

2022 Sustainability Report

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Message from our CEO Tom Eisenhauer, Founding Partner & CEO

At the time of publishing this report, it is hard to ignore the long list of economic uncertainties facing the world: inflation, clogged supply chains, rising interest rates, financial market corrections, labour shortages, soaring oil and commodity prices, to name a few. The world's farmers are facing all these and more, especially the disruptions caused by Russia's unprovoked aggression on Ukraine, and simultaneous climate-related crises in China, India, and the western USA.

This agricultural perfect storm is forcing millions of people around the world into crisis. Simply put, the world may be on the brink of the worst global food security crisis since WWII. The implications will likely extend far beyond rising food prices and lack of selection in our grocery stores. Many countries face the prospect of critical food shortages, malnutrition, starvation, and likely even political upheaval in the coming months.

The implications of the loss of Ukrainian and Russian food exports is dire, as both countries are agricultural powerhouses. According to The Economist magazine, Russia and Ukraine together supply 28% of globally traded wheat, 29% of barley, 15% of corn and 75% of sunflower oil. It estimates that Ukraine's food exports provide calories to feed 400 million people and that together, the two countries supply 12% of the world's entire supply of traded calories. Replacing these calories from other suppliers such as Canada will be impossible.

Adding to the Russian-made disaster in Ukraine is the manmade climate disaster, which is compounding the crisis for the world's hungry. China is the world's largest wheat producer and officials there have warned that after rains delayed planting last year, 2022 is expected to produce its worst crop ever. India, the world's second largest wheat producer, is dealing with extreme heat and lack of rain that is expected to depress crop yields there. Droughts in the western US, Europe and Africa are likely to threaten worldwide yields further, just as production from those regions is desperately needed to make up for losses from Ukraine and Russia.

It is hard not to sound alarmist and overwrought, but The Economist estimated that nearly 250 million people are currently on the brink of famine, and it is likely to get worse. The stakes could not be higher as Canadian farmers await their annual harvest.

This situation highlights the fragility of the global food supply chain and the importance of sustainable agricultural practices to ensure ongoing access to high quality farmland. Bonnefield's commitment to maintaining farmland for farming is one way in which we aim to support the viability of the global food chain.

Our ongoing monitoring of sustainable practices is another. Unfortunately, it has never been so clear how important these small actions are, not just for our investor base but for the world.

About Bonnefield

Since its founding in 2009, Bonnefield has been committed to maintaining farmland for farming and supporting Canada's farm operators to achieve sustainable, long-term success.

Through bespoke agreements with Canadian farmers, we provide an alternative source of financing to traditional debt which provides farmers with greater optionality to capitalize their businesses in a way best suited to their operational situation and long-term goals. This solution appeals to a broad range of Canadian farm operators, most notably those looking for support with some or all of the following characteristics:

- reduce debt, improve cash flow, and improve return on assets;
- finance expansion, growth, productivity, and profitability;
- facilitate succession and transition of farming operations from retiring farmers to a younger generation; and/or
- secure long-term access to farmland on an ad-hoc basis.; all while protecting farmland for farming.

Since 2011 (~6 months after Bonnefield acquired its first properties), Canada has lost 4% of its actively operated farmland acres, according to Statistics Canada's recently released Census of Agriculture¹. Within the regions in which Bonnefield invests, this decline has been most pronounced in Nova Scotia and New Brunswick, at ~29% and ~26% respectively, based on Statistics Canada's most recent data. While the numbers in the Maritimes are particularly startling, no region has been immune to the trend.



Total Farmland Loss Since 2011

While the drivers of farmland loss vary by region, they are often attributed to competing land uses or difficult economic conditions. We believe this highlights the importance of Bonnefield's role, both in our commitment to maintain farmland for farming and as a financial solution for Canadian farm families.

1 - Statistics Canada. Table 32-10-0228-01 Land tenure, Census of Agriculture historical data



About Bonnefield

Our Values

When founding Bonnefield, the company's principals established a set of corporate and social responsibility principles to guide its investing activities. These responsible investing ("RI") principles are rooted in a set of core operating guidelines that put farmers and farming first.

Bonnefield's ultimate goal is to promote sound farmland management practices, help improve operator efficiencies and protect the integrity of Canadian farmland, which we believe are core to protecting and enhancing long-term returns for our investors.

The core RI principles that govern Bonnefield's businesses are:

- We preserve Canadian farmland for farming use.
- We do not buy land for non-agricultural redevelopment.
- Our agronomic standards must balance exemplary farmland stewardship, sustainable farming practices and affordable farming operations.
- We aspire to become a long-term partner with our Canadian farm operator clients.
- Our programs must assist Canadian farm operators to build or maintain scale, become more profitable, improve cash flow and/or reduce debt.
- We will not dictate to our partners how to operate their farms.
- Our farmland lease programs must create an "as if owned" relationship with the leased land for the farm operator.

In accordance with the best practices of responsible investing guidelines, Bonnefield has adopted robust governance structures for its farmland funds. All funds have investor advisory committees that, among other tasks, confirm net asset values that are based on independent third-party property appraisals. The advisory committees are also mandated to confirm any matter that may give rise to a conflict of interest, deviations from stated investment policies or distribution policies.



In the Community

Canada's National Index on Agri-Food Performance

Beyond supporting individual farm operators through financing solutions, Bonnefield is committed to the development and success of the Canadian agricultural industry. As part of this commitment, Bonnefield is a contributing member to the development of Canada's National Index on Agri-Food Performance. This initiative is being led by a coalition of private-public partners who are working pre-competitively to develop an integrated picture of sustainability for Canada's agri-food sector from food production to retail. The National Index on Agri-Food Performance aims to utilize science-based, high-quality metrics and will span four sustainability priorities: the environment, economic, food integrity, and societal well-being. For further information on the Index you can visit <u>www.agrifoodindex.ca</u>

World Resources Institute (WRI) Pilot

There has been considerable public discussion regarding farmland as a potential biological carbon sink. Despite this, sequestration-related GHG reporting protocols are still in their infancy. The World Resources Institute (WRI) is currently drafting its Land Sector Removals Guidance, which promises to provide guidance to companies on how to report biological sequestration associated with their operations. Bonnefield is participating with the WRI as a pilot testing company. This process involves testing and feedback on the draft protocol to support the WRI in creating a final inventory. While publication of the guidance has been delayed, Bonnefield is hopeful that its participation will contribute towards the creation of a meaningful reporting standard.

Food and Water First

Bonnefield also supports the communities in which we operate through various donations and engagement opportunities. We have long been a proud supporter of Food and Water First, a citizen coalition dedicated to protecting Ontario's Class 1 farmland and source water region. To learn more about this organization visit <u>www.foodandwaterfirst.com</u>

Bonnefield at a Glance

1.2 bn AUM as at December 31, 2021

135 k Acres of farmland across Canada

Provinces in which we manage farmland

113 Farm tenant partners

35,907 tonnes

UNPRI Signatory Since 2014

Public supporter

Bonnefield Metrics

Sustainably Managed Land

Bonnefield has established a set of farming best practices aimed at promoting sustainable farming operations and environmental responsibility. These best practices, referred to as the Bonnefield Standards of Care, are included in every Bonnefield lease and cover a range of sustainable management practices including: (i) soil testing; (ii) tillage system; (iii) regular crop rotation; (iv) water course maintenance; (v) recordkeeping;
(vi) professional crop planning; (vii) pesticide management;
(viii) weed control; (ix) soil erosion control measures; and
(x) maintenance and repairs.

In 2021, 99.1% of Bonnefield farmland was sustainably managed, as measured by passing a third-party agrology audit per Bonnefield's Standards of Care.

Promoting Environmental and Climate Sustainability

Metric	2021	2020	2019
Percentage of acreage owned longer than one year with annual property inspection completed by the asset manager	100%	100%	100%
Percentage of acreage used to grow a permanent crop, vegetable or berries certified under a third party that verifies the farm is maintaining good management of fertilizer/pesticides	100%	99%	96%

Water Usage and Water Quality

Canada is one of the largest agricultural geographies in the world and Bonnefield's portfolios invest in farmland from coast to coast. As a result, certain physical and operational characteristics may be more relevant to one part of the country compared with others. Water use and maintenance is arguably the most regional element we monitor due to its inherent relationship to weather and climate.

While the western prairie provinces of Canada tend to be relatively arid, eastern Canada has a relatively wet climate. As a result, agricultural runoff from fertilizer, manure and other inputs can cause damage to local watersheds if not managed appropriately. As a proxy for this, Bonnefield employs 3rd party agrologist's to monitor watercourse incidents such as issues with ditch maintenance or puddles in parts of fields. While Bonnefield has a strong track record of good watershed protection, wetter-thannormal conditions in some parts of eastern Canada caused watercourse incidents to increase slightly in 2021 as compared with previous years.

Bonnefield's approach to such issues is to determine the extent of the problem and any risks to the sustainability of the farm operations, plus potential risks to nearby waterways or ecosystems. Immediate risks are addressed and remediation plans are put in place alongside our farm operators. It is expected that some weather-related water issues will occur within our portfolio every year and we monitor and remediate these issues on an ongoing basis.

In 2021, there was only one region in Northern Ontario where watercourse incidents were cited two years in a row, and these related directly to specific weather events near the times of the on-farm audits. In June 2020 and 2021, two storms each delivered over 2.6 inches of rain in a 24-hour period. This is a meaningful amount of rainfall for the region which has an ~3 inch historical average rainfall for the month of June². To combat the effects of these types of events and further promote the health of the soil, Bonnefield has made significant investments over the past few years in tile drainage and watercourse maintenance in the region.

2022 Water Quality Test Results



2 - Historical data from Environment and Climate Change Canada, Earlton ON Weather Station. www.climate.weather.gc.ca

Bonnefield Metrics

Total Land Cultivated

Bonnefield strives to preserve Canadian farmland for farming use. We do not buy land for non-agricultural redevelopment and all farmland is leased to farmers for the purpose of farming. In 2021, 100% of Bonnefield's farmland was productive, as defined by being non-fallow.³

Lease Renewals

Given the nature of Bonnefield's business, with different leases renewing year to year, we track three-year average data on our lease renewals. In 2021, our three-year average rate of lease renewals, among those farmers with whom Bonnefield was renegotiating a lease, was 96%.

Respecting Existing Land and Resource Rights

Metric	2021	2020	2019
Percentage of total acreage with formal title search and review completed to verify chain of title/ownership	100%	100%	100%

3 - The data reflects percentage of title acres that have been cultivated, per annual appraisal documents.

Bonnefield Greenhouse Gas Inventory

This year, Bonnefield completed its first Greenhouse Gas ("GHG") inventory for its investment funds. The inventory and reporting was prepared in accordance with WRI/ WBCSD's Greenhouse Gas Protocol's Corporate Accounting and Reporting Standards for quantifying corporate GHG emissions ("GHG Protocol")⁴.

We are committed to ongoing monitoring and reporting of the GHG Inventory for our investment funds. We anticipate that over time, the data collection and evaluation process will develop as our own internal systems, and the accepted scientific methodologies, evolve over time.

Under the operational control approach of the World Resource Institute (WRI) GHG Protocol, a partial Scope 3 inventory was completed. The inventory was limited to onfarm emissions and select off-farm emissions associated with business travel for property management activities. Total on-farm Scope 3 emissions attributable to the Funds were 35,893 tonnes CO₂e and off-farm Scope 3 emissions associated with property management was 7 tonnes CO₂e.

Organizational Boundaries of the Inventory

Bonnefield investment funds operate under a land leasing business model and Bonnefield and our investors do not have operational control of the day-to-day farming activities occurring on the farmland properties. These activities are the responsibility of the tenant farmer. Per the GHG Protocol, emissions from leased assets fall under Scope 3, Category 13: Downstream leased assets. This category encompasses emissions from the operation of assets that are owned by the reporting company.

The following Scope 3 emission sources were included in the 2021 GHG inventory

Fund Emissions Sources:

Emissions Source/Sink	Description
N ₂ O emissions from nitrogen fertilizer	Direct and indirect N ₂ O emissions from soils due to the application of nitrogen fertilizers. N ₂ O is a byproduct of nitrification and denitrification processes and is a potent GHG. It can be emitted directly where nitrogen is applied, indirectly from nitrogen leached as NO ₃ or volatilized as NH ₃ and NO _x and redeposited in other locations.
Emissions from On-Farm Electricity Consumption for Irrigation	Emissions associated with the generation of grid electricity that is consumed within the organizational boundary to power irrigation.
Emissions from On-Farm Fuel Combustion	Emissions arising from the combustion of fuel consumed by farm machinery including diesel, gasoline, propane and natural gas.
Business Travel	GHG emissions associated with employee business travel (i.e., reimbursed travel) using 3rd-party transport providers such as airlines, passenger rail companies, and/or rented vehicles.
Soil organic carbon sequestration	Sequestration of carbon from plant residues in soils. The breakdown of residues through conventional tillage will conversely result in the loss of carbon into the atmosphere in the form of CO ₂ . Note: this SSR is reported separately from total scope 3 emissions, per the GHG Protocol.
Fuel combustion in buildings for heating	Natural gas combusted in office building boilers for space heating and/or water heating in buildings within the organizational boundary.
Grid electricity generation	GHG emissions associated with generation of electricity by facilities within the organizational boundary.
Bonnefield Emissions Sources:	
Fuel combustion in buildings for heating	Natural gas combusted in office building boilers for space heating and/or water heating in buildings within the organizational boundary.
Grid electricity generation	GHG emissions associated with generation of electricity by facilities within the organizational boundary.

4 - Bonnefield worked closely with an independent 3rd party consultant to create the GHG inventory.

Stories From the Farm

Preserving Farmland for Farming in Southwestern Ontario

A traditional farming community on the shores of Lake Erie has undergone significant development over the past several years, including the construction of several residential communities and golf courses. More recently, a new urban development plan was put forward by city counselors to develop a total of 4,200 acres of prime farmland into another residential development.

In 2021, Bonnefield was made aware of an opportunity to purchase approximately 1,500 acres of contiguous farmland directly between parcels of developed land and land earmarked for new development. The property was owned by a father and son who had historically grown a cash crop rotation of corn, soybeans, and wheat, and wanted to continue farming the land despite the nearby development projects. They were looking for additional capital but did not want to exit farming.

This high-quality farmland was an attractive prospect for Bonnefield due to the region's favourable growing climate, as well as the property's soil composition and history as a productive crop farm. Beyond this being a piece of very high-quality farmland, a significant amount of renewable power generation infrastructure had been established on the property over the years, including 14 wind turbines, six stationary solar panels, and several large solar panels on barn roofs. The existing renewable energy infrastructure would continue to contribute to green power generation in the region, provided it was not dismantled during development in the area. While Bonnefield does not often find itself in competitive bidding situations, with the majority of the firm's farmland acquisitions being sourced off-market through our proprietary network, we were faced with the challenge of bidding against two urban developers to purchase this land. Bonnefield prevailed in the bidding process and successfully acquired the property at a value that was both slightly below-market for farmland in the region and which did not reflect the elevated land values commonly known as the "land developer premium". Despite bidding against two different land developers, the firm's investment team did not deviate from its disciplined underwriting approach, which primarily focuses on establishing intrinsic valuations for potential acquisitions based on the potential future cash flows from farming operations.

In negotiating with the farm operators, Bonnefield's sale-leaseback model proved be the deciding factor as to who would ultimately purchase the property. In addition to freeing up the farmers' capital, a sale-leaseback arrangement provided the father and son team with the ability to continue farming. The operators, now Bonnefield tenants, appreciated the flexibility and stability of a long-term lease arrangement as well as the optionality to purchase the land back from Bonnefield if so desired. The father-son team intend to keep operating the farm for the foreseeable future.

Aerial photograph of Bonnefield farm on Lake Erie in Southwestern Ontario



Stories From the Farm

Helping Generations of Farmers Succeed in Manitoba

A long-term farmer located in a farming community over an hour north of Winnipeg had been planning his retirement for some time but had been unable to find a purchaser with enough capital available to purchase his cash crop farm, which has historically grown soy, wheat, and canola.

At more than 4,500 acres, the property was simply too sizable for local farmers to consider acquiring in full at current market values for farmland in the region. Not only did the owner/ operator face a limited buyer universe due to the localized buyer pool and land ownership restrictions in the province, but he also wished to continue farming the property for at least another year before transitioning into retirement. This was a perfect situation whereby Bonnefield was able to offer the flexible capital solution that the operator was looking for, while maintaining the farmland for farming.

Bonnefield has invested in Manitoba for many years on behalf of accredited Canadian individual investors. Based on our activity and network in the region, our team was made aware of this potential opportunity in late 2021, and acquired over 2,700 acres of the farm in early 2022. This acquisition has allowed the farmer to operate the farm for the next year while providing him with a significant injection of capital. In supporting the farmer to maintain access to sizable acreage for the 2022 season, the owner/operator was able to sell the remaining acreage to multiple local farmers in smaller parcels. This is helping to strengthen the operations of multiple farmers in the region who are expanding their businesses and achieving greater operational economies of scale.

At time of writing, Bonnefield has identified a young, progressive farmer who is interested in leasing the farm from Bonnefield alongside his sister, his brother, and his father. Up to now, the family had not been able to afford to purchase the farmland that they need to farm at an efficient scale and is now looking to Bonnefield to help support their family farming operation's growth story.



Methodology

The data presented in this report is collected by Bonnefield as part of the monitoring of our Standards of Care. Farmers submit information on their farms using Bonnefield's proprietary online Farmer Portal.

Data is expected to be uploaded by year-end each year, although farmers are encouraged to input data as soon as the crop has been harvested. Bonnefield's property managers travel cross-country to visit each farm as soon as planting starts each season (typically early May to end of October). They verify information submitted by the farmers and relay the information directly to our investment team. Additionally, agrologists hired by Bonnefield visit each farm to provide an additional layer of data verification. As of June 2022, 84% of farmers had submitted data for 2021.

Notes Related to Data Metric Calculations

Sustainably Managed Farmland

Defined as passing a third-party party agrology audit per Bonnefield's Standards of Care. Measured across individual farmland parcels

Third-party Verification

That the farm is maintaining good management of fertilizer/pesticides. Non-compliance is calculated as the percentage of farmland parcels that either

- (A) exhibit a soil fertility issue and / or
- (B) do not have two out of three of an adequate (i) weed control (ii) insect control or (iii) disease control program.

Water Quality

Farmland parcels will not pass if there are water drainage issues present.

