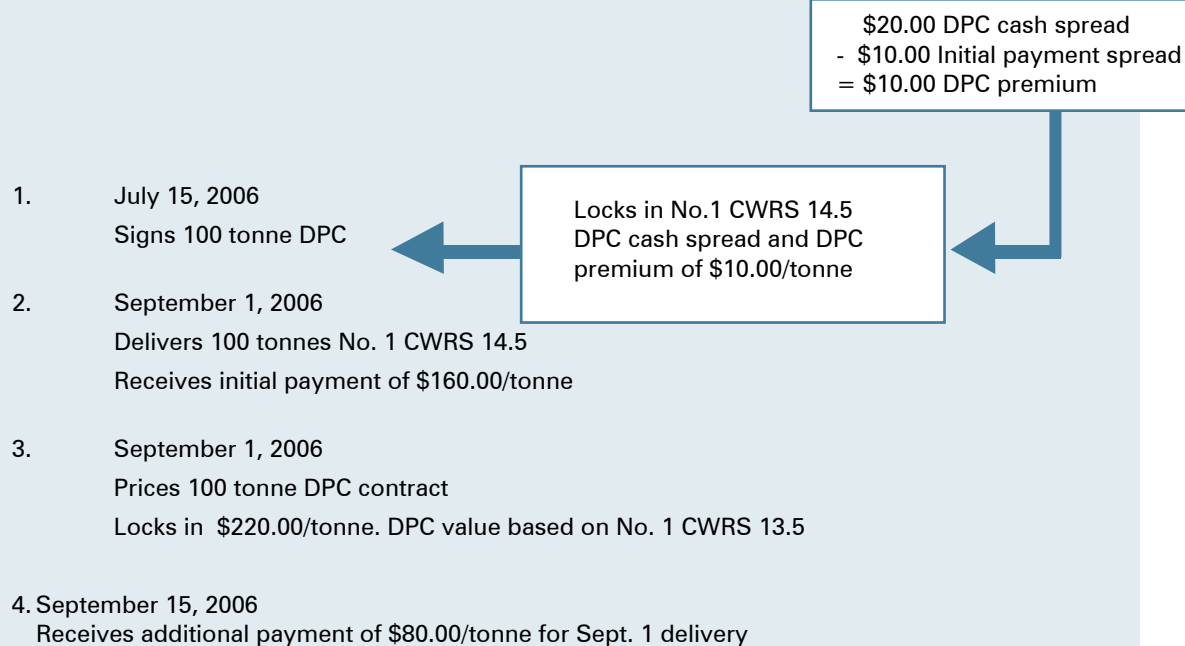


Part 2 – Marketing Strategies

Marketing grain to the CWB with a DPC

Example #1: Simultaneous pricing and delivery

Formula: Reference grade daily price - reference grade initial payment +/- DPC premium/discount



Total DPC payments = Initial payment for delivery + Additional payment
\$240.00/tonne \$160.00/tonne \$80.00/tonne

Initial payment = \$160.00
(for delivery of No.1 CWRS 14.5)

DPC reference grade value	\$ 220.00
Ref. grade initial payment	- \$ 150.00
	<u>= \$ 70.00</u>
DPC premium	+ \$ 10.00
	<u>= \$ 80.00</u>

Additional payment = \$ 80.00

Total DPC payment = \$240.00

Example #2: Pricing before delivery

Formula: Reference grade daily price - reference grade initial payment +/- DPC premium discount

1. July 15, 2006
Signs 100 tonne DPC for CWRS
2. September 1, 2006
Prices 100 tonne DPC contract
Locks in \$220.00/tonne. DPC value based on No. 1 CWRS 13.5
3. November 1, 2006
Delivers 100 tonnes No.1 CWRS 14.5
Receives initial payment of \$160.00/tonne
4. November 15, 2006
Receives additional payment of \$85.00/tonne for Nov. 1 delivery

\$25.00 DPC cash spread
- \$10.00 Initial payment spread
= \$15.00 DPC premium

Locks in No.1 CWRS 14.5 cash spread and DPC premium of \$15.00/tonne

Total DPC payments = Initial payment for delivery + Additional payment
 \$245.00/tonne \$160.00/tonne \$85.00/tonne

Initial payment = \$160.00
 (for delivery of No.1 CWRS 14.5)

DPC reference grade value	\$ 220.00
Ref. grade initial payment	- \$ 150.00
	<u>= \$ 70.00</u>
DPC premium	+ \$ 15.00
	<u>= \$ 85.00</u>

Additional payment = \$ 85.00
Total DPC payment = \$245.00

Example #3: Pricing after delivery

Formula: Reference grade daily price - reference grade initial payment +/- DPC premium discount

1. July 15, 2006
Signs 100 tonne DPC
2. September 1, 2006
Delivers 100 tonnes No. 1 CWRS 14.5
Receives initial payment of \$160.00/tonne
3. November 1, 2006
Prices 100 tonne DPC contract
Locks in \$230.00/tonne. DPC value based on No.1 CWRS 13.5
4. November 15, 2006
Receives additional payment of \$90.00/tonne for Sept. 1 delivery

\$20.00 DPC cash spread
- \$10.00 Initial payment spread
= \$10.00 DPC premium

Locks in No.1 CWRS 14.5
DPC cash spread and DPC
premium of \$10.00/tonne

Total DPC payments = Initial payment for delivery + Additional payment
 \$250.00/tonne \$160.00/tonne \$90.00/tonne

Initial payment = \$160.00
(for delivery of No.1 CWRS 14.5)

DPC reference grade value	\$ 230.00
Ref. grade initial	- \$ 150.00
	<u>= \$ 80.00</u>
DPC premium	+ \$ 10.00
	<u>= \$ 90.00</u>

Additional payment = \$ 90.00

Total DPC payment = \$250.00

Marketing grain to the U.S. with a DPC (via Producer Direct Sale)

Example #1: Simultaneous pricing of DPC and PDS

1. July 15, 2006
Signs 100 tonne DPC for CWRS

2. November 1, 2006
Enters PDS for U.S. delivery of No. 1 CWRS 14.5
Locks in PDS value of \$260.00/tonne

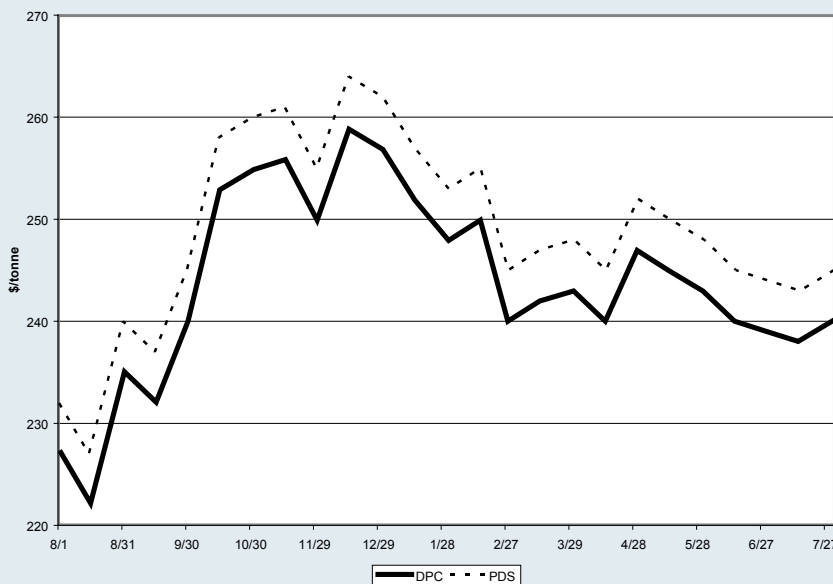
3. November 1, 2006
Prices 100 tonne DPC contract
Locks in \$255.00/tonne DPC value based on \$230.00/tonne No.1 CWRS 13.5
and a cash spread of \$25.00/tonne for No. CWRS 14.5
*DPC cash spread locked in based on the date the producer certificate is issued.

4. November 1, 2006
Locks in PDS/DPC spread of \$5.00/tonne

PDS/DPC spread = PDS value - DPC value
\$5.00/tonne \$260.00 \$255.00

**By pricing the DPC and PDS simultaneously, the producer has fixed (hedged) a \$5.00/tonne cost to do the PDS transaction. The producer can now market this grain in the U.S.

DPC and PDS price spreads*



*The values in this chart are for illustration purposes only.

Example #2: Pricing the DPC after the PDS transaction

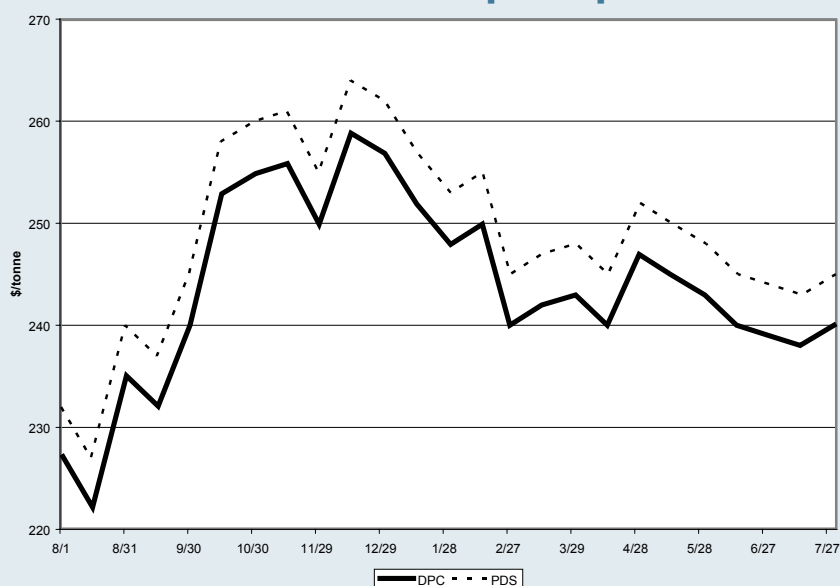
1. July 15, 2006
Signs 100 tonne DPC for CWRS
 2. November 1, 2006
Enters PDS for U.S. delivery of No. 1 CWRS 14.5
Locks in PDS value of \$260.00/tonne
 3. November 26, 2006 (U.S. futures market has declined)
Prices 100 tonne DPC contract
Locks in \$250.00/tonne DPC value based on \$225.00/tonne No.1 CWRS 13.5 and a cash spread of \$25.00/tonne for No. CWRS 14.5 delivery
- *DPC cash spread locked in based on the date the producer certificate is issued.
4. November 1, 2006
Locks in PDS/DPC spread of \$10.00/tonne

PDS/DPC spread = PDS value - DPC value
\$10.00/tonne \$260.00 \$255.00

Waiting to price the DPC adversely affected the producer's PDS cost because the PDS/DPC spread increased from \$5.00/tonne to \$10.00/tonne between November 1 and November 26.

**By not pricing the PDS and DPC simultaneously, the producer has become a speculator, hoping the PDS/DPC spread will narrow in their favor. Unfortunately in this example the spread widened increasing the cost to \$10.00/tonne.

DPC and PDS price spreads*



*The values in this chart are for illustration purposes only.