target inflation rate of 2.0% is achieved, which the Bank does not see happening until 2023.

By the end of Q1 2021, the country began to enter a third wave of COVID-19 infections. The Canadian government continues its roll-out of COVID-19 vaccines as supply is received. The Bank noted that the year-over-year inflation rate will likely increase in the coming months as recovery takes place, as prices for goods and services are currently comparable to prices depressed during the initial months of the pandemic in 2020.

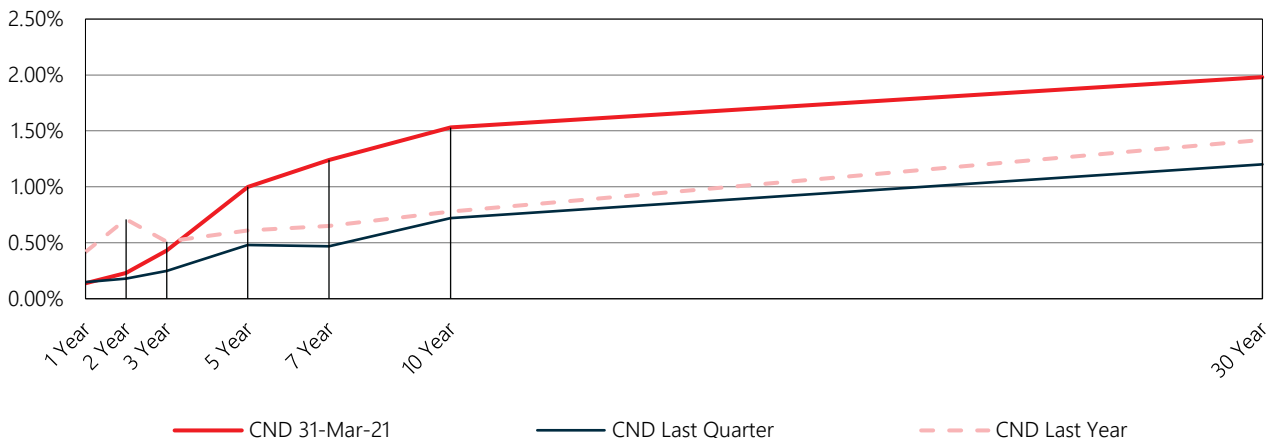
Since last quarter (Q4 2020), the 10-year Canadian Government Bond Yield has increased from approximately 0.7% to 1.5%. The 2/10-year spread has increased from approximately 0.5% to 1.2%. These factors continue to improve in parallel to economic improvement after the pandemic disruptions. As the Canadian economy recovers, the Government of Canada is targeting a stable inflation rate of 2.0%.

2 & 10 YR CDN Gov't. Bond Yields



As the economy moves forward into Q2 of 2021, the Bank will continue to provide the economy with monetary policy support. The QE program is expected to continue with a gradual reduction as the Canadian economy rebounds over the course of the year.

CDN Government Bond Yield Curves



Treasury Yields

United States

On March 17, 2021, the Federal Reserve (Fed or Committee) decided to hold interest rates near zero (0.0% to 0.25%) and indicated that they will remain at this range until labour market conditions have reached key target metrics levels, which is not expected until 2023. The Committee stated it would continue to buy at least \$120B of bonds each month until the aforementioned key target metrics are met.

According to the most recent release of the Fed's Dot Plot on March 17, 2021, a majority of members agree and foresee the 0.0% to 0.25% interest rate to remain until the end of 2023. The long run shows members targeting an interest rate of 2.0% to 3.0%.

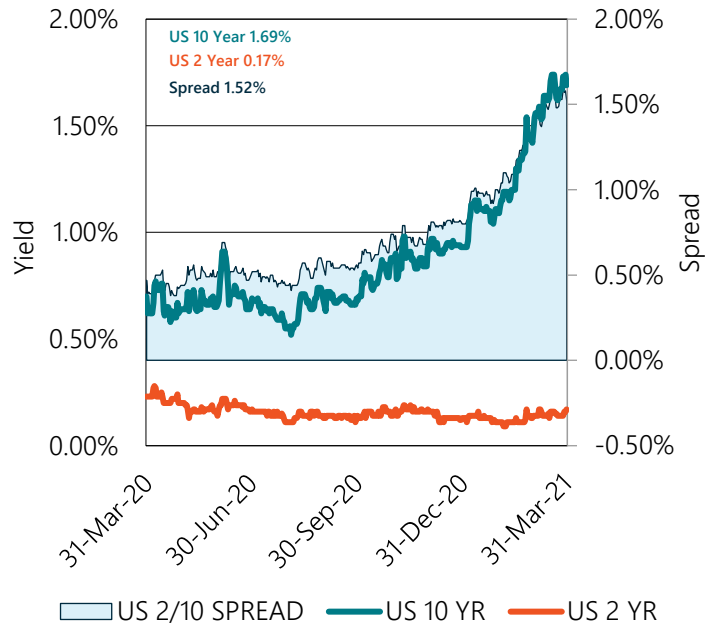
The Fed reported a change in Real Gross Domestic Product (GDP) of 6.5% since last quarter, which was higher than its 4.2% projection. The Fed also revised its 2022 and 2023 forecast of 3.3% and 2.2%, respectively.

The 2021 median unemployment rate has been reported at 4.5%, which is 0.5% lower than its projections. Moving forward, the Fed expects 2022 unemployment to be 3.9% versus its initial projection of 4.2% and 2023 unemployment to be 3.5% versus its initial projection of 3.7%.

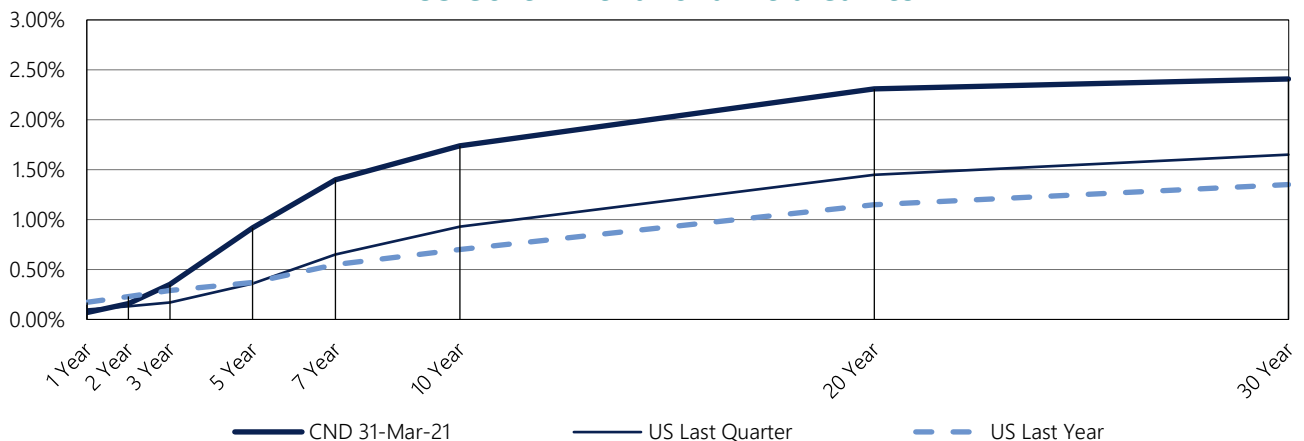
Since last quarter (Q4 2020), the 10-year US Government Bond Yield has gone from approximately 0.9% to 1.7%. The 2/10-year spread has gone from approximately 0.8% to 1.6%.

The Fed will continue to monitor incoming information regarding the economic outlook and global developments and act appropriately to support the economy. The Committee's assessments will take into account a wide range of information, including readings on public health, labour market conditions, inflation pressures and inflation expectations, and financial and international developments.

2 & 10 YR US Gov't. Bond Yields

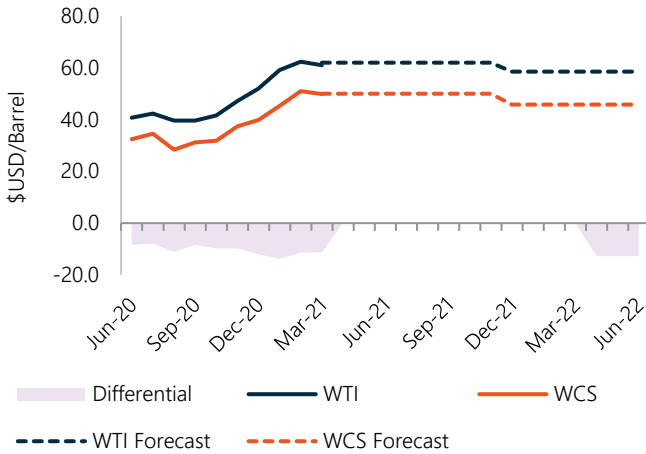


US Government Bond Yield Curves



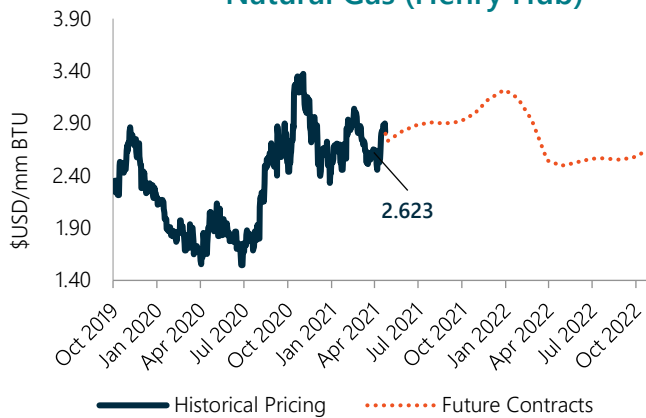
Source: S&P Capital IQ, Federal Reserve, and CNBC, The next scheduled dates in 2021 for FOMC interest rate announcements are April 27-28, June 15-16, July 27-28, September 21-22, November 2-3, and December 14-15.

Crude Oil Differential



- In YTD 2021, crude oil prices for Western Canadian Select (WCS) has risen by ~10%, while West Texas Intermediate (WTI) has risen by ~3%.
- Since their lows in April 2020, both WCS and WTI have recovered, with prices reaching a high of ~\$51/barrel and ~\$62/barrel, respectively.
- The price differential reduced to ~\$8/barrel in Q3 of 2020 and since then has grown to ~\$11/barrel at the end of Q1 2021.
- Moving forward, prices for WCS and WTI are predicted to average \$50/barrel and \$62/barrel until the end of Q3 2021 after which they will reduce to \$46/barrel and \$59/barrel, respectively.

Natural Gas (Henry Hub)



- Natural gas prices grew by 3.2% (~\$0.1/mm BTU), since the previous quarter to \$2.6/mm BTU in March 2021.
- During the YTD 2021 period (Jan to Mar), natural gas prices saw minimal volatility with lows of ~\$2.5/mm BTU and highs of ~\$3.0/mm BTU.
- There is potential for growth that may be driven by a colder summer in 2021, which will create a tight supply market for natural gas.
- Growth in prices is expected in subsequent quarters as Q2 growth is expected to be ~9%.

Gold (COMEX)



- Gold prices witnessed a decline of ~10% in YTD 2021 as prices dropped from \$1895/oz. in January to \$1716/oz. in March.
- Certainty surrounding the US currency and global markets as well as reduced quantitative easing measures has instilled greater confidence in many.
- A strong USD tends to have an inverse relation with gold prices as gold is priced in USD and foreign investors shift money into more traditional value sources when the currency is appreciating.
- Gold prices are expected to remain stable at a \$1777/oz average in 2021 but continue to face pressures from rising inflation and Treasury Yields implemented by the US Federal Reserve.

Canadian Economic Update

The Canadian dollar ended Q1 2021 at 1.26 USD/CAD, displaying relatively strong performance fueled by an economy that exceeded expectations and a weakening USD. Strengthening global demand and decreased supply have contributed to rising commodity prices, which has had a positive effect on the CAD.

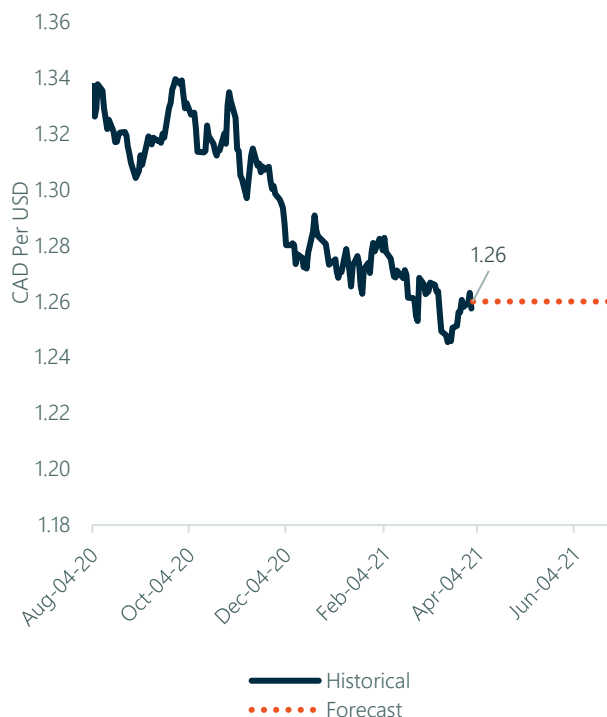
Real GDP is forecasted to increase 4.5% in Q1 2021 reflecting expectations of a supportive monetary and fiscal policy. The roll-out of COVID-19 vaccinations has continued to create expectations of economic normalization and increased risk appetite throughout 2021, however, the looming third wave of cases and logistical problems with vaccine distribution could hinder investor sentiment and economic recovery.

Canada's housing market has continued to perform very well in Q1 2021 as low interest rates and elevated savings balances fuel accelerating home sales.

Canada's unemployment rate, which fell to 8.8% in Q4 2020, bounced to 9.2% in Q1 2021, as industries that have suffered through the third wave of COVID-19, particularly the service-sector, were forced to make job cuts. Labour markets are expected to recover as these companies begin rehiring employees.

The consumer price index is expected to grow approximately 1.7% in Q1 2021. Inflation is projected to increase, fueled by rising commodity prices and growth in household spending.

CAD/USD Exchange Rate*



Note: RBC forecasts a Q2'21 CAD/USD exchange rate of 1.26.

Real GDP Growth (YoY % change)**

Year	Canada
2020	-5.4%
Q3'20	40.6%
Q4'20	9.6%
Q1'21F	4.5%
Q2'21F	5.0%
2021F	6.3%
2022F	4.1%

Unemployment Rate (%)**

Year	Canada
2020	9.6%
Q3'20	10.1%
Q4'20	8.8%
Q1'21F	9.2%
Q2'21F	8.0%
2021F	7.7%
2022F	6.1%

Housing Starts ('000s)**

Year	Canada
2020	218
Q3'20	63
Q4'20	64
Q1'21F	N/A
Q2'21F	N/A
2021F	249
2022F	200

Consumer Price Index (YoY % change)**

Year	Canada
2020	0.7%
Q3'20	0.3%
Q4'20	0.8%
Q1'21F	1.7%
Q2'21F	3.1%
2021F	2.1%
2022F	2.0%

Exchange rate data as of March 31, 2021. Forecast from RBC Financial Markets Monthly – March 2021.

**RBC Capital Markets Economic Research, Statistics Canada and Canada Mortgage and Housing Corporation.

Sources: S&P Capital IQ, RBC Economics - Current Trends Update - Canada, National Bank of Canada – Economics and Strategy – FX Update – March 2021, www.tradingeconomics.com/canada/unemployment-rate

About Us



MNP Corporate Finance (MNPCF) has a dedicated team of over 85 merger, acquisition, and transaction professionals across Canada. MNPCF works with clients in virtually all industries as they prepare, plan and execute transactions.

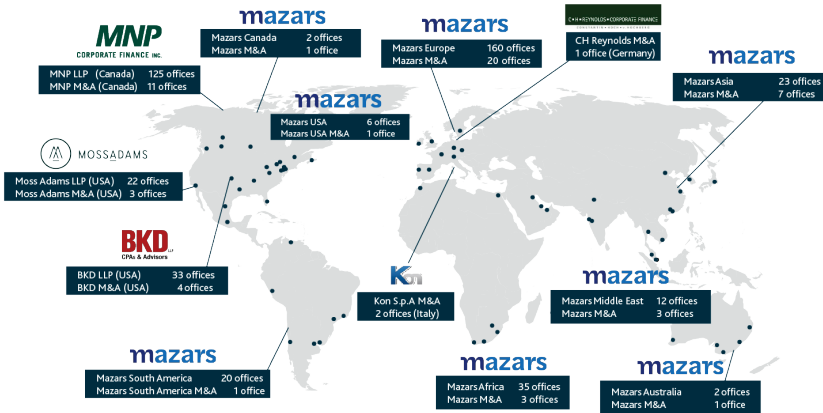
Our typical transactions range in value between \$3 million and \$300 million.

Local and International Reach

MNP is a participating firm within Praxity, a unique global alliance of independent accounting/advisory firms created to answer global business needs. As a member of Praxity, we are able to offer access to corporate finance, accounting, and tax advisory services worldwide. We are also affiliated with Corporate Finance Cross Border, which consists of 250+ M&A professionals in more than 30 countries.



CFxB CFXborder - Global reach with local relationships
Our corporate finance team through CFXb consists of 250 plus M&A professionals in more than 30 countries



Services

- Divestitures
- Acquisitions
- Debt Financing
- Due Diligence
- Transaction Advisory Services

Recently Closed Deals (National)

About Us

Deal Experience

Since our inception, our team has advised on hundreds of transactions, in a wide range of industries with diverse enterprise values. In the past five years alone we have completed over 125 transactions worth over \$2 billion (not including due diligence engagements).

Industry Experience

- Food & Beverage
- Retail & Distribution
- Manufacturing
- Agriculture
- Automotive
- Materials
- Health Care
- Pharmaceutical
- Transportation
- Construction
- Software
- Financial Services
- Technology
- Energy
- Oilfield Services
- Real Estate

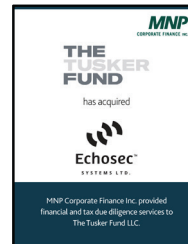
Hands-on Approach

Current M&A transactions require a hands-on approach from start to finish including the active engagement of senior resources. Our senior resources are dedicated to our clients and are available as necessary and appropriate. We keep our clients regularly informed of the engagement status, issues we are encountering, successes, and overall progress.

Integrated Service Offering

We draw on the vast experience and deep specialist knowledge network of our partners locally, nationally and internationally as specialty issues arise, such as pre-transaction tax planning, transaction structuring, estate planning, valuation, due diligence, performance improvement, and risk management.

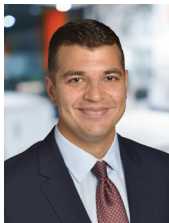
Recently Closed Deals (National)



Transaction Leadership



Brett Franklin
President
Brett.Franklin@mnp.ca
204.336.6190



Aleem Bandali
Managing Director
Aleem.Bandali@mnp.ca
778.374.2140



Mark Regehr
Managing Director
Mark.Regehr@mnp.ca
780.969.1404



Mike Reynolds
Managing Director
Mike.Reynolds@mnp.ca
587.702.5909



Erik St-Hilaire
Managing Director
Erik.St-Hilaire@mnp.ca
204.336.6200



Stephen Shaw
Managing Director
Stephen.Shaw@mnp.ca
416.515.3883



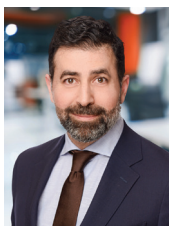
Dan Porter
Managing Director
Dan.Porter@mnp.ca
416.515.3877



Kevin Tremblay
Managing Director
Kevin.Tremblay@mnp.ca
647.943.4051



Jon Edgett
Managing Director
Jon.Edgett@mnp.ca
519.772.7460



Patrick Khouzam
Managing Director
Patrick.Khouzam@mnp.ca
514.228.7874



Jonathan Banford
Managing Director
Jonathan.Banford@mnp.ca
418.696.3924



Éric Grondin
Managing Director
Éric.Grondin@mnp.ca
819.823.3290

Due Diligence Leadership



Jean-Raymond Lafond
Managing Director
Jean-Raymond.Lafond@mnp.ca
819.473.7251



Craig Maloney
Managing Director
Craig.Maloney@mnp.ca
902.493.5430



Johnny Earl
Managing Director
Johnny.Earl@mnp.ca
604.637.1514



John Caggianiello
Managing Director
John.Caggianiello@mnp.ca
416.513.4177