2006-07

Early Payment Options

for wheat, durum and barley

PPO

Producer Payment Options

CWB

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Introduction

Why Producer Payment Options?

The Producer Payment Options (PPOs) were introduced in the 2000-01 crop year to provide producers with flexibility in price determination and alternative payment options to price pooling. The CWB consulted with producers to identify their needs and determine how best to meet them. Producers said they wanted more control over how much they get paid and when. They asked for the opportunity to take on additional market based risk and quicker payment following delivery while at the same time maintaining the strengths of price pooling and the proven price risk management it provides.

PPOs provide pricing flexibility, cash flow and management tools.

More specifically producers identified the following needs:

1. The ability to react to market signals and take advantage of market rallies during the crop year.
2. Access to cash flow quickly upon delivery of their grain.
3. Budgeting tools for planning rotations and calculating returns.
4. Pricing options they could tailor to their business needs.

These key concerns formed the establishment of the PPO programs.

Principles supporting the establishment of the PPOs

The programs are intended to give producers greater flexibility without placing price pooling at risk. The PPO programs are established using the following key principles:

1. The programs do not adversely affect the pool accounts.
2. The programs do not adversely affect grain delivery or single desk sales.
3. The programs are self-financing with the cost of administration borne entirely by program participants.
4. Gains or losses in hedging activities flow in and out of a contingency fund* that backstops each program.

Managing risk and returns

Producers can manage the degree of price and production risk exposure by selecting the payment option that is right for them. Producers are fully responsible for any PPO contract commitment they undertake. The PPOs may provide opportunities for higher returns than the CWB pool accounts but are based on commodity markets that can be volatile.

The PPOs are pricing tools that can be incorporated into producers' marketing portfolios to manage returns on their crops. In combination with the risk management provided through price pooling, they can be used to provide a balanced marketing strategy throughout the crop year.

* The contingency fund can be in a surplus or deficit position in any single crop year. Financial details for the contingency fund are contained in the CWB Annual Report. Risk management practices must ensure the sustainability of the contingency fund over the long term. The CWB manages the price risk associated with the programs using futures markets and CWB sales throughout the crop year.

PPOs at a glance

Four different types of PPO programs

There are four different payment options available:

- Fixed Price Contract (FPC)
- Basis Payment Contract (BPC)
- Daily Price Contract (DPC)
- Early Payment Option (EPO)

The EPO for feed barley is separate from the GDC for 2006-07.

The Guaranteed Delivery Contract (GDC) regardless of grain type is a delivery contract, not a pricing option. It is unique in that it offers a 100 per cent delivery call by a date specified for each GDC offer period. Producers have the option to price their GDC with an EPO, FPC or participate in one of the two feed barley pools receiving an initial payment and future adjustment, interim and final payments. New for 2006-07 producers will need to sign up GDC's and PPOs separately using two different forms.

PPO programs and features for 2006-07

Program	Wheat	Durum	Feed Barley	Malting Barley	Pays on delivery	Lock in price	Price off futures	Pricing damages
FPC	✓	✓	✓	✓	✓	✓	✓	✓
BPC	✓			✓	✓	✓	✓	✓
DPC	✓				✓	✓	✓	✓
EPO	✓	✓	✓	✓	✓	✓		✓

For more information regarding the FPC, BPC and DPC program, please refer to the Fixed Price Contract, Basis Payment Contract and Daily Price Contract guides.

EPO programs and features for 2006-07

*EPO Level ("EPV")	Wheat	CW Feed Wheat	Durum	No. 4 Durum	No. 5 Durum	Selected Barley	Feed Barley
80 per cent	✓	✓	✓	✓	✓	✓	✓
90 per cent	✓	✓	✓	✓	✓	✓	✓
100 per cent	✓	✓	✓	✓	✓	✓	✓

* EPO Level equals 80, 90 or 100 per cent of the reference grade PRO value. This value, quoted as $ Cdn per tonne in store Vancouver or St. Lawrence is the Early Payment Value (EPV).

What is an EPO?

The Early Payment Option (EPO) enables producers to lock in 80, 90 and 100 per cent of the current reference grade PRO value. This value, referred to as the Early Payment Value (EPV) is locked in at time of EPO sign-up. Producers locking in an EPV will be charged an EPO discount that covers the CWB's costs associated with market risk, time value of money and administration.

The EPO program was established to provide producers with increased cash flow following delivery, and at the same time providing a floor price with upside potential for future CWB payments. By choosing an EPO contract, producers receive the initial payment from the grain company and an EPO additional payment directly from the CWB within 10 business days following delivery. If the CWB pool account payments exceed a producer's EPV, they continue to receive future payments from the CWB equivalent to the final pool return for the grade delivered, less the EPO discount cost.

In addition to providing quicker payment, the EPO program also acts as a floor price contract, locking in 80, 90 or 100 per cent of the PRO. If the final pool return were to fall below producers' EPVs, they are still guaranteed their EPO contract price.

EPO for milling wheat

Producers can sign an EPO for all or a portion of their wheat from August 1, 2006 until July 31, 2007. The CWB will withdraw the lower EPV percentages when the initial payment for the reference grades are increased during the crop year and approach or exceed the prices producers can lock in at these levels.

All seven classes of wheat are eligible for the EPO program at the 80, 90 and 100 per cent levels. The CWB offers the EPV and discount values based on the PRO of the reference grade for each wheat class (see page 6 for reference grades). Nos. 1, 2, and 3 grades of wheat are eligible for payment under the EPO for milling wheat. The discount must be subtracted from the EPV to arrive at the net EPV value for the reference grade. The discount represents the cost for risk, time value of money and administration. (Deliveries grading No. 4 CWRS, No. 4 CWHWS, No. 3 CWSWS and CW Feed must be applied against a feed grade EPO contract.)

EPO for feed grade wheat

The EPO for feed grade wheat provides producers with improved contract values with respect to the CW Feed PRO by using CW Feed as the reference grade. The feed grade EPO for wheat enables producers to lock in an 80, 90, or 100 per cent value of the CW Feed PRO. The grades eligible for delivery include CW Feed, No. 4 CWRS, No. 4 CWHWS and No. 3 CWSWS.

EPO for milling durum

Producers can sign an EPO for all or a portion of their durum from August 1, 2006 until July 31, 2007. The CWB will withdraw the lower value EPV levels when the initial payments are increased during the crop year and the reference grade initial payment approaches or exceeds the EPV lock-in levels. Due to the uncertainty of durum acceptance levels, the CWB provides a minimum delivery guarantee of 60 per cent of the total amount of durum offered towards both delivery contract series (A and B). The minimum delivery guarantee should be used as a guide in determining how many tonnes to commit to the EPO contract.

The minimum delivery guarantee for durum will only be considered to those who maximize their delivery opportunity by offering their production under the Series A contract.

The durum EPO program offers lock-in levels at the 80, 90 and 100 per cent levels. The EPV and discount values are based on the reference grade PRO of No. 1 CWAD 13.0. Nos. 1, 2, and 3 durum grades are eligible for payment under the EPO for milling durum. (Deliveries of Nos. 4 and 5 CWAD must be signed up under either a No 4. CWAD EPO contract or a No. 5 CWAD EPO contract.)

EPO's for Nos. 4 and 5 CWAD

Separate EPO programs for No. 4 CWAD and No. 5 CWAD have been developed providing producers with improved values with respect to the PRO. These two EPO's for durum enable producers to lock in an 80, 90, or 100 per cent value of the Nos. 4 or 5 CWAD PRO.

Due to the uncertainty of durum acceptance levels, a minimum delivery guarantee of 60 per cent of the total amount of durum offered towards all delivery contract series will be provided to ensure producers can fill their EPO commitments.

EPO for feed barley

New for 2006-07

Starting in the 2006-07 crop year, the EPO for feed barley is a separate contract from the GDC. Producers will have the opportunity to use the EPO independent of committing tonnage to a GDC. Producers will be able to evaluate EPV and discount values at the time of delivery when deciding to take an EPO. This eliminates the requirement to indicate the EPO option at sign-up for future lock in and the auto lock in of EPV values. All EPV and discount values will be locked in on the date of sign-up for 2006-07.

Separate EPO programs for each of the two pool periods offering 80, 90 and 100 per cent EPV levels will be available.

Pool A – August 1, 2006 to January 31, 2007

Pool B – February 1, 2007 to July 31, 2007

The EPV and discount values are based on the reference grade PRO of No. 1 CW feed barley.

The feed barley EPO can be transferred to a selected barley EPO if the barley is selected for malt at a later date. Producers will have to exercise this option of the EPO contract prior to the expiry of the 30 day delivery period associated with the GDC.

EPO for selected barley

Participants can commit their selected barley to an EPO starting August 1, 2006. The CWB will withdraw the lower value EPV levels when the initial payments for the reference grades are increased during the crop year and approach or exceed the EPV lock-in levels.

An EPV is offered at 80, 90 and 100 per cent levels of the PRO. The EPV and discount are based on the PRO values for Standard Select Two-Row and Standard Select Six-Row (the reference grades). The requirement for a selected barley confirmation of acceptance at the time of EPO contract sign-up is not required. Therefore, an EPO contract can be signed before the barley is selected.

Landlords require their own selected barley storage and delivery contract and EPO contract to participate in the selected barley EPO. This requirement applies only to the selected barley EPO to facilitate the application of deliveries on a first in first applied (FIFA) basis. Selected barley deliveries are reported to the CWB using the Selected Barley Storage and Delivery Contract number, not the EPO number. Deliveries are therefore automatically applied to the EPO contract(s).

Producers who make a selected barley EPO commitment and whose barley is later rejected for malting can transfer to a feed barley EPO.

Reference grades and markets

Premium or discount based on initial payment spreads.

Consider freight and handling to arrive at farmgate values.

Reference grades are used to post pricing information and contract sign-up values based on an in store Vancouver or St. Lawrence basis for all PPO programs. When producers make a tonnage commitment, the reference grade is used as the base grade for the pricing contract. A premium or discount to the reference grade is determined at the time of delivery, based on the initial payment spread between the reference grade and the delivered grade. Producers have to take into consideration their freight and handling deductions to arrive at a farmgate value.

Reference grades are used for ease of communicating values and are similar to what is done in other commodities. For example, most canola contracts are based on a reference grade of No. 1 canola. If Nos. 2 or 3 are delivered, a discount applies at time of delivery.

Reference grades and relevant futures contracts for the CWB's PPO programs available for wheat:

Wheat class	Reference grade	Futures contract
CWRS	No. 1 CWRS 13.5	Minneapolis Hard Red Spring
CWHWS	No. 1 CWHWS 13.5	Minneapolis Hard Red Spring
CWES	No. 1 CWES	Minneapolis Hard Red Spring
CPSR	No. 1 CPSR	Kansas Hard Red Winter
CPSW	No. 1 CPSW	Kansas Hard Red Winter
CWRW	No. 1 CWRW	Kansas Hard Red Winter
CWSWS	No. 1 CWSWS	Chicago Soft Red Winter
Feed Grade*	CW Feed	WCE wheat, CBOT corn, wheat

* Includes No. 4 CWRS, No. 4 CWHWS, No. 3 CWSWS, and CW Feed.

These are the reference grades for the PPOs that are available on durum, barley and designated barley:

Class	Reference grade
CWAD	No. 1 CWAD 13.0
No. 4 CWAD	No. 4 CWAD
No. 5 CWAD	No. 5 CWAD
Designated barley two-row	Standard Select Two-row
Designated barley six-row	Standard Select Six-row
Feed barley	CW Feed

Important dates

Sign-up start and end dates

Program	Start	End*
EPO wheat	August 1, 2006	July 31, 2007
EPO feed barley Pool A	August 1, 2006	January 31, 2007
EPO feed barley Pool B	February 1, 2007	July 31, 2007
EPO durum	August 1, 2006	July 31, 2007
EPO designated barley	August 1, 2006	July 31, 2007

* Programs will be terminated before July 31, 2007 if the initial payment of the reference grade is near or exceeds the respective EPV levels.

The Pool Return Outlook (PRO) is released the fourth Thursday of the month and is a point in time estimate of the pool return or the value of CWB sales for the crop year. If market conditions warrant, the PRO can be released prior to the regular release dates that are listed below for the 2006-07 crop year.

PRO month	Release date
August	August 24, 2006
September	September 28, 2006
October	October 26, 2006
November	November 23, 2006
December	December 21, 2006
January	January 25, 2007
February	February 22, 2007
March	March 22, 2007
April	April 26, 2007
May	May 24, 2007
June	June 28, 2007
July	July 26, 2007

Program terminations

Although the EPO programs do not have a defined tonnage limit, the programs will be cut off when the initial payments are increased and begin to approach or exceed the respective EPV levels. The 80 per cent EPV programs will be terminated first, followed by the 90 per cent EPV programs later in the crop year. Terminations will occur following confirmation of an increase to the initial payments. The programs will be terminated so that producers do not commit themselves to a contract that does not provide additional cash flow beyond the increased initial payment values.

When a termination is required, the CWB will issue a Country Elevator News bulletin one week before the termination informing the industry. The bulletin is to advise that producers have until the end of the week to sign up under the affected EPV. Producers may want to consider signing a higher level EPV that will still provide additional cash flow above the new initial payment values.

Any contract commitments received after 7:30 a.m. CT on the day that program sign-up is terminated will be rejected. The CWB will contact producers to advise them that their offers were received after the cut off date.

PPO contracts versus delivery contracts

PPO contracts are pricing contracts. They do not provide delivery opportunities. Producers must still offer their production using CWB delivery contracts during the crop year to access delivery opportunity. In this way, pricing flexibility is achieved while maintaining equal access to grain delivery for all producers.

When producers deliver grain against CWB delivery contract calls they assign the delivery to their PPO. An important distinction between the PPO contracts and delivery contracts is the level of compliance. Producers must deliver 100 per cent of the tonnage they have committed to PPO contracts, just as they would with any contract based on the commodity futures market. On the other hand, producers must deliver at least 90 per cent of the tonnages committed to delivery contracts and GDCs. This is to allow some margin of error in estimating stored grain tonnage. This tolerance level is built into the CWB sales plan when evaluating supplies.

GDC exception

For 2006-07 the EPO is separate from the GDC for feed barley.

The GDC is a delivery contract (and separate from any PPO) that offers a 100 per cent delivery by a specific date for each GDC offer period. As the grain is required to meet sales commitments, a letter of authorization is issued to producers who previously signed a GDC, advising they have a 30 day delivery window in which to deliver their grain to their elevator of choice.

Producers have the option to sign up an EPO or apply an FPC against a GDC. For feed barley, this is now a two step process with the delivery contract (GDC) being separated from the pricing contract (PPO) and two different forms used to sign up the two different contracts. If a pricing option is not chosen, deliveries applied to a GDC will receive the initial payment plus all adjustment, interim and final payments from the respective feed barley pool.

Producers who buy out of an EPO or FPC applied to the GDC are still subject to liquidated (delivery) damages for not fulfilling the delivery obligation. Liquidated damages are assessed at the end of the crop year.

Part 1 – How does the EPO work?

Components of the EPO

The major components of an EPO contract are as follows:

1. Early Payment Value (EPV)
2. Discount (time value, risk and administration)
3. Incremental payment

1) Early Payment Value (EPV)

The EPV is equivalent to 80, 90 or 100 per cent of the Pool Return Outlook (PRO) for the corresponding reference grade and is quoted in Canadian dollars per tonne in store Vancouver or St. Lawrence. The EPV is based on the PRO value that is in effect the day the EPO contract is signed.

80 per cent EPV = reference grade PRO x 0.80

90 per cent EPV = reference grade PRO x 0.90

100 per cent EPV = reference grade PRO x 1.00

2) Discount

A discount for risk, time value of money and program administration is deducted from the EPV that is locked in at time of sign-up. There are discounts for each EPV level, and they are posted on the daily pricing schedule. The discount is deducted from the EPO additional payment issued by the CWB following delivery.

a) Risk is part of the cost associated with offering the EPO program. Price protection and hedging on the various North American commodity futures and options markets to protect against declines in the market price is required. Depending on the program, a combination of futures and put options are utilized on the following commodity exchanges:

- Chicago (CBOT)
- Kansas (KBOT)
- Minneapolis (MGEX)
- Winnipeg (WCE)

As the grain markets increase and decrease on a day to day basis so does the cost to hedge the EPV levels, in turn causing the EPO discount values to rise and fall.

b) Time value of money represents the cost to finance the EPO additional payment. All PPO programs produce an additional payment for the producer within 10 business days of cash ticket settlement. The cost of financing these additional payments is included in the overall EPO discount.

The calculation of the time value of money starts with the assumption that deliveries will be applied to the contract on the date it was signed, immediately generating an EPO additional payment to the producer and a financing charge to the CWB for issuing payment. Producers however have to wait until sufficient delivery calls are in place and may not necessarily be able to deliver the entire EPO contract soon after sign-up. As a consequence the producer is paid an incremental payment value to compensate for deliveries made later into the crop year.

c) Administration represents the cost to operate the EPO program. The CWB producer payment options must be self-financed with no costs to the pool accounts. General administration costs include computer resources, staffing, filing, office expenses, etc.

A contingency fund is maintained to provide a backstop for all Producer Payment Options.

3) Incremental payment

EPO contracts offer an incremental payment to compensate producers for grain delivered later in the crop year. The payment represents the time value of money to the producer.

The incremental payment rate and the time value of money component in the EPO discount are locked in when the producer commits to the EPO contract. The incremental payment rates are posted on the pricing schedule daily, along with the EPVs and discounts. The incremental payment rates are assigned a value for each month, that progressively increase for each delivery month of the crop year. For deliveries applied to EPO contracts later in the crop year, the time value of money component in the discount will be increasingly offset by the incremental payment, effectively reducing the total cost to the producer.

Payment upon delivery against EPO

Delivery and initial payment settlement

The EPO is a pricing contract and does not include delivery terms. Producers are still required to sign up Series A, B, or C delivery contracts and Guaranteed Delivery Contracts (GDCs) for grain they want to deliver. The CWB will issue delivery calls when the grain is required to meet sales commitments. When making the delivery, producers must advise the elevator manager to assign the delivery to the EPO contract of their choice prior to making settlement. Deliveries made prior to the EPO sign-up date cannot be applied to an EPO contract.

The wheat class of the delivery assigned to the EPO must be the same as the class the producer has contracted. For example, only CWRS deliveries can be applied against a CWRS EPO.

When a delivery is applied:

1. Producers receive the initial payment at the elevator for the grade and protein delivered less freight and handling.
2. A premium or discount to the EPV is determined by the spread between the reference grade and delivered grade initial payment in effect at the time of settlement.
3. The elevator manager reports the cash ticket to the CWB and an additional payment is issued from the CWB within 10 business days. The additional payment is calculated as the difference between the EPV and reference grade initial payment in effect at time of settlement, minus the EPO discount.
4. Producers will also receive an incremental payment from the CWB to compensate for deliveries later in the crop year.

Note: The EPO additional payment is also subject to any appropriate deductions, examples of which are: outstanding defaulted cash advance accounts, liquidated damages, pricing damages or transaction fees related to the PPO programs.

Future CWB payments

If the grade delivered is the same as the reference grade (i.e. No. 1 CWRS 13.5), producers will receive future CWB payments when the initial payment exceeds the EPV.

If the grade delivered is not the reference grade, producers are eligible for future CWB payments when initial payments for the grade(s) delivered exceed the total gross payment they have already received.

Total gross payment =

> **Initial payment of grade delivered, in store value + EPO additional payment + EPO discount – incremental payment.**

When the final pool returns are determined and final payments are issued, EPO participants will have received the same value as regular pool participants, less their EPO discount cost.

Examples of delivery and payment against an EPO

Note: *These amounts have been estimated for the purposes of illustration. Actual amounts will vary depending on daily commodity market conditions and PRO values. The PROs are based on in store Vancouver or St. Lawrence values.*

Wheat example – No. 1 CWRS 14.5 delivery

On October 1, Joe Producer signs a 1 000 tonne Series A delivery contract for No. 1 CWRS 13.5 and higher. By this time there is a 20 per cent call already in place and Joe signs a 90 per cent EPO on 200 tonnes (all of the currently available delivery opportunity). He begins to haul 200 tonnes of No. 1 CWRS 14.5 and advises the elevator agent to apply the deliveries to his EPO contract.

No. 4 CWRS, No. 4 CWHWS, No. 3 CWSWS, and CW Feed grades cannot be applied against a wheat EPO contract.

To determine the EPV and additional payment for CWRS, the PRO and initial payment values for the reference grade No. 1 CWRS 13.5 are used in the following calculations.

Calculating the EPV

	$ per tonne	$ per bushel
PRO for No. 1 CWRS 13.5 (reference grade)	$202.00	$5.50
EPV (90 per cent of the PRO)	**$181.80**	**$4.95**
Less: discount	- $3.00	- $0.08
Net EPV price	$178.80	$4.87

Calculating the EPO additional payment

Additional payment = EPV – reference grade initial – discount + incremental payment

	$ per tonne	$ per bushel
EPV	$181.80	$4.95
Initial of reference grade (No. 1 CWRS 13.5)	- $140.00	- $3.81
Discount	- $3.00	- $0.08
Incremental payment for delivery in October	+ $0.30	+ $0.01
EPO additional payment	**$ 39.10**	**$1.06**

The initial payment for the grade delivered, No. 1 CWRS 14.5, is $150.00 per tonne. The freight and elevation deductions are $47.00 per tonne.

Calculating Joe's total payments

	$ per tonne	$ per bushel
Initial payment of delivered grade	$150.00	$4.08
EPO additional payment	+ $39.10	+ $1.06
Total payment:	**$189.10**	**$5.14**
Less freight and elevation	- $47.00	- $1.28
Joe's net payments	**$142.10**	**$3.86**

The grain company issues the initial payment of $150.00 minus $47 per tonne for freight and elevation. The cash ticket and EPO contract number is reported to the CWB. An EPO additional payment of $39.10 per tonne is issued to Joe from the CWB within 10 business days.

Future CWB payments

Joe received an initial payment of $150.00 per tonne in store plus the gross EPO additional payment of $41.80 (discount included, incremental payment not included) for a total gross payment of $191.80 per tonne. Joe is eligible for future CWB payments if the initial payment for No. 1 CWRS 14.5 (the grade delivered) is increased above $191.80 per tonne.

Wheat example – feed grade delivery

The following grades must be applied to a feed grade wheat EPO: No. 4 CWRS, No. 4 CWHWS, No. 3 CWSWS, CW Feed.

On August 25 Joe Producer signs a 1000 tonne Series A delivery contract for No. 4 CWRS. By October 1 there is a 20 per cent call already in place for No 4 CWRS and Joe signs a 90 per cent feed wheat EPO on 200 tonnes (20 percent of what he knows he can deliver at this time) and begins to haul the 200 tonnes called.

To determine the EPV and additional payment, the PRO and initial payment values for the reference grade CW Feed are used in the following calculations:

Calculating the EPV

	$ per tonne	$ per bushel
PRO for CW Feed (reference grade)	$120.00	$3.27
EPV (90 per cent of the PRO)	**$108.00**	**$2.93**
Less: Discount	- $2.00	- $0.05
Net EPV price	$106.00	$2.89

Calculating the EPO additional payment

Additional payment = EPV – reference grade initial – discount + incremental payment

	$ per tonne	$ per bushel
EPV	$108.00	$2.93
Initial of reference grade	- $85.00	- $2.31
Discount	- $2.00	- $0.05
Incremental payment for October delivery	+ $0.30	+ $0.01
EPO additional payment	**$21.30**	**$0.58**

The initial payment for the grade delivered, No. 4 CWRS is $95.00 per tonne. The freight and elevation deductions are $47.00 per tonne.

Calculating Joe's total payments

	$ per tonne	$ per bushel
Initial payment of delivered grade (No. 4 CWRS)	$95.00	$2.59
EPO additional payment	+ $21.30	+ $0.58
Total payment	**$116.30**	**$3.17**
Less freight and elevation charges	- $47.00	- $1.28
Joe's net payments	**$69.30**	**$1.89**

The grain company issues the initial payment of $95.00 minus $47 per tonne for freight and elevation. The cash ticket and EPO contract number is reported to the CWB. An EPO additional payment of $21.30 per tonne is issued to Joe from the CWB within 10 business days.

Future CWB payments

Joe received an initial payment of $95.00 per tonne in store, plus the gross EPO additional payment of $23.00 (discount included, incremental payment not included) for a total gross payment of $118.00 per tonne. Joe is eligible for future CWB payments if the initial payment for No. 4 CWRS (the grade delivered) is increased above $118.00 per tonne.

Durum example

When considering an EPO for durum, remember the minimum delivery guarantee is to serve as a guide for producers when determining how much durum to sign up under an EPO contract.

No. 4 CWAD and No. 5 CWAD have their own respective EPO contracts and cannot be delivered against a milling durum EPO.

On October 1, Joe Producer signs a 1 000 tonne Series A delivery contract. Using the 60 per cent minimum delivery guarantee as a guide, he can commit up to 600 tonnes (1 000 tonnes x 60 per cent) towards an EPO contract. If the combined Series A, and B acceptance levels are less than 60 per cent, the minimum delivery guarantee will provide Joe with sufficient delivery opportunity to fulfil the EPO contract.

However, Joe only signs up 200 tonnes towards an EPO when the first 20 per cent call on Series A is announced. He can sign up additional tonnage towards an EPO later in the year as additional durum calls are announced.

Joe delivers all 200 tonnes in October, and applies the deliveries against his EPO contract with a 90 per cent EPV.

To determine the 90 per cent EPV and additional payment for durum, the PRO and initial payment values for the reference grade No. 1 CWAD 13.0 are used in the following calculations.

Calculating the EPV

	$ per tonne	$ per bushel
PRO for No. 1 CWAD 13.0 (reference grade)	$215.00	$5.85
EPV (90 per cent of the PRO)	**$193.50**	**$5.27**
Less: Discount	- $5.00	- $0.14
Net EPV price	$188.50	$5.13

Calculating the EPO additional payment

Additional payment = EPV – reference grade initial – discount + incremental payment

	$ per tonne	$ per bushel
EPV (90 per cent of reference grade PRO)	$193.50	$5.27
Initial of reference grade (No. 1 CWAD 13.0)	- $150.00	- $4.08
Discount	- $5.00	- $0.14
Incremental payment for delivery in October	+ $0.40	+ $0.01
EPO additional payment	**$38.90**	**$1.06**

The initial payment for the grade delivered No. 1 CWAD 14.5 is $160.00 per tonne. The freight and elevation deductions are $45 per tonne.

Calculating Joe's total payments

	$ per tonne	$ per bushel
Initial of delivered grade (No. 1 CWAD 14.5)	$160.00	$4.35
EPO additional payment	+ $38.90	+ $1.06
Total payment	**$198.90**	**$5.41**
Less freight and elevation	- $45.00	- $1.22
Joe's net payments	**$153.90**	**$4.19**

The grain company issues the initial payment of $160.00 minus $45.00 per tonne for freight and elevation. The cash ticket and EPO contract number is reported to the CWB. An EPO additional payment of $38.90 per tonne is issued to Joe from the CWB within 10 business days.

Future CWB payments

Joe received an initial payment of $160.00 per tonne in store plus the gross EPO additional payment of $43.50 per tonne (discount included, incremental payment not included) for a total gross payment of $203.50 per tonne. Joe is eligible for future CWB payments if the initial payment for No. 1 CWAD 14.5 (the grade delivered) is increased above $203.50 per tonne.

Durum example – Nos. 4 or 5 CWAD delivery

No. 4 CWAD and No. 5 CWAD must be applied against either a No. 4 CWAD EPO or No. 5 CWAD EPO contract.

Following a delayed harvest, Joe's durum is reduced in quality to No. 4 CWAD. He signs a 1 000 tonne Series A delivery contract, and also signs an EPO contract to increase his cash flow following delivery. Because his durum is not grading Nos. 1, 2, or 3, but instead No. 4 he must commit his production to a No.4 CWAD EPO. Using the 60 per cent minimum delivery guarantee as a guide, Joe can commit up to 600 tonnes (1 000 tonnes x 60 per cent) towards an EPO contract. If the combined Series A and B acceptance levels are less than 60 per cent, the minimum delivery guarantee will provide Joe with sufficient delivery opportunity to fulfil the EPO contract before the end of the crop year.

However, Joe only signs up 250 tonnes towards an EPO at this time and will deliver the entire contract against the first 25 per cent call on Series A. He can sign up additional tonnage towards an EPO later in the year as additional durum calls are announced.

Joe delivers all 250 tonnes in October, and applies the deliveries against his EPO contract with a 100 per cent EPV.

To determine the 100 per cent EPV and additional payment for durum, the PRO and initial payment values for the reference grade (No. 4 CWAD) are used in the following calculations.

Calculating the EPV

	$ per tonne	$ per bushel
PRO for No 4. CWAD (reference grade)	$135.00	$3.67
EPV (100 per cent of the PRO)	**$135.00**	**$3.67**
Less: Discount	- $6.50	- $0.18
Net EPV price	$128.50	$3.49

Calculating the EPO additional payment

Additional payment = EPV – reference grade initial – discount + incremental payment

	$ per tonne	$ per bushel
EPV (100 per cent of reference grade PRO)	$135.00	$3.67
Initial of reference grade (No. 4 CWAD)	- $100.00	- $2.72
Discount	- $6.50	- $0.18
Incremental payment for delivery in October	+ $0.25	+ $0.01
EPO additional payment	**$28.75**	**$0.78**

The initial payment for the grade delivered No. 4 CWAD is $100.00 per tonne. The freight and elevation deductions are $45 per tonne.

Calculating Joe's total payments

	$ per tonne	$ per bushel
Initial of delivered grade (No. 4 CWAD)	$100.00	$2.72
EPO additional payment	+ $28.75	+ $0.79
Total payment	**$128.75**	**$3.50**
Less freight and elevation charges	- $45.00	- $1.22
Joe's net payments	**$83.75**	**$2.28**

The grain company issues the initial payment of $100.00 minus $45.00 per tonne for freight and elevation. The cash ticket and EPO contract number is reported to the CWB. An EPO additional payment of $28.75 per tonne is issued to Joe from the CWB within 10 business days.

Future CWB payments

Joe received an initial payment of $100.00 per tonne in store plus the gross EPO additional payment of $35.00 per tonne (discount included, incremental payment not included) for a total gross payment of $135.00 per tonne. Joe is eligible for future CWB payments if the initial payment for No. 4 CWAD (the grade delivered) is increased above $135.00 per tonne.

Selected Barley example

Note: *If you participate in a "crop-share" lease agreement, both the producer and the landlord require their own separate selected barley EPO and selected barley storage and delivery contract(s). This condition pertains only to the selected barley EPO program.*

On September 22, Joe Producer's barley is selected for malt and he signs a selected barley storage and delivery contract for 500 tonnes. The selector indicates the contract can be delivered in October, so Joe also signs an EPO contract selecting the 90 per cent EPV on all 500 tonnes, providing him with increased cash flow following delivery. In October, Joe delivers 500 tonnes of Special Select two-row barley, and asks the selector to apply the deliveries against his selected barley storage and delivery contract.

The reference grade for two-row selected barley is Standard Select Two-Row. The PRO and initial payment value of the reference grade is used to calculate the EPV and additional payment.

Calculating the EPV (Two-row)

	$ per tonne	$ per bushel
September PRO (Standard Select Two-Row) (reference grade)	$175.00	$3.81
EPV (90 per cent of the PRO)	**$157.50**	**$3.43**
Less: Discount	- $2.00	- $0.04
Net EPV price	**$155.50**	**$3.39**

Calculating the EPO additional payment

Additional payment = EPV – reference grade initial – discount + incremental payment

	$ per tonne	$ per bushel
EPV	$157.50	$3.42
Initial of reference grade (Standard Select Two-Row)	- $128.00	- $2.78
Discount	- $2.00	- $0.04
Incremental payment for delivery in October	+ $0.25	+ $0.01
EPO additional payment	**$27.75**	**$0.61**

Calculating Joe's total payments

	$ per tonne	$ per bushel
Initial of delivered grade (Special Select Two-Row)	$130.00	$2.83
EPO additional payment	+ $27.75	+ $0.61
Total payment	**$157.75**	**$3.44**
Less freight and elevation charges	- $52.00	- $1.13
Joe's net payments	**$105.75**	**$2.31**

The initial payment for the grade delivered, Special Select Two-row is $130.00 per tonne or $2.83 per bushel (different from the reference grade). The freight and elevation deductions are $52.00 per tonne or $1.13 per bushel. The deliveries are applied and the cash tickets reported to the CWB using the selected barley delivery and storage contract number. An EPO additional payment of $27.75 per tonne is issued to Joe from the CWB within 10 business days.

Future CWB payments

Joe received an initial payment of $130.00 per tonne in store plus the gross EPO additional payment of $29.50 per tonne (discount included, incremental payment not included) for a total gross payment of $159.50 per tonne. Joe is eligible for future CWB payments if the initial payment for Special Select Two-Row (the grade delivered) is increased above $159.50 per tonne.

Feed barley payment

The EPV and discount for EPO contracts signed up during Pool A are based on the PRO for Pool A, and are eligible to receive future CWB payments if that final pool return exceeds the producer's EPV. Similarly, EPOs signed up from February 1, 2007 to July 31, 2007 are priced against Pool B.

Feed barley example

On August 28, Joe Producer finishes harvesting 200 tonnes of feed barley. On September 1, he signs a 100 tonne feed barley GDC that guarantees delivery before November 30. Joe also signs an EPO locking in a 90 per cent EPV at $121.50 per tonne and the discount at $3.00 per tonne. The CWB issues an authorization letter on October 14 advising Joe to deliver the contract within 30 days.

Joe delivers the entire contract on October 31 and asks the elevator manager to apply the deliveries to his EPO for payment.

To determine Joe's payments, the PRO and initial payment values for the reference grade No. 1 CW Barley are used to determine the EPV and additional payment.

Calculating the EPV

	$ per tonne	**$ per bushel**
PRO for No. 1 CW Barley (reference grade)	$135.00	$2.94
EPV (90 per cent of the PRO)	**$121.50**	**$2.65**
Less: Discount	- $3.00	- $0.07
Net EPV	**$118.50**	**$2.58**

Calculating the EPO additional payment

Additional payment = EPV – reference grade initial – discount + incremental payment

	$ per tonne	$ per bushel
EPV (90 per cent of the reference grade PRO)	$121.50	$2.65
Initial payment, for reference grade, No. 1 CW	- $87.75	- $1.91
Discount	- $3.00	- $0.07
Incremental payment for delivery in October	+ $0.25	+ $0.01
EPO additional payment	**$31.00**	**$0.68**

Calculating Joe's total payments

	$ per tonne	$ per bushel
Initial payment of grade delivered (No. 1 CW Barley)	$87.75	$1.91
EPO additional payment	+ $31.00	+ $0.68
Total payment	**$118.75**	**$2.59**
less freight and elevation	- $55.00	- $1.20
Joe's net payments	**$63.75**	**$1.39**

The grain company issues the initial payment of $87.75, minus $55.00 per tonne for freight and elevation. The cash tickets are applied to the GDC and the deliveries reported to the CWB. An EPO additional payment of $31.00 per tonne is issued to Joe from the CWB within 10 business days.

Future CWB payments

Joe received an initial payment of $87.75 per tonne in store plus the gross EPO additional payment of $33.75 per tonne (discount included, incremental payment not included) for a total gross payment of $121.50 per tonne. Joe is eligible for future CWB payments if the initial payment for No. 1 CW Barley (the grade delivered) is increased above $121.50 per tonne.

Overpayment situations

EPO overpayment

EPO overpayments occur when:

1. The initial payment of the reference grade is increased above the EPV before application of deliveries.
2. The EPO additional payment is not sufficient to repay the EPO discount.

If the initial payment for the reference grade is increased above a producer's EPV, an EPO additional payment will not be issued from the CWB following delivery. The EPO discount is deducted from EPO additional payments and, since one is not generated, the discount remains uncollected. Technically the producer is in an overpayment situation requiring the discount to be collected from future CWB storage, adjustment, interim, final or PPO payment(s).

Example:

A producer signs a 100 tonne 80 per cent EPO contract locking in the EPV at $156 per tonne and the discount at $2.50 per tonne.

On August 10, the producer delivers 50 tonnes of No. 1 CWRS 13.5 and receives the initial payment of $136.20 per tonne in store. The delivery is applied to the EPO contract and reported to the CWB.

EPO additional payment calculation:

	$ per tonne
80 per cent EPV	$156.00
Initial payment of reference grade (No. 1 CWRS 13.5)	- $136.20
Discount	- $2.50
Incremental payment for delivery in August	+ $0.00
EPO additional payment	**$17.30**

The CWB issues an EPO additional payment for $19.80 per tonne minus $2.50 for the discount for a net additional payment of $17.30 per tonne. Since the discount was collected from the additional payment, an overpayment did not occur.

On November 10, the producer delivers the remaining 50 tonnes and applies the delivery to the EPO contract. The initial payment is increased and the producer receives $160.00 per tonne in store for the No. 1 CWRS 13.5 delivery.

EPO additional payment calculation:

	$ per tonne	
80 per cent EPV	$156.00	
Initial payment of reference grade (No. 1 CWRS 13.5)	- $160.00	
	- $4.00	EPV exceeded by initial payment

The November delivery does not generate an EPO additional payment because the reference grade initial payment has exceeded the EPV. Since the discount cannot be collected following delivery, an overpayment has occurred. The producer will be deducted the cost of the discount less the incremental payment rate for delivery in November ($2.50 – $0.30 = $2.20 per tonne) from the next CWB payment.

When an EPO contract no longer produces a cash flow benefit, producers may want to consider buying out the balance of the contract.

(See section: Market strategies and Pricing damages and liquidated damages for more details)

Additional EPO program details

Durum minimum delivery guarantee

To guide producers when they are determining how much of their crop to commit to a durum EPO, the CWB will announce a minimum delivery guarantee prior to the start of the program. Since durum acceptance levels can be less than 100 per cent, the CWB will guarantee producers who sign an EPO for durum that 60 per cent of the tonnes offered under the 2006-07 durum delivery contracts will be accepted up to a maximum of their EPO tonnage. The EPO for durum is a pricing option only with no delivery terms and producers must sign CWB delivery contracts. If acceptance of both delivery contracts series combined is less than 60 per cent, the producer will receive delivery authorization at the end of the crop year to fulfill the EPO if all delivery opportunities have been maximized.

Producers must maximize their delivery opportunity by offering enough production on Series A and the remaining production on subsequent series to meet the minimum delivery guarantee used for the tonnage committed to the EPO. This does not include rollover or unaccepted tonnes offered on subsequent delivery contract series.

Example:

A producer offers 1 000 tonnes of durum to a Series A delivery contract. Based on the minimum delivery guarantee of 60 per cent for the durum EPO, the producer should not contract more than a maximum of 600 tonnes (1 000 tonnes x 60 per cent) towards an EPO contract.

Sign-up tonnes and acceptance levels:

Series	Sign-up Tonnage	*Acceptance level	Tonnes accepted
A	1 000	50 per cent	500
B	500 roll	0	0
Total accepted			500

** Numbers used for illustration purposes only*

Acceptance levels for the crop year total 50 per cent for both series combined. Without the minimum delivery guarantee, the producer would only be able to deliver 500 tonnes against the EPO contract, and would be assessed pricing damages on the remaining 100 tonnes. With the minimum delivery guarantee, a special delivery provision will be granted to the producer to deliver an extra 100 tonnes following the announcement of Series B acceptance. This will bring the acceptance level up from 50 to 60 per cent. The 100 tonnes can now be used to fill the EPO contract.

Pricing and liquidated damages

Producers must deliver 100 per cent of the tonnage that they commit to an EPO. Failure to do so results in the assessment of pricing damages on any shortfall tonnage. Damages are assessed at the end of the crop year, on July 31.

Pricing damages are equal to the buyout rate and are calculated using the following formula:

Pricing damages, "buyout rate" = EPO discount - time value of money + $15 administration per transaction

Pricing damages are charged to ensure the CWB recovers the hedging costs associated with the discount. The EPO pricing damages are fixed and will not change in value following contract commitment.

The buyout will remove producers of their EPO commitment but does not release them of their GDC and delivery contracts. These contracts have a minimum delivery performance clause of 90 per cent. If less than 90 per cent is delivered, the shortfall is subject to liquidated ("delivery") damages. Liquidated damages can range from $6.00 to $25.00 per tonne depending on the pool.

Producers wanting to cancel their pricing contract due to production shortfall can choose either a partial buyout or complete buyout. The producer initiates the buyout by calling the CWB, and providing their Personal Identification Number (PIN). A CWB Representative can quote the buyout value.

Assignments – Contract transfers between producers

If producers wish to reduce their EPO, they can complete a transfer. Transfers involve completing an assignment form, available from the CWB, and assigning all or a portion of their contracted tonnage to another producer. The CWB will fax or mail the form along with a copy of the contract statement of information and the terms and conditions to the original contract holder. The contract statement of information and terms and conditions must be provided to the producer assigned the contract.

The contract number and tonnage to be transferred must be specified on the form and signed by the assignor (producer transferring the contract) and assignee (producer taking on the contract). The form can be faxed or mailed back to the CWB. A new contract, contract number and contract statement of information will be issued to the assignee. The assignor will also receive an updated contract indicating the reduced tonnage or, if the contract was completely transferred, the assignor will receive an updated contract statement of information. Transfers must be at least 20 tonnes or the balance remaining on the contract.

The transfer transaction carries an administration fee of $15 payable by the assignor. Producers wanting to transfer their EPO can contact the CWB for possible matching opportunities, but the producer is responsible for completing the assignment.

EPO transfers to (and from) feed grade EPO contracts

Producers who signed a wheat, durum, or selected barley EPO and their grain is later downgraded to a feed grade (or signed a feed grade EPO and their grain is later upgraded to milling or malting quality) have the following options:

1. Assign the contract to another producer
2. Buyout of the contract
3. Transfer a wheat, durum or selected barley EPO to a feed grade EPO; or transfer a feed grade wheat, durum or barley EPO to a regular wheat, durum or selected barley EPO.

If the third option is chosen, an EPO transfer fee will be assessed. The transfer fee is based on the EPO discount of both classes and measures the arbitrage cost for switching between feed and non-feed classes. In addition, a risk premium (also referred to as the "roll fee") will also be charged to cover the CWB's additional risk associated with transferring the contract. The risk premium cost is set at $1.00 per tonne for 100 per cent EPVs, $0.50 per tonne for 90 per cent EPVs and $0.25 per tonne for 80 per cent EPVs. A $15 per transaction administration fee will also be assessed.

EPO Transfer Fee:

{(original discount of the existing EPO – current discount of the existing EPO) + (current discount of the transfer class - original discount of the transfer class)} If negative, then $0.

Plus applicable roll fee and $15 per transaction administration charge

Transfers must be of the same tonnage and EPV level. For example if a producer wants to transfer a 50 tonne feed barley EPO, the selected barley EPO contract also has to be 50 tonnes. If the producer has more than 50 tonnes of barley selected and wished to have an EPO for the entire amount, a second EPO contract can be signed up at current market values to cover the additional tonnes.

Once the transfer is completed, the original EPO contract will be cancelled, and the producer will receive an EPO contract for the other class. The EPO contract will be priced based on the values posted on the date the original EPO contract was signed up. The transfer fee and risk premium is added to the EPO discount cost of the new contract, and will be deducted from the producer's next CWB payment.

How to perform the transfer

The transfer can be completed by calling the CWB, providing that the producer has a Personal Identification Number (PIN). A CWB Business Centre Representative can quote a value.

Feed barley and selected barley EPO transfers

If a transfer is from feed barley to selected barley the producer will receive the selected barley EPV and discount that were available on the date the feed barley EPO was originally locked in.

If the transfer is from selected barley to feed barley, the producer will receive the feed barley EPV and discount that was available on the date the selected barley EPO was signed up. If the transfer occurs after January 31, during feed barley Pool B, the producer is still eligible to receive a feed barley EPV and discount that were established during Pool A, but will receive the initial payment for feed barley Pool B. The producer is eligible for future CWB payments if the final pool value of Pool B exceeds the EPV.

The quality transfer only applies to the EPO commitment. Producers can complete a Rejected Selected Barley Form to transfer the delivery commitment. In the case of a feed barley GDC, the misgrade must be completed prior to expiration of the 30 day delivery period.

Selected barley transferred to feed barley

Example:

Date	Action	Class	EPV ($ per tonne)	Discount ($ per tonne)
August 15	Original value	90 per cent two-row	$225.00	$7.00
	Original value	90 per cent feed	$135.00	$4.00
October 1	Current value	90 per cent two-row	$225.00	$5.00
	Current value	90 per cent feed	$135.00	$5.00

* For illustration purposes only

In this example, a producer signed up selected barley EPO contract on August 15 locking in an EPV of $225 per tonne and a discount cost of $7.00 per tonne. On October 1, the producer contacted the CWB advising that the barley had been downgraded to feed and he or she wants to transfer to a feed barley EPO.

EPO transfer fee calculation:

{(original selected barley discount – current selected barley discount) + (current feed barley discount - original feed barley discount)} If negative, then 0.

Plus $0.50 per tonne roll fee, and $15 per transaction administration charge

Total cost to transfer:

{($7-$5)+($5-$4)} + $0.50 per tonne roll fee = $3.50 per tonne, plus $15 per transaction fee

The selected barley EPO contract is now cancelled and the producer receives the feed barley EPV and discount that were in effect on August 15.

Contract summary:

Original Feed barley EPV =	$135 per tonne
Original Feed EPO Discount =	$4.00 per tonne
EPO Transfer fee =	$3.50 per tonne
Net EPV = $135.00 - $7.50 =	$127.50 per tonne minus $15 per transaction administration fee

Feed barley transferred to selected barley

A producer signed up a feed barley EPO contract on August 15 locking in an EPV of $135 per tonne and a discount cost of $4.00 per tonne. On October 10, the producer contacted the CWB advising that the barley had been selected for malt and he or she wants to transfer to a selected barley EPO.

EPO transfer fee calculation:

{(original feed barley discount – current feed barley discount) +
(current selected barley discount - original selected barley discount)} If negative, then 0.

Plus $0.50 per tonne roll fee, and $15 per transaction administration charge

Total cost to transfer:

{($4-$5)+($5-$7)} + $0.50 per tonne roll fee = $0.50 per tonne, plus $15 per transaction fee

The feed barley EPO contract is now cancelled, and the producer receives the selected barley EPV and discount that were in effect on August 15.

Contract summary:

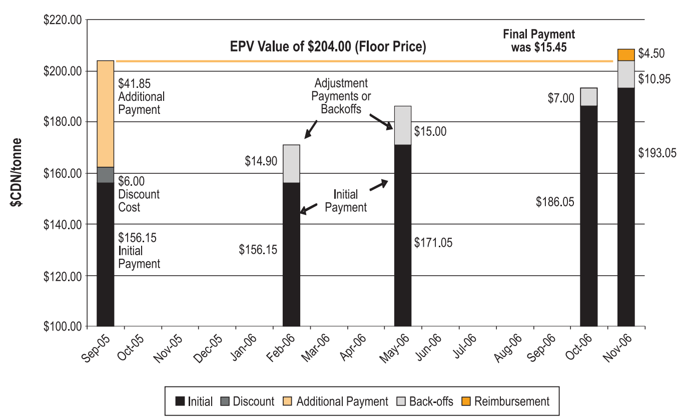
Original selected barley EPV =	$225 per tonne
Original selected EPO Discount =	$4.00 per tonne
EPO Transfer fee =	$0.50 per tonne
Net EPV = $225.00 - $4.50 =	$220.50 per tonne minus $15 per transaction administration fee

Transfer of a feed barley EPO to selected barley EPO must be exercised prior to the expiry of the producer's 30-day GDC delivery period.

EPO Back-off

The EPO back-off portion of a producers payment accounts for the portion of the EPV that is still a greater value than any adjustment, interim, or final payment that is being paid out. The gross value of the EPO additional payment is used to calculate the EPO back-off, not the net value. Every delivery against the EPO contract must account for the discount (or "back-off" the discount), if the net value was used to calculate the back-off then the discount would not be accounted for. The chart to the right illustrates EPO back-off and reimbursement when the final PRO is above the EPV or floor price. The only difference between the final pool return and the EPO is the $6.00/tonne discount for the EPO.

EPO Back-off Example for No. 1 CWRS 13.5
EPV of $204 (Sept. 1 delivery) and Final Pool Return of $208.50



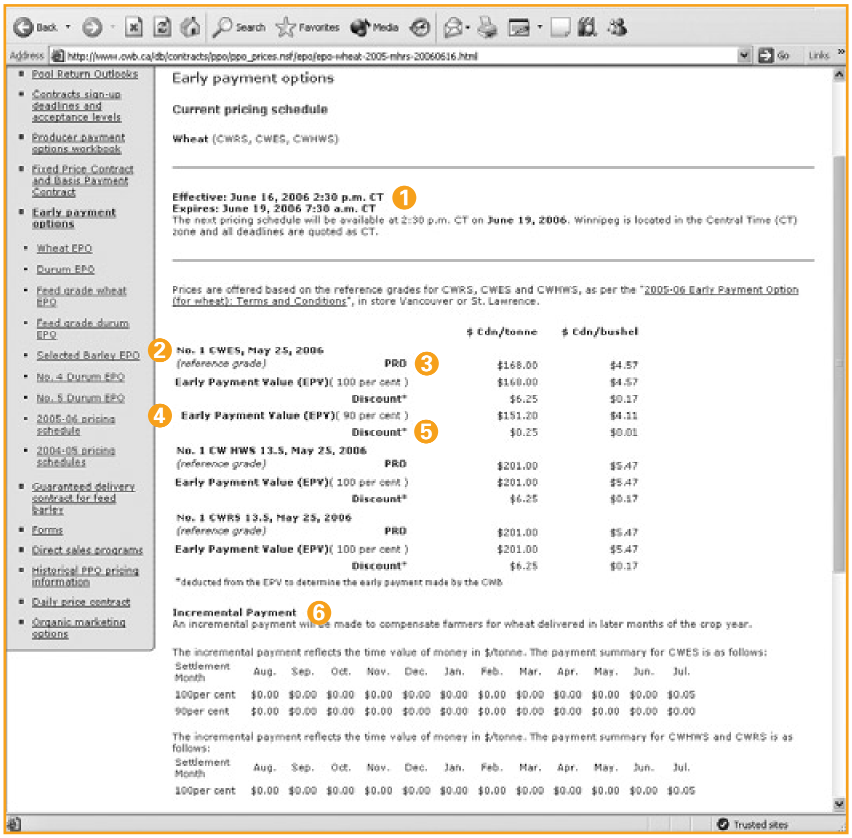
Prices and sign-up

Important dates and times to remember

The sign-up period for the EPO program is:

August 1, 2006 – July 31, 2007*

* The lower EPV levels will be withdrawn when the initial payment for the reference grades are increased during the crop year and approach or exceed the current EPV price.



Address http://www.cwb.ca/db/contracts/ppo/ppo_prices.nsf/epo/epo-wheat-2005-nhrs-20060616.html

- Pool Return Outlooks
- Contracts sign-up deadlines and acceptance levels
- Producer payment options workbook
- Fixed Price Contract and Basis Payment Contract
- Early payment options
  - Wheat EPO
  - Durum EPO
  - Feed grade wheat EPO
  - Feed grade durum EPO
  - Selected Barley EPO
  - No. 4 Durum EPO
  - No. 5 Durum EPO
  - 2005-06 pricing schedule
  - 2004-05 pricing schedules
- Guaranteed delivery contract for feed barley
- Forms
- Direct sales programs
- Historical PPO pricing information
- Daily price contract
- Organic marketing options

Early payment options

Current pricing schedule

Wheat (CWRS, CWES, CWHWS)

Effective: June 16, 2006 2:30 p.m. CT 1
Expires: June 19, 2006 7:30 a.m. CT
The next pricing schedule will be available at 2:30 p.m. CT on **June 19, 2006**. Winnipeg is located in the Central Time (CT) zone and all deadlines are quoted as CT.

Prices are offered based on the reference grades for CWRS, CWES and CWHWS, as per the "2005-06 Early Payment Option (for wheat): Terms and Conditions", in store Vancouver or St. Lawrence.

		$ Cdn/tonne	$ Cdn/bushel
2 **No. 1 CWES, May 25, 2006** *(reference grade)*	**PRO** 3	$168.00	$4.57
Early Payment Value (EPV)(100 per cent)		$168.00	$4.57
	Discount*	$6.25	$0.17
4 **Early Payment Value (EPV)**(90 per cent)		$151.20	$4.11
	Discount* 5	$0.25	$0.01
No. 1 CW HWS 13.5, May 25, 2006 *(reference grade)*	**PRO**	$201.00	$5.47
Early Payment Value (EPV)(100 per cent)		$201.00	$5.47
	Discount*	$6.25	$0.17
No. 1 CWRS 13.5, May 25, 2006 *(reference grade)*	**PRO**	$201.00	$5.47
Early Payment Value (EPV)(100 per cent)		$201.00	$5.47
	Discount*	$6.25	$0.17

*deducted from the EPV to determine the early payment made by the CWB

Incremental Payment 6
An incremental payment will be made to compensate farmers for wheat delivered in later months of the crop year.

The incremental payment reflects the time value of money in $/tonne. The payment summary for CWES is as follows:

Settlement Month	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.
100per cent	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.05
90per cent	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

The incremental payment reflects the time value of money in $/tonne. The payment summary for CWHWS and CWRS is as follows:

Settlement Month	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.
100per cent	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.05

Trusted sites

EPO pricing schedule

A separate pricing schedule is posted for each class of grain. There are four wheat EPO schedules. One schedule includes the classes CWRS, CWHWS and CWES, another lists CPSR, CPSW and CWRW, the third schedule includes the CWSWS wheat class, and the fourth covers feed wheat. There are three pricing schedules for barley (six-row, two-row, and feed) as well as three schedules for durum (milling, No. 4, and No. 5).

The pricing schedules are posted each business day at 2:30 p.m. CT and are effective until 7:30 a.m. CT the next business day.

The pricing schedules during the sign-up period of the program will include the following details:

1. Effective and expiry dates for the current pricing schedule;
2. Reference grade for each class of grain;
3. Current reference grade PRO value for each class of grain;
4. EPV's available for each class, posted in $ Cdn/tonne and $ Cdn/bushel;
5. EPV discount for each level;
6. Incremental payments.

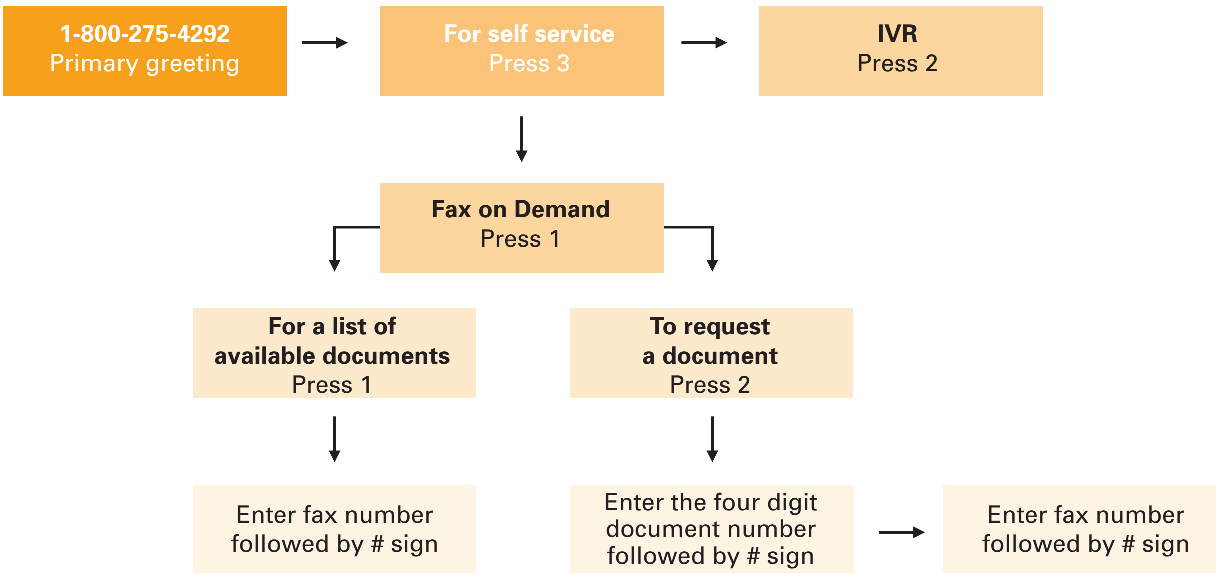
Where do I find the daily pricing schedule?

Pricing schedules for all EPO eligible classes of grain are available on the CWB web site at http://www.cwb.ca

These prices are also available by calling the CWB at 1-800-275-4292 and using the self service menu to access Fax on Demand service 24 hours a day, seven days a week.

Producers can also contact the CWB Business Centre at 1-800-275-4292 between 7:00 a.m. and 6:00 p.m. where a customer service representative can quote the effective prices.

Interactive Voice Response (IVR) Menu for Fax on Demand



Sign-up methods

The most convenient method of sign-up is by telephone. With a PIN (available from the CWB) and a producer identification number (on the delivery permit book), producers can commit tonnes to any of our PPO programs by calling 1-800-275-4292. Upon completing the transaction, the producer will receive his/her contract number from the CWB representative.

Forms are also available on-line, through Fax on Demand, or by contacting the CWB at 1-800-275-4292 or your local CWB Farm Business Representative. These forms must be completed and signed and then returned by facsimile to the CWB. The price assigned to the contract will be based on the time that is printed on the facsimile when it arrives in the CWB office.

To download forms on-line, go to www.cwb.ca.

The posted sign-up price is available daily between 2:30 p.m. and 7:30 a.m. CT the following business day. Forms received after 7:30 a.m. will receive the next available value posted at 2:30 p.m. and incomplete forms will receive the value in effect at the time the information is verified with the producer.

Producers must commit a minimum of 20 tonnes to any of the PPO programs.

Terms and conditions

Prior to making a commitment, producers should be familiar with the terms and conditions of the contract. They are available on the CWB web site, by Fax on Demand or by calling the CWB Business Centre at 1-800-275-4292.

The definitions, sign-up methods, obligations, pricing information and provisions of the contract are described in the terms and conditions.

As with all PPO programs, the CWB can terminate sign-up at any time and without notice.

The following IVR path allows elevator managers access to PPO contract numbers so that EPO payments can be applied with greater efficiency and accuracy.

PPO Contract Number IVR Path for Elevators

1-800-718-4033

Enter your nine digit delivery point code, if correct press 1, to re-enter press 2.

→

Please enter the ten digit Producer Identification Number. If this is correct press 1, to re-enter press 2.

→

The following menu is tailored to which programs were found, only those programs found will be listed.

→

Which program do you want?
- For Early Payment Option press 1
- For Fixed Price Contract press 2
- For Basis payment Contract press 3
- For Daily Price Contract press 4

→

The following contracts are on file: Class (program description, pool period, PRO per cent), contract number, tonnes, and tonnes outstanding.

→

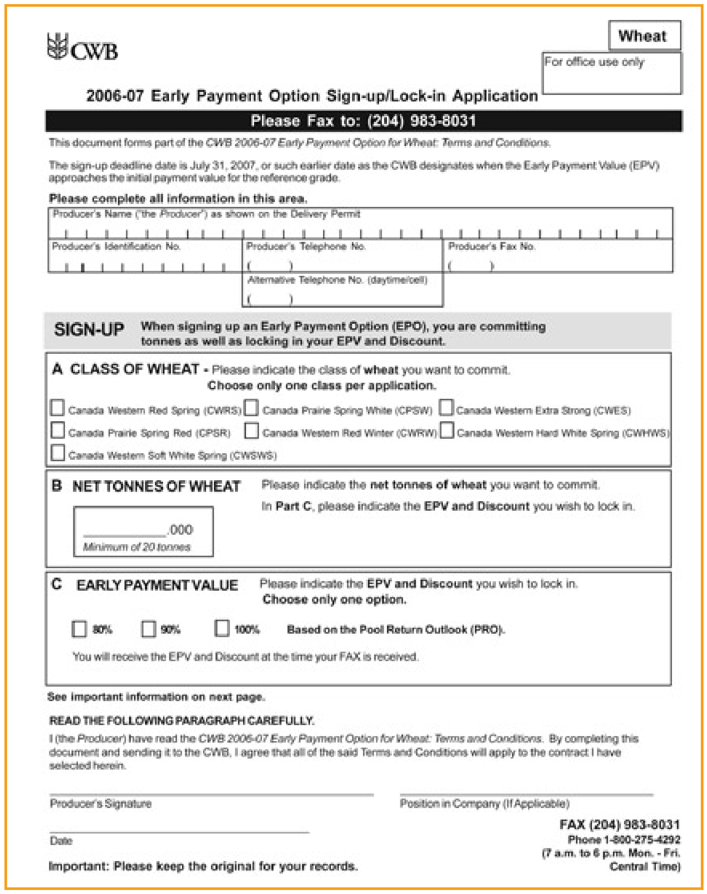
To repeat this information press 1.
To enter a new Producer Identification Number press 2.
To exit this system press 3.

Forms and how to complete them

How to sign up

Instructions for EPO for wheat

Please refer to "2006-07 Early Payment Option Sign-up/Lock-in Application" form for wheat.



Wheat

For office use only

2006-07 Early Payment Option Sign-up/Lock-in Application

Please Fax to: (204) 983-8031

This document forms part of the *CWB 2006-07 Early Payment Option for Wheat: Terms and Conditions.*

The sign-up deadline date is July 31, 2007, or such earlier date as the CWB designates when the Early Payment Value (EPV) approaches the initial payment value for the reference grade.

Please complete all information in this area.

Producer's Name ("the *Producer*") as shown on the Delivery Permit

Producer's Identification No.

Producer's Telephone No. (   )

Producer's Fax No. (   )

Alternative Telephone No. (daytime/cell) (   )

SIGN-UP **When signing up an Early Payment Option (EPO), you are committing tonnes as well as locking in your EPV and Discount.**

A CLASS OF WHEAT - Please indicate the class of **wheat** you want to commit. **Choose only one class per application.**

☐ Canada Western Red Spring (CWRS) ☐ Canada Prairie Spring White (CPSW) ☐ Canada Western Extra Strong (CWES)
☐ Canada Prairie Spring Red (CPSR) ☐ Canada Western Red Winter (CWRW) ☐ Canada Western Hard White Spring (CWHWS)
☐ Canada Western Soft White Spring (CWSWS)

B NET TONNES OF WHEAT Please indicate the **net tonnes of wheat** you want to commit.

In **Part C**, please indicate the **EPV and Discount** you wish to lock in.

______.000
Minimum of 20 tonnes

C EARLY PAYMENT VALUE Please indicate the **EPV and Discount** you wish to lock in. **Choose only one option.**

☐ 80% ☐ 90% ☐ 100% **Based on the Pool Return Outlook (PRO).**

You will receive the EPV and Discount at the time your FAX is received.

See important information on next page.

READ THE FOLLOWING PARAGRAPH CAREFULLY.

I (the *Producer*) have read the *CWB 2006-07 Early Payment Option for Wheat: Terms and Conditions.* By completing this document and sending it to the CWB, I agree that all of the said Terms and Conditions will apply to the contract I have selected herein.

Producer's Signature

Position in Company (If Applicable)

Date

FAX (204) 983-8031
Phone 1-800-275-4292
(7 a.m. to 6 p.m. Mon. - Fri. Central Time)

Important: Please keep the original for your records.

Producer's name

In this section, enter the name of the producer as it appears on the CWB delivery permit, along with the corresponding producer identification number. For example, if producer Joe Producer is filling out an EPO contract for Joe Producer Farms Inc., then Joe Producer Farms Inc. must appear in this section.

Producer's telephone number(s)

It is very important to provide the producer's telephone number, alternative number and fax number so the CWB can contact the producer if there is an error on the form. If the producer cannot be contacted before 8:30 a.m. CT, the contract will not be processed.

How to obtain an EPO for wheat:

Section A

Mark the appropriate box for wheat class in Section A and then proceed to Section B.

Section B

Enter the amount of tonnes in Section B and then proceed to Section C.

- Remember that commitments must be a minimum of 20 tonnes and any amount thereafter. Tonnage must be reported in whole numbers (no decimals) to avoid processing errors. This will ensure values are clear for efficient processing of the contract.
- If less than 20 tonnes is entered, the CWB will attempt to contact the producer upon receiving the fax to advise the contract cannot be processed. At this time the producer will be asked if the contract should be increased to the 20 tonne minimum.
- If the producer cannot be reached before 8:30 a.m. CT, the contract will not be processed.

Section C

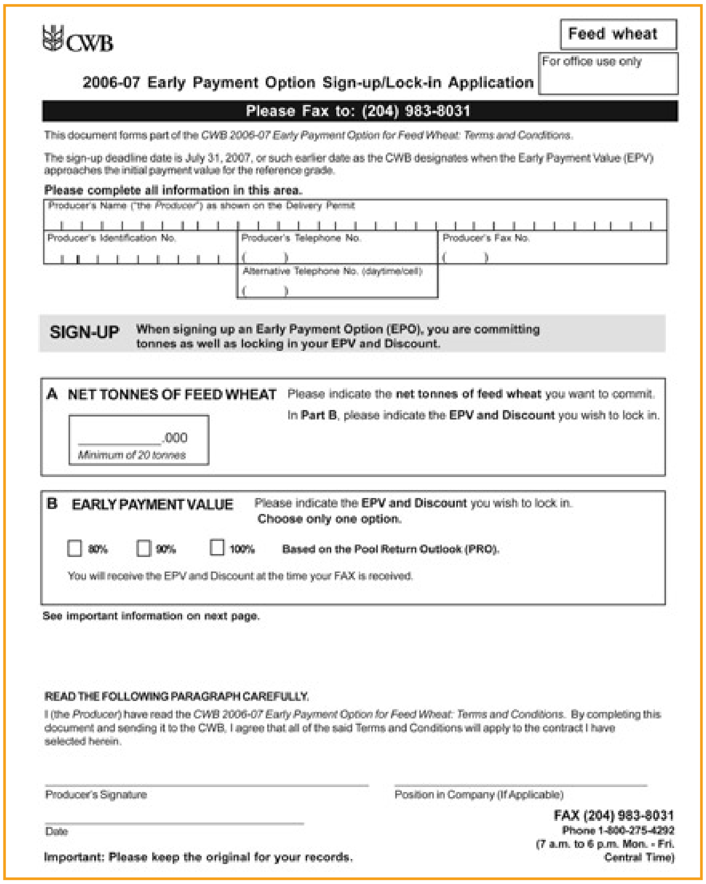
Mark the EPV per cent of your choice. Choose only one and proceed to Producer's Signature section.

Producer's signature:

All contracts received by the CWB must be signed by the producer indicated on the form. Contracts that are unsigned will not be processed until the CWB can contact the producer for verification. For company applications, the producer must indicate the position held within the company.

By signing the application, producers have agreed to all the accompanying terms and conditions. Elevator staff must provide a copy of the terms and conditions to producers applying for a contract.

Reminder: Wheat grading No. 4 CWRS, No. 4 CWHWS, No. 3 CWSWS, and CW Feed must be signed up under a *Feed Grade wheat EPO* contract.



CWB

Feed wheat

For office use only

2006-07 Early Payment Option Sign-up/Lock-in Application

Please Fax to: (204) 983-8031

This document forms part of the *CWB 2006-07 Early Payment Option for Feed Wheat: Terms and Conditions.*

The sign-up deadline date is July 31, 2007, or such earlier date as the CWB designates when the Early Payment Value (EPV) approaches the initial payment value for the reference grade.

Please complete all information in this area.

Producer's Name ("the *Producer*") as shown on the Delivery Permit

Producer's Identification No. | Producer's Telephone No. ( ) | Producer's Fax No. ( )

Alternative Telephone No. (daytime/cell) ( )

SIGN-UP **When signing up an Early Payment Option (EPO), you are committing tonnes as well as locking in your EPV and Discount.**

A NET TONNES OF FEED WHEAT Please indicate the **net tonnes of feed wheat** you want to commit. In **Part B**, please indicate the **EPV and Discount** you wish to lock in.

______.000
Minimum of 20 tonnes

B EARLY PAYMENT VALUE Please indicate the **EPV and Discount** you wish to lock in. **Choose only one option.**

☐ 80% ☐ 90% ☐ 100% **Based on the Pool Return Outlook (PRO).**

You will receive the EPV and Discount at the time your FAX is received.

See important information on next page.

READ THE FOLLOWING PARAGRAPH CAREFULLY.
I (the *Producer*) have read the *CWB 2006-07 Early Payment Option for Feed Wheat: Terms and Conditions.* By completing this document and sending it to the CWB, I agree that all of the said Terms and Conditions will apply to the contract I have selected herein.

Producer's Signature

Position in Company (If Applicable)

Date

FAX (204) 983-8031
Phone 1-800-275-4292
(7 a.m. to 6 p.m. Mon. - Fri. Central Time)

Important: Please keep the original for your records.

Instructions for Feed grade wheat EPO

Please refer to "2006-07 Early Payment Option Sign-up/Lock-in Application" form for feed grade wheat.

Producer's name

In this section, enter the name of the producer as it appears on the CWB delivery permit, along with the corresponding producer identification number. For example, if producer Joe Producer is filling out an EPO contract for Joe Producer Farms Inc., then Joe Producer Farms Inc. must appear in this section.

Producer's telephone number(s)

It is very important to provide the producer's telephone number, alternative number and fax number so the CWB can contact the producer if there is an error on the form. If the producer cannot be contacted before 8:30 a.m. CT, the contract will not be processed.

How to obtain an EPO for feed grade wheat:

Section A

Enter the amount of tonnes in Section A and then proceed to section B.

- Remember that commitments must be a minimum of 20 tonnes and any amount thereafter. Tonnage must be reported in whole numbers (no decimals) to avoid processing errors. This will ensure values are clear for efficient processing of the contract.
- If less than 20 tonnes is entered, the CWB will attempt to contact the producer upon receiving the fax to advise the contract cannot be processed. At this time the producer will be asked if the contract should be increased to the 20 tonne minimum.
- If the producer cannot be reached before 8:30 a.m. CT, the contract will not be processed.

Section B

Mark the EPV per cent of your choice. Choose only one and proceed to Producer's Signature section.

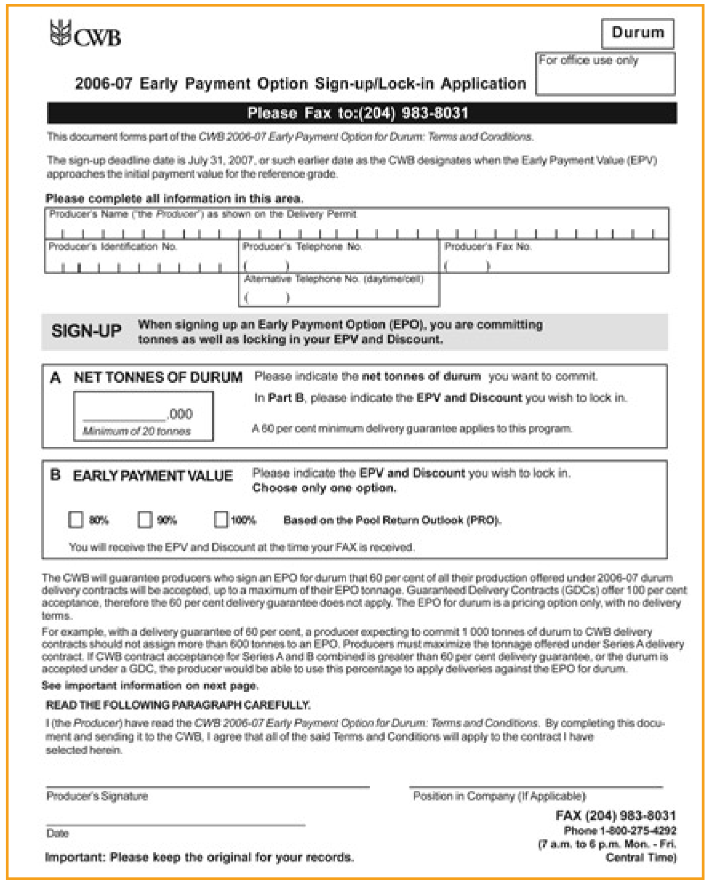
Producer's signature:

All contracts received by the CWB must be signed by the producer indicated on the form. Contracts that are unsigned will not be processed until the CWB can contact the producer for verification. For company applications, the producer must indicate the position held within the company.

By signing the application, producers have agreed to all the accompanying terms and conditions. Elevator staff must provide a copy of the terms and conditions to producers applying for a contract.

Instructions for EPO for durum

Please refer to "2006-07 Early Payment Option Sign-up/Lock-in Application" form for durum.



CWB

Durum

For office use only

2006-07 Early Payment Option Sign-up/Lock-in Application

Please Fax to:(204) 983-8031

This document forms part of the *CWB 2006-07 Early Payment Option for Durum: Terms and Conditions.*

The sign-up deadline date is July 31, 2007, or such earlier date as the CWB designates when the Early Payment Value (EPV) approaches the initial payment value for the reference grade.

Please complete all information in this area.

Producer's Name ("the *Producer*") as shown on the Delivery Permit

Producer's Identification No. | Producer's Telephone No. ( ) | Producer's Fax No. ( )

Alternative Telephone No. (daytime/cell) ( )

SIGN-UP **When signing up an Early Payment Option (EPO), you are committing tonnes as well as locking in your EPV and Discount.**

A NET TONNES OF DURUM Please indicate the **net tonnes of durum** you want to commit.

In **Part B**, please indicate the **EPV and Discount** you wish to lock in.

________.000 *Minimum of 20 tonnes*

A 60 per cent minimum delivery guarantee applies to this program.

B EARLY PAYMENT VALUE Please indicate the **EPV and Discount** you wish to lock in. **Choose only one option.**

☐ 80% ☐ 90% ☐ 100% **Based on the Pool Return Outlook (PRO).**

You will receive the EPV and Discount at the time your FAX is received.

The CWB will guarantee producers who sign an EPO for durum that 60 per cent of all their production offered under 2006-07 durum delivery contracts will be accepted, up to a maximum of their EPO tonnage. Guaranteed Delivery Contracts (GDCs) offer 100 per cent acceptance, therefore the 60 per cent delivery guarantee does not apply. The EPO for durum is a pricing option only, with no delivery terms.

For example, with a delivery guarantee of 60 per cent, a producer expecting to commit 1 000 tonnes of durum to CWB delivery contracts should not assign more than 600 tonnes to an EPO. Producers must maximize the tonnage offered under Series A delivery contract. If CWB contract acceptance for Series A and B combined is greater than 60 per cent delivery guarantee, or the durum is accepted under a GDC, the producer would be able to use this percentage to apply deliveries against the EPO for durum.

See important information on next page.

READ THE FOLLOWING PARAGRAPH CAREFULLY.

I (the *Producer*) have read the *CWB 2006-07 Early Payment Option for Durum: Terms and Conditions.* By completing this document and sending it to the CWB, I agree that all of the said Terms and Conditions will apply to the contract I have selected herein.

Producer's Signature

Position in Company (If Applicable)

Date

FAX (204) 983-8031
Phone 1-800-275-4292
(7 a.m. to 6 p.m. Mon. - Fri. Central Time)

Important: Please keep the original for your records.

Producer's name

In this section, enter the name of the producer as it appears on the CWB delivery permit, along with the corresponding producer identification number. For example, if producer Joe Producer is filling out an EPO contract for Joe Producer Farms Inc., then Joe Producer Farms Inc. must appear in this section.

Producer's telephone number(s)

It is very important to provide the producer's telephone number, alternative number and fax number so the CWB can contact the producer if there is an error on the form. If the producer cannot be contacted before 8:30 a.m. CT, the contract will not be processed.

How to obtain an EPO for durum:

Section A

Enter the amount of tonnes in Section A and then proceed to Section B.

Commitments must be a minimum of 20 tonnes and any amount thereafter. Tonnage must be reported in whole numbers (no decimals) to avoid processing errors. This will ensure values are clear for efficient processing of the contract.

If less than 20 tonnes are entered, the CWB will attempt to contact the producer upon receiving the fax to advise the contract cannot be processed. At this time, the producer will be asked if the contract should be increased to the 20 tonne minimum.

If the producer cannot be reached before 8:30 a.m. CT, the contract will not be processed.

Producers will receive a minimum delivery guarantee of 60 per cent of all production offered under 2006-07 durum delivery up to a maximum of their EPO tonnage.

Reminder: Durum grading Nos. 4 CWAD and 5 CWAD must be signed up under either a No. 4. or N0. 5 CWAD EPO contract.

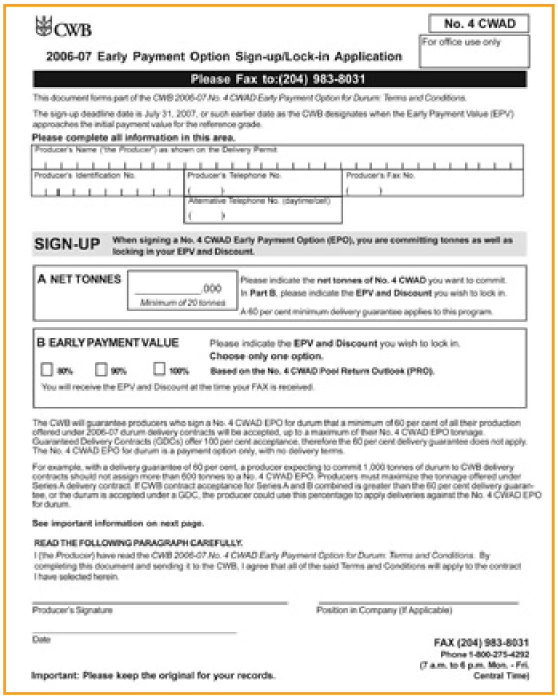
Section B

Mark the EPV per cent of your choice. Choose only one and proceed to Producer's Signature section.

Producer's signature:

All contracts received by the CWB must be signed by the producer indicated on the form. Contracts that are unsigned will not be processed until the CWB can contact the producer for verification. For company applications, the producer must indicate the position held within the company.

By signing the application, producers have agreed to all the accompanying terms and conditions. Elevator staff must provide a copy of the terms and conditions to producers applying for a contract.



CWB

No. 4 CWAD

For office use only

2006-07 Early Payment Option Sign-up/Lock-in Application

Please Fax to:(204) 983-8031

This document forms part of the *CWB 2006-07 No. 4 CWAD Early Payment Option for Durum: Terms and Conditions.*

The sign-up deadline date is July 31, 2007, or such earlier date as the CWB designates when the Early Payment Value (EPV) approaches the initial payment value for the reference grade.

Please complete all information in this area.

Producer's Name ("the Producer") as shown on the Delivery Permit

Producer's Identification No. | Producer's Telephone No. ( ) | Producer's Fax No. ( )

Alternative Telephone No. (daytime/cell) ( )

SIGN-UP **When signing a No. 4 CWAD Early Payment Option (EPO), you are committing tonnes as well as locking in your EPV and Discount.**

A NET TONNES ______.000 *Minimum of 20 tonnes*

Please indicate the **net tonnes of No. 4 CWAD** you want to commit. In **Part B**, please indicate the **EPV and Discount** you wish to lock in.

A 60 per cent minimum delivery guarantee applies to this program.

B EARLY PAYMENT VALUE Please indicate the **EPV and Discount** you wish to lock in. **Choose only one option.**

☐ 80% ☐ 90% ☐ 100% **Based on the No. 4 CWAD Pool Return Outlook (PRO).**

You will receive the EPV and Discount at the time your FAX is received.

The CWB will guarantee producers who sign a No. 4 CWAD EPO for durum that a minimum of 60 per cent of all their production offered under 2006-07 durum delivery contracts will be accepted, up to a maximum of their No. 4 CWAD EPO tonnage. Guaranteed Delivery Contracts (GDCs) offer 100 per cent acceptance, therefore the 60 per cent delivery guarantee does not apply. The No. 4 CWAD EPO for durum is a payment option only, with no delivery terms.

For example, with a delivery guarantee of 60 per cent, a producer expecting to commit 1,000 tonnes of durum to CWB delivery contracts should not assign more than 600 tonnes to a No. 4 CWAD EPO. Producers must maximize the tonnage offered under Series A delivery contract. If CWB contract acceptance for Series A and B combined is greater than the 60 per cent delivery guarantee, or the durum is accepted under a GDC, the producer could use this percentage to apply deliveries against the No. 4 CWAD EPO for durum.

See important information on next page.

READ THE FOLLOWING PARAGRAPH CAREFULLY.

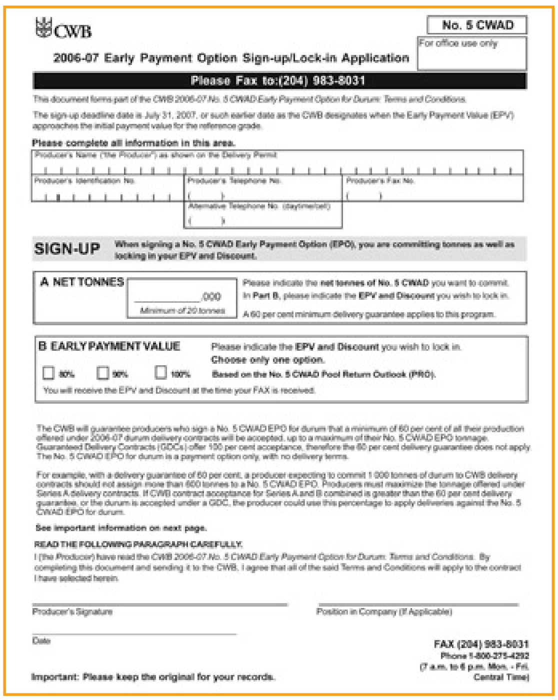
I (the *Producer*) have read the *CWB 2006-07 No. 4 CWAD Early Payment Option for Durum: Terms and Conditions.* By completing this document and sending it to the CWB, I agree that all of the said Terms and Conditions will apply to the contract I have selected herein.

Producer's Signature | Position in Company (If Applicable)

Date

FAX (204) 983-8031
Phone 1-800-275-4292
(7 a.m. to 6 p.m. Mon. - Fri. Central Time)

Important: Please keep the original for your records.



CWB

No. 5 CWAD

For office use only

2006-07 Early Payment Option Sign-up/Lock-in Application

Please Fax to:(204) 983-8031

This document forms part of the *CWB 2006-07 No. 5 CWAD Early Payment Option for Durum: Terms and Conditions.*

The sign-up deadline date is July 31, 2007, or such earlier date as the CWB designates when the Early Payment Value (EPV) approaches the initial payment value for the reference grade.

Please complete all information in this area.

Producer's Name ("the Producer") as shown on the Delivery Permit

Producer's Identification No. | Producer's Telephone No. ( ) | Producer's Fax No. ( )

Alternative Telephone No. (daytime/cell) ( )

SIGN-UP **When signing a No. 5 CWAD Early Payment Option (EPO), you are committing tonnes as well as locking in your EPV and Discount.**

A NET TONNES ______.000 *Minimum of 20 tonnes*

Please indicate the **net tonnes of No. 5 CWAD** you want to commit. In **Part B**, please indicate the **EPV and Discount** you wish to lock in.

A 60 per cent minimum delivery guarantee applies to this program.

B EARLY PAYMENT VALUE Please indicate the **EPV and Discount** you wish to lock in. **Choose only one option.**

☐ 80% ☐ 90% ☐ 100% **Based on the No. 5 CWAD Pool Return Outlook (PRO).**

You will receive the EPV and Discount at the time your FAX is received.

The CWB will guarantee producers who sign a No. 5 CWAD EPO for durum that a minimum of 60 per cent of all their production offered under 2006-07 durum delivery contracts will be accepted, up to a maximum of their No. 5 CWAD EPO tonnage. Guaranteed Delivery Contracts (GDCs) offer 100 per cent acceptance, therefore the 60 per cent delivery guarantee does not apply. The No. 5 CWAD EPO for durum is a payment option only, with no delivery terms.

For example, with a delivery guarantee of 60 per cent, a producer expecting to commit 1,000 tonnes of durum to CWB delivery contracts should not assign more than 600 tonnes to a No. 5 CWAD EPO. Producers must maximize the tonnage offered under Series A delivery contracts. If CWB contract acceptance for Series A and B combined is greater than the 60 per cent delivery guarantee, or the durum is accepted under a GDC, the producer could use this percentage to apply deliveries against the No. 5 CWAD EPO for durum.

See important information on next page.

READ THE FOLLOWING PARAGRAPH CAREFULLY.

I (the *Producer*) have read the *CWB 2006-07 No. 5 CWAD Early Payment Option for Durum: Terms and Conditions.* By completing this document and sending it to the CWB, I agree that all of the said Terms and Conditions will apply to the contract I have selected herein.

Producer's Signature | Position in Company (If Applicable)

Date

FAX (204) 983-8031
Phone 1-800-275-4292
(7 a.m. to 6 p.m. Mon. - Fri. Central Time)

Important: Please keep the original for your records.

Instructions for a No. 4 or No. 5 CWAD EPO

In January 2006 the feed grade durum EPO was discontinued and separated into two EPO's, one for the reference grade of No 4. CWAD and one for the reference grade of No. 5 CWAD. Please refer to "2006-07 Early Payment Option Sign-up/Lock-in Application" form for these two contracts.

Producer's name

In this section, enter the name of the producer as it appears on the CWB delivery permit, along with the corresponding producer identification number. For example, if producer Joe Producer is filling out an EPO contract for Joe Producer Farms Inc., then Joe Producer Farms Inc. must appear in this section.

Producer's telephone number(s)

It is very important to provide the producer's telephone number, alternative number and fax number so the CWB can contact the producer if there is an error on the form. If the producer cannot be contacted before 8:30 a.m. CT, the contract will not be processed.

How to obtain an EPO for No. 4 or No. 5 durum:

Section A

Enter the amount of tonnes in Section A and then proceed to Section B.

- Remember that commitments must be a minimum of 20 tonnes and any amount thereafter. Tonnage must be reported in whole numbers (no decimals) to avoid processing errors. This will ensure values are clear for efficient processing of the contract.
- If less than 20 tonnes is entered, the CWB will attempt to contact the producer upon receiving the fax to advise the contract cannot be processed. At this time the producer will be asked if the contract should be increased to the 20 tonne minimum.
- If the producer cannot be reached before 8:30 a.m. CT, the contract will not be processed.

Producers will receive a minimum delivery guarantee of 60 per cent of all production offered under 2006-07 durum delivery up to a maximum of their EPO tonnage.

Section B

Mark the EPV per cent of your choice. Choose only one and proceed to Producer's Signature section.

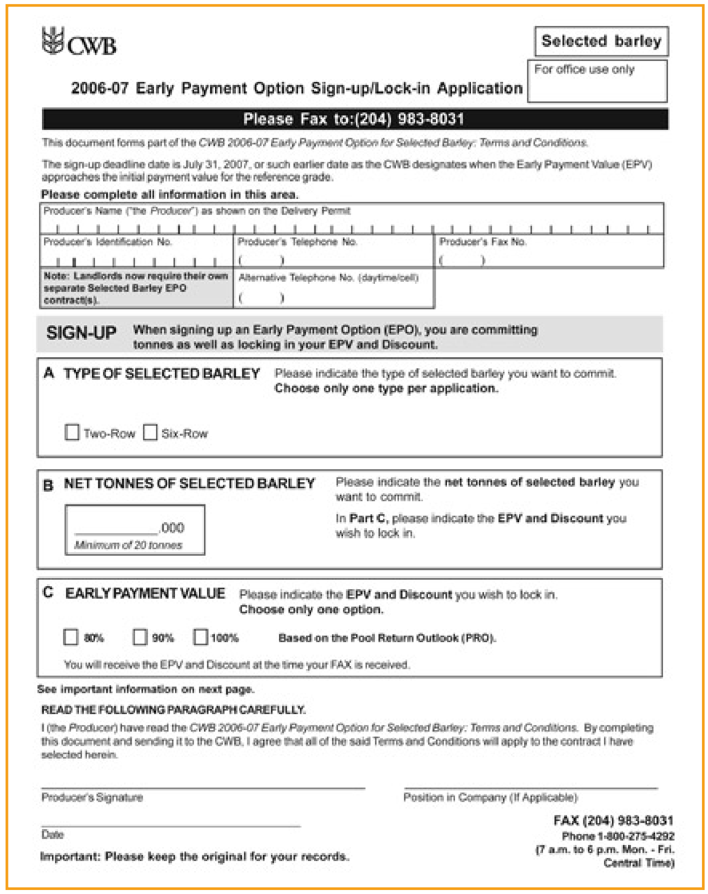
Producer's signature:

All contracts received by the CWB must be signed by the producer indicated on the form. Contracts that are unsigned will not be processed until the CWB can contact the producer for verification. For company applications, the producer must indicate the position held within the company.

By signing the application, producers have agreed to all the accompanying terms and conditions. Elevator staff must provide a copy of the terms and conditions to producers applying for a contract.

Instructions for EPO for selected barley

Please refer to "2006-07 Early Payment Option Sign-up/Lock-in Application" form for selected barley.



CWB

Selected barley

For office use only

2006-07 Early Payment Option Sign-up/Lock-in Application

Please Fax to:(204) 983-8031

This document forms part of the *CWB 2006-07 Early Payment Option for Selected Barley: Terms and Conditions.*

The sign-up deadline date is July 31, 2007, or such earlier date as the CWB designates when the Early Payment Value (EPV) approaches the initial payment value for the reference grade.

Please complete all information in this area.

Producer's Name ("the *Producer*") as shown on the Delivery Permit

Producer's Identification No. | Producer's Telephone No. ( ) | Producer's Fax No. ( )

Note: Landlords now require their own separate Selected Barley EPO contract(s). | Alternative Telephone No. (daytime/cell) ( )

SIGN-UP **When signing up an Early Payment Option (EPO), you are committing tonnes as well as locking in your EPV and Discount.**

A TYPE OF SELECTED BARLEY Please indicate the type of selected barley you want to commit. **Choose only one type per application.**

☐ Two-Row ☐ Six-Row

B NET TONNES OF SELECTED BARLEY Please indicate the **net tonnes of selected barley** you want to commit.

In **Part C**, please indicate the **EPV and Discount** you wish to lock in.

________,000

Minimum of 20 tonnes

C EARLY PAYMENT VALUE Please indicate the **EPV and Discount** you wish to lock in. **Choose only one option.**

☐ **80%** ☐ **90%** ☐ **100%** **Based on the Pool Return Outlook (PRO).**

You will receive the EPV and Discount at the time your FAX is received.

See important information on next page.

READ THE FOLLOWING PARAGRAPH CAREFULLY.

I (the *Producer*) have read the *CWB 2006-07 Early Payment Option for Selected Barley: Terms and Conditions.* By completing this document and sending it to the CWB, I agree that all of the said Terms and Conditions will apply to the contract I have selected herein.

Producer's Signature

Position in Company (If Applicable)

Date

Important: Please keep the original for your records.

FAX (204) 983-8031
Phone 1-800-275-4292
(7 a.m. to 6 p.m. Mon. - Fri. Central Time)

Producer's name

In this section, enter the name of the producer as it appears on the CWB delivery permit, along with the corresponding producer identification number. For example, if producer Joe Producer is filling out an EPO contract for Joe Producer Farms Inc., then Joe Producer Farms Inc. must appear in this section.

Producer's telephone number(s)

It is very important to provide the producer's telephone number, alternative number and fax number so the CWB can contact the producer if there is an error on the form. If the producer cannot be contacted before 8:30 a.m. CT, the contract will not be processed.

How to obtain an EPO for selected barley:

Section A

Mark the appropriate box for selected barley type in Section A and then proceed to Section B.

Section B

Enter the amount of tonnes in Section B and then proceed to Section C.

Remember that commitments must be a minimum of 20 tonnes and any amount thereafter. Tonnage must be reported in whole numbers (no decimals) to avoid processing errors. This will ensure values are clear for efficient processing of the contract.

If less than 20 tonnes are entered, the CWB will attempt to contact the producer upon receiving the fax to advise the contract cannot be processed. At this time the producer will be asked if the contract should be increased to the 20 tonne minimum.

If the producer cannot be reached before 8:30 a.m. CT, the contract will not be processed.

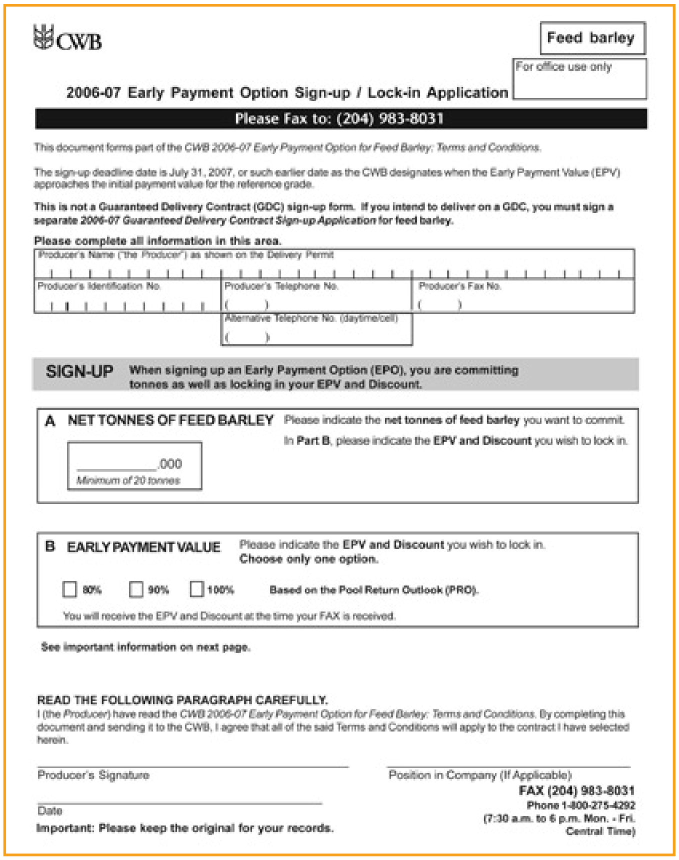
Section C

Mark the EPV per cent of your choice. Choose only one and proceed to Producer's Signature section.

Producer's signature:

All contracts received by the CWB must be signed by the producer indicated on the form. Contracts that are unsigned will not be processed until the CWB can contact the producer for verification. For company applications, the producer must indicate the position held within the company.

By signing the application, producers have agreed to all the accompanying terms and conditions. Elevator staff must provide a copy of the terms and conditions to producers applying for a contract.



CWB

Feed barley

For office use only

2006-07 Early Payment Option Sign-up / Lock-in Application

Please Fax to: (204) 983-8031

This document forms part of the *CWB 2006-07 Early Payment Option for Feed Barley: Terms and Conditions.*

The sign-up deadline date is July 31, 2007, or such earlier date as the CWB designates when the Early Payment Value (EPV) approaches the initial payment value for the reference grade.

This is not a Guaranteed Delivery Contract (GDC) sign-up form. If you intend to deliver on a GDC, you must sign a separate *2006-07 Guaranteed Delivery Contract Sign-up Application* for feed barley.

Please complete all information in this area.

Producer's Name ("the Producer") as shown on the Delivery Permit

Producer's Identification No.

Producer's Telephone No. (   )

Producer's Fax No. (   )

Alternative Telephone No. (daytime/cell) (   )

SIGN-UP **When signing up an Early Payment Option (EPO), you are committing tonnes as well as locking in your EPV and Discount.**

A NET TONNES OF FEED BARLEY Please indicate the **net tonnes of feed barley** you want to commit. In **Part B**, please indicate the **EPV and Discount** you wish to lock in.

______.000
Minimum of 20 tonnes

B EARLY PAYMENT VALUE Please indicate the **EPV and Discount** you wish to lock in. **Choose only one option.**

☐ 80% ☐ 90% ☐ 100% **Based on the Pool Return Outlook (PRO).**

You will receive the EPV and Discount at the time your FAX is received.

See important information on next page.

READ THE FOLLOWING PARAGRAPH CAREFULLY.
I (the *Producer*) have read the *CWB 2006-07 Early Payment Option for Feed Barley: Terms and Conditions.* By completing this document and sending it to the CWB, I agree that all of the said Terms and Conditions will apply to the contract I have selected herein.

Producer's Signature

Position in Company (If Applicable)

Date

Important: Please keep the original for your records.

FAX (204) 983-8031
Phone 1-800-275-4292
(7:30 a.m. to 6 p.m. Mon. - Fri. Central Time)

Instructions for EPO for feed barley

New for 2006-07 crop year

This form can no longer be used to obtain a GDC for feed barley. A separate GDC form will be available on the CWB web site as they are offered. The GDC and EPO will be signed exclusive of one another.
(Please refer to "2006-07 Early Payment Option Sign-up/Lock-in Application" form for feed barley.)

Producer's name

In this section, enter the name of the producer as it appears on the CWB delivery permit, along with the corresponding producer identification number.
For example, if producer Joe Producer is filling out an EPO contract for Joe Producer Farms Inc., then Joe Producer Farms Inc. must appear in this section.

Producer's telephone number(s)

It is very important to provide the producer's telephone number, alternative number and fax number so the CWB can contact the producer if there is an error on the form. If the producer cannot be contacted before 8:30 a.m. CT, the contract will not be processed.

How to obtain an EPO for feed barley:

Section A

Enter the amount of tonnes in Section A and then proceed to Section B.

- Remember that commitments must be a minimum of 20 tonnes and any amount thereafter. Tonnage must be reported in whole numbers (no decimals) to avoid processing errors. This will ensure values are clear for efficient processing of the contract.
- If less than 20 tonnes are entered, the CWB will attempt to contact the producer upon receiving the fax to advise the contract cannot be processed. At this time the producer will be asked if the contract should be increased to the 20 tonne minimum.
- If the producer cannot be reached before 8:30 a.m. CT, the contract will not be processed.

Section B

Mark the EPV per cent of your choice. Choose only one and proceed to Producer's Signature section.

Producer's signature:

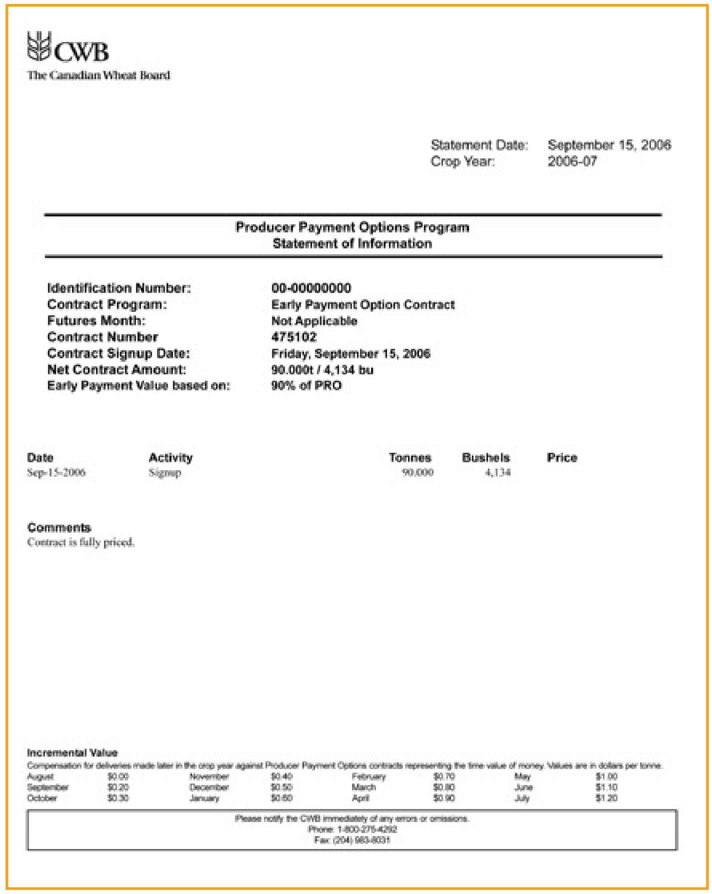
All contracts received by the CWB must be signed by the producer indicated on the form. Contracts that are unsigned will not be processed until the CWB can contact the producer for verification.
For company applications, the producer must indicate the position held within the company.

By signing the application, producers have agreed to all the accompanying terms and conditions. Elevator staff must provide a copy of the terms and conditions to producers applying for a contract.

Confirmation of commitments

When producers make a pricing commitment or subsequent transaction on their contract, the CWB sends a "Statement of Information" (by mail) to confirm the transaction the next business day.

The statement details the contract program (EPO) and class of grain, the contract number, the sign-up date, the net contract amount (tonnes/bushels) of the original contract commitment, and the EPO level. Below the original commitment information, a listing of activity against the contract is detailed by date. The first transaction will be the sign-up, which will indicate the date of sign up along with the net EPV reported in dollars per tonne. If an additional transaction occurs against the contract, i.e. transfer or buyout, a new line will be added to the statement and sent to the producer. The statement does not report deliveries.


CWB
The Canadian Wheat Board

Statement Date: September 15, 2006
Crop Year: 2006-07

Producer Payment Options Program
Statement of Information

Identification Number: 00-00000000
Contract Program: Early Payment Option Contract
Futures Month: Not Applicable
Contract Number 475102
Contract Signup Date: Friday, September 15, 2006
Net Contract Amount: 90.000t / 4,134 bu
Early Payment Value based on: 90% of PRO

Date	Activity	Tonnes	Bushels	Price
Sep-15-2006	Signup	90.000	4,134	

Comments
Contract is fully priced.

Incremental Value
Compensation for deliveries made later in the crop year against Producer Payment Options contracts representing the time value of money. Values are in dollars per tonne.

August	$0.00	November	$0.40	February	$0.70	May	$1.00
September	$0.20	December	$0.50	March	$0.80	June	$1.10
October	$0.30	January	$0.60	April	$0.90	July	$1.20

Please notify the CWB immediately of any errors or omissions.
Phone: 1-800-275-4292
Fax: (204) 983-8031

In the comment section, there will be messages on the pricing status of the contract, deadlines and administration fees charged.

At the bottom of the statement, the incremental values are listed for each month of delivery. Incremental payment values start at zero for month of sign-up and increase in value for each month later into the crop year.

CWB agents can contact the CWB PPO IVR at 1-800-718-4033 to confirm PPO contract numbers when administrating contracts. CWB agents can also contact the CWB Business Centre at 1-800-275-4292 to confirm PPO contract numbers. The CWB also issues a PPO confirmation contract to the producer for insertion into the permit book with the statement of information. It indicates the type of PPO contract, contract number and provides an area to record deliveries.

Procedure on how corrections are handled (Fax sign-up forms)

Transactions against PPO programs must be received prior to 7:30 a.m. CT each business day. Please ensure that all the information required on the fax form is completed accurately.

If fax transactions are received with incomplete information, the contract will not be processed. The CWB will attempt to contact the producer to confirm the missing information required to process the contract and the producer will receive the contract value available at the time of the confirmation.

If the information submitted on the fax form is complete, the CWB will process the transaction based on the information submitted. When producers receive their Statement of Information, they should review the transactions. If incorrect information was provided and the CWB acted on this information, producers will be responsible for any costs to correct the transaction.

Reporting deliveries (general)

PPO contracts are pricing contracts. Delivery is made against CWB delivery contracts. Delivery calls will be issued during the crop year as the grain is needed to meet sales requirements.

Producers are responsible for designating their deliveries to the payment option of their choice before settlement is issued.

Steps in reporting deliveries against PPO contracts:

1. When arranging for delivery, ask the producer if they are applying the grain against a payment option.
2. When taking delivery, include the payment option contract number on the primary elevator receipt (see selected barley exception).
3. Prior to issuing the producer certificate, check the permit book for the correct PPO contract number. The contract confirmation can be found on pages 10-25 of the Delivery Permit Book in the "CWB contract program" pages.
4. Record the delivery in the "Record of Deliveries" section of the Delivery Permit Book under the appropriate PPO contract and CWB delivery contract.
5. Multiple deliveries (elevator receipts) can be reported on a single producer certificate.

Each primary elevator receipt must be reported with the following information:

- Grain
- Primary elevator receipt number
- Net weight
- Grade and protein
- Contract number (reported in the authorization field)
- Cash advance refund
- Call year and designation

Reporting deliveries to complete a PPO contract

When reporting the final delivery against a PPO contract, the elevator has two options:

1. Apply the entire delivery against the PPO contract, possibly causing the contract to be over-applied. This procedure is acceptable, however the over-applied tonnage will be automatically credited as a pool account delivery and cannot be applied to any other PPO contracts.
2. If the producer has multiple PPO contracts, the elevator should split the delivery to ensure the first PPO contract is not over-applied. This will allow the extra tonnage to be applied to the producer's next PPO contract.

The CWB cannot split producer certificates.

Reporting the PPO contract number on the producer certificate

The PPO contract number is essential to generate the producer's additional CWB payment. The PPO contract must be reported in the authorization field of the producer certificate. Since the producer certificate format only has one field in which to report a contract number, it is very important to ensure that the correct contract number is indicated in the authorization field when reporting deliveries:

Settlement type	Contract number required on the producer certificate
Wheat, durum against an FPC, BPC or EPO	FPC, BPC, or EPO contract number
Wheat against a DPC	DPC contract number
Feed barley against an FPC or EPO	FPC or EPO contract number
Selected barley against an FPC or EPO	Selected barley storage and delivery contract number
Identity Preserved Contract Program (IPCP)	FPC, BPC, DPC, or EPO contract number

Storage payments associated with the selected barley contract and IPCP programs will be facilitated through this reporting process.

Landlords require their own EPO contract number and selected barley storage and delivery contract. ***See Reporting deliveries against an EPO for selected barley.***

Landlord (interested party) splits (for wheat, durum and feed barley)

Landlords can share in the actual producers EPO contracts, or they can choose to have their own EPO contract.

If the landlord is sharing part of the actual producer's EPO contract, the actual producer's EPO contract number must be applied to the landlord's deliveries. Grain companies must also be cautious about using the correct CWB permit number for the landlord. Landlords often appear in several permits, and if the wrong permit number is used, an EPO payment will not be generated and issued to the landlord until the ticket is cancelled and replaced with the correct information.

Reporting deliveries against an EPO for selected barley

Producers are not required to have a selected barley storage and delivery contract in place before applying for selected barley EPO. Deliveries will be applied against the EPO using a "first in, first applied" basis by individual producer.

What does this mean?

1. Since the EPO does not require a select barley contract, producers can have multiple EPOs against one or more selected contracts, and can apply for additional EPO contracts if their selected barley storage and delivery contracts are later increased (see example below).
2. Payment to producers will be generated on a "first in, first applied" basis, i.e. the first delivery reported against any of the producer's selected contracts will be applied to the producer's earliest signed EPO.
3. Producers cannot pick and choose deliveries to be applied toward a specific selected barley EPO.

Upon delivery, the elevator agent will report deliveries using the selected barley storage and delivery contract number, not the EPO number.

Example: Applying deliveries to a selected barley EPO:

The producer signs up the following three EPOs:

Sign up date	Contract	Tonnes
August 3	#400001	100 tonnes
August 15	#400002	50 tonnes
August 24	#400003	50 tonnes
Total		**200 tonnes**

The producer signs up the following two selected barley storage and delivery contracts:

Sign up date	Contract	Tonnes
August 25	#300001	100 tonnes
September 1	#300002	100 tonnes
Total		**200 tonnes**

As the elevator starts reporting the deliveries, the CWB automatically applies them to the oldest EPO contract, #400001. Once that EPO is filled, the CWB will automatically begin applying deliveries to the next available EPO (#400002).

Elevator agents are required to split the last load to complete each EPO contract to ensure the EPO is not over applied. Any over-applied tonnes will remain in the pool account, and will not be applied to the next EPO.

For example:

The first EPO the producer signed up is contract #400001 for 100 tonnes. If the elevator has reported 80 tonnes of deliveries toward the producer's selected barley contract(s) and if the next load is 40 tonnes, the CWB will apply all 40 tonnes against this EPO resulting in 120 tonnes applied to a 100 tonne EPO. The extra 20 tonnes cannot be applied to the next EPO, and will remain in the pool account since the producer certificate cannot be applied to more than one EPO contract.

Landlord splits (for selected barley)

Due to the "first in, first applied" application of deliveries, landlords who want to participate in the select barley EPO program must now sign up their own selected barley contract and EPO contract. The actual producer can also contact the CWB and have part of the selected barley contract and EPO transferred to the participating landlord, through the assignment process. The requirement for separate contracts is to ensure landlords who do not participate in the EPO program will not receive EPO payments, or be charged the discount as a result of the "first in, first applied" reporting of selected barley deliveries.

Cancellation and replacement of producer certificates

The PPO additional payment issued by the CWB is dependent on accuracy of delivery reporting.

The CWB monitors producer certificates for reporting errors. The CWB will contact producers or elevator agents to confirm reporting errors. The CWB can correct PPO contract number and delivery call-year errors upon confirmation, but changes to the identification number, grain, grade and protein must be done by the grain company by canceling the original producer certificate and issuing a replacement producer certificate.

Part 3 – Frequently asked questions

1. What is the EPO sign up deadline for the 2006-07 crop year?

The EPO program for all grains will begin August 1, 2006 and will run until July 31, 2007. The CWB will terminate specific EPVs later in the crop year as the initial payments are increased and begin to approach or exceed the EPVs. The 80 per cent EPV programs will terminate first, followed by the 90 and 100 per cent programs later in the year.

2. Am I entitled to future CWB adjustment, interim or final payments for deliveries applied towards my EPO contract?

If the initial payment for the grade you delivered was increased and has surpassed your contracted Early Payment Value (EPV), you are eligible to receive future CWB payments above your EPV.

3. I have an 80 per cent EPO contract and just recently hauled my grain but did not receive an EPO additional payment. Why not?

Producers who sign EPO contracts early in the crop year and deliver later in the crop year, may not receive an EPO additional payment on those deliveries if the initial payments are increased beyond their contracted price.

For example, a producer signed up an 80 per cent EPV for CWRS in September locking in an EPV of $160.80 per tonne, but did not apply deliveries until later in the crop year. On March 22, the initial payment for the reference grade, No. 1 CWRS 13.5 is increased to $169.95 per tonne. In this example, deliveries made after March 22 will receive an initial payment (at the elevator), that is greater than their EPV and therefore will not receive an EPO additional payment.

Although the producer did not receive an EPO payment following delivery in March, he or she is still eligible for future CWB adjustment, interim and final payments that exceed his or her EPV.

4. I have an EPO contract with an EPV greater than the current initial price, and was expecting an additional CWB payment following delivery but still have not received it. Why?

Please check to ensure that the deliveries were applied against the EPO contract and the correct contract number was used. You can also call the CWB at 1-800-275-4292 to review your contract deliveries and payments records.

5. I signed up an 80 per cent EPO last fall to increase my cash flow. Now that the initial payment has exceeded my 80 per cent EPV I will not receive an EPO additional payment from the CWB following delivery. Do I still have to pay for the EPO discount?

Although the producer did not receive an EPO additional payment from the CWB, the discount still has to be paid to recover the CWB's market costs to hedge the contract value. The discount will be deducted from future CWB payments. Producers should time the sign-up of EPO's with delivery opportunity to attempt to avoid this scenario.

6. I don't have enough grain to fill the balance of the EPO. What do I do?

If producers need to reduce or cancel an EPO they have the option to buy out of the contract or transfer it to another producer. Producers wanting to buy out of their contract should call the CWB for a quote on what it will cost. If someone else is willing to take over the balance of the contract, they can fill out a PPO assignment form available from the CWB.

7. I was quoted a buyout cost for my EPO contract. I'm undecided whether to buy out now or wait until the end of the crop year, but I'm concerned it may become more expensive later. Should I buy out now?

The cost to buy out of the EPO contract does not change following sign-up. The cost is a result of a hedge placed in the futures and options market in the North American commodity markets at the time of the EPO commitment, protecting the downside price risk of the contract.

8. What is the EPO buyout calculation?

The formula is: EPO discount - time value of money + $15 per transaction administration fee

Producers can find the EPO discount on their Statement of Information or by calling the CWB. The time value component is part of the producer's total EPO discount. The time value of money component is the cost to the CWB to finance the EPO payment to the producer. If the producer buys out of the contract, the CWB will not need to issue the payment, so the finance charge is not passed on to the producer.

9. Should I sign up an EPO contract for the same amount of tonnes as my Series A delivery contract?

Although this is a marketing decision that ultimately needs to be made by the producer, a suggestion is to only sign up an EPO that covers the tonnes the CWB has currently called. When the CWB increases the contract calls later in the year, producers can apply for another EPO contract. If you are using the EPO program to lock in a floor price, speculating that future PRO's are going to decrease, you might want to sign up an EPO for all your production.

10. Why is the 100 per cent EPO discount so much more expensive than the 80 and 90 per cent levels?

The risk to the CWB for guaranteeing 100 per cent of the PRO is much greater, and the cost associated with hedging this position on the various North American commodity markets is more expensive.

Common questions from the grain companies:

1. I have several producers with AC Snowbird contracted under the CWB Identity Preserved Program who want to apply these deliveries against an EPO. What contract number do I use when reporting the deliveries to the CWB?

Always use the EPO (or FPC, BPC) number, not the IPCP number. To properly apply to the IPCP, use the correct CWB contract code and call designation when reporting deliveries.

NOTE: Selected barley is the exception to the above rule. Always apply deliveries to the appropriate selected barley contract number, never use a selected barley PPO contract number on a delivery.

2. Why do I apply the selected barley contract number when applying settlement towards a selected barley EPO? Shouldn't I use the EPO contract number instead?

Since only a single contract number can be reported to the CWB on the producer certificate, the selected barley contract number needs be reported, not the PPO number. By reporting the selected barley contract number, the CWB can capture the information required to generate the producer's storage payments. The CWB will automatically apply deliveries to a selected barley EPO (or FPC) on a "first in, first applied" (FIFA) basis.

Part 4 – Marketing strategies

This section of the EPO guide provides some insight into the various EPO programs offered and how producers can use the programs to accomplish different goals. These observations are based on past EPO program results and may not necessarily be repeated in future crop years.

Part 1 – Factors to consider when making an EPO commitment

Delivery calls – Current delivery opportunity

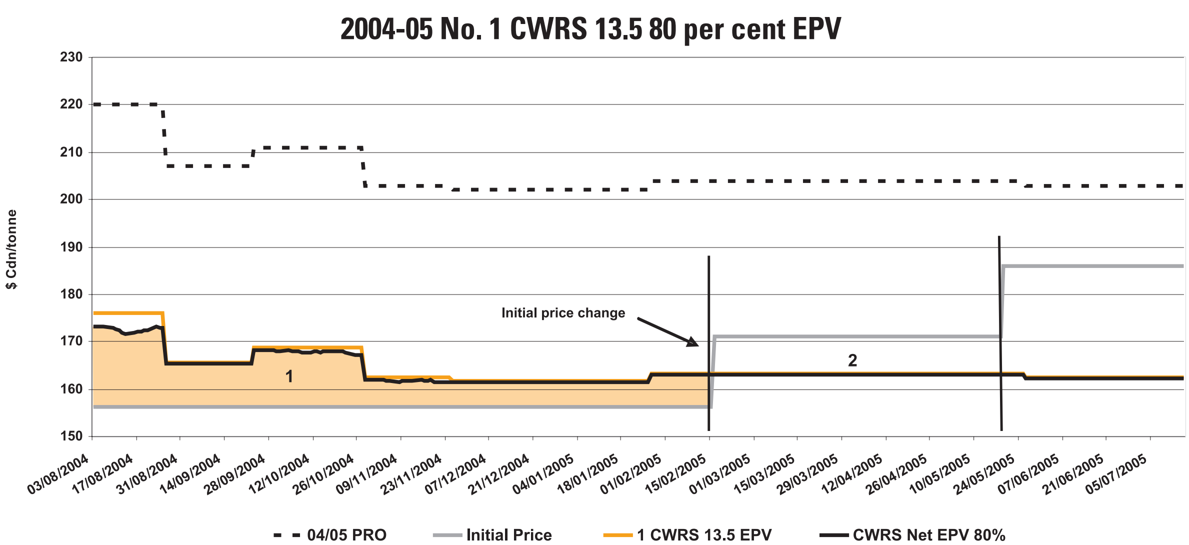
Producers looking for a cash flow benefit should consider contracting only the amount of production that the CWB has called to date. If the tonnes committed to an EPO are greater than the amount called for delivery, producers will have to wait for the next delivery call before applying more deliveries towards the EPO. If the initial payment is later increased above the EPV, they will have paid for the EPO discount without receiving any additional cash flow benefits. In most years we expect the CWB to call the first 25 per cent of Series A delivery contracts between August and October, with further calls expected later in the crop year.

Initial payment value – How much additional cash flow does the EPO provide?

We might also expect the initial payments will increase in November or December, bringing the initial payments of the reference grade within the range of 80 per cent of the current PRO value. If a producer contracted all of his or her Series A delivery contract to an 80 per cent EPO following harvest, just the first 25 per cent delivery call may generate an EPO additional payment. When the CWB calls the next 25 per cent of Series A in November or December, the initial payment may have already exceeded the 80 per cent EPV.

The graph below depicts the 2004-05 CWRS 80 per cent EPV and demonstrates how an increasing initial payment reduces the value of the EPO additional payment. Referring to the shaded area labeled No.1 in the graph, the 80 per cent EPO contract provides producers with the greatest cash flow benefit (additional payment) earlier in the crop year because the initial payment is at the lowest value.

The initial price is increased on February 16, 2005 by $14.90 per tonne, thereby eliminating the additional payment for deliveries that were applied to an 80 per cent EPO contract following this date. Once the initial price for the reference grade is greater than the EPV value there is no further cash flow generated from the EPO.



Please refer to the CWB web site, historical pricing section to review the 2005-06 values and charts.

Effect of increased initial payments on the EPO additional payment

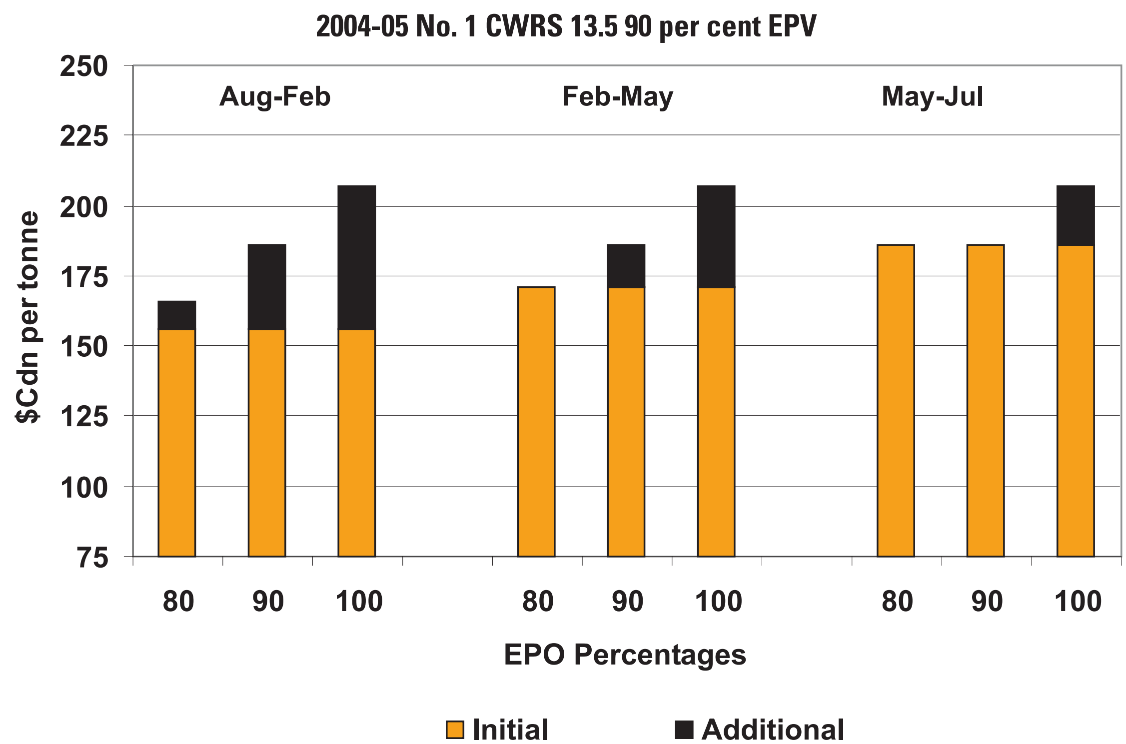
With respect to initial payment values, before signing an EPO contract producers should also consider:

1. What percentage of the PRO is already being issued in the form of the current initial payment at the elevator?
2. When will the next initial payment increase be announced (will it provide the required cash flow soon enough)?

If the initial payments are increased later in the year, and are beginning to approach the current EPV lock-in levels, producers should consider if it is still worthwhile to lock in an EPO contract at this time or perhaps consider locking in a higher EPV level.

For example, if the current initial payment is $149.00 per tonne and the current PRO is $200 per tonne, producers are already receiving 75 per cent of the PRO from the initial payment. At this point, the 80 per cent EPO only provides an additional payment of $11.00 per tonne. Would they be better off to lock in a 90 per cent EPO that would provide an additional payment of $31.00 per tonne? This decision will be based on the cash flow required, and the current EPO discount cost for each EPV level. Example:

The chart below illustrates how the EPO additional payment will decrease in value for deliveries made later in the year as the initial payments are increased.



In this example, three producers each sign up an EPO contract in August at three different EPV levels, based on a PRO of $207 per tonne.

- Producer No. 1 signs an 80 per cent EPO with a $165.60 EPV and discount cost of $1.50 per tonne
- Producer No. 2 signs a 90 per cent EPO with a $186.30 EPV and discount cost of $4.50 per tonne
- Producer No. 3 signs a 100 per cent EPO with a $207.00 EPV and discount cost of $12.00 per tonne

As deliveries are made during the crop year from August to July, the initial payments are increased two times, effectively reducing the EPO additional payment later in the year. The chart illustrates the producers' total payments, comparing the amount received as the initial payment and the EPO additional payment.

At the start of the crop year (from August to February), all three producers will receive an EPO additional payment on top of the initial payment received at the elevator. Producer No. 1 who signed an 80 per cent EPV receives the smallest additional payment, whereas producer No. 3 who signed a 100 per cent EPV receives the largest.

Following the increase to the initial payments in February, the 80 per cent EPV is surpassed by the initial payment, therefore deliveries applied to this EPO contract will not generate an EPO additional payment. In the same period, deliveries applied against the 90 and 100 per cent EPV continue to receive EPO additional payments. When the initial payments are increased again in May, only the third producer with the 100 per cent EPV contract will continue to receive an additional payment on top of the initial payment. Although the producer with the 80 per cent EPO did not receive an additional payment for deliveries in May. They are entitled to increases in the initial payment value that exceeded their EPVs.

Table of initial and additional payments received in example above

EPO lock-in level	Discount cost	Period	EPV	Initial payment	Additional payment
80%	$1.50		165.60	156.15	9.45
90%	$4.50	**Aug-Feb**	186.30	156.15	30.15
100%	$12.00		207.00	156.15	50.85
80%	$1.50		165.60	171.05	0.00
90%	$4.50	**Feb-May**	186.30	171.05	15.25
100%	$12.00		207.00	171.05	35.95
80%	$1.50		165.60	186.05	0.00
90%	$4.50	**May-Jul**	186.30	186.05	0.25
100%	$12.00		207.00	186.05	20.95

Note: These numbers are for illustration purposes only. Actual PROs, initial and adjustment payment and EPO discount values will vary from crop year to crop year.

Note: EPO additional payments are reduced by the same amount that the reference grade initial payment is increased throughout the year.

By the last quarter of the crop year, only the 100 per cent EPV is generating an additional payment in this example.

The producers with 80 and 90 per cent EPVs which have been exceeded by the initial payment will continue to receive CWB adjustment, interim or final payments that exceed their EPV.

Producers should choose the appropriate EPV level based on the time of year, delivery opportunity, and cash flow needs.

Producer's objective – cash flow

The EPO program provides producers with two distinct benefits:

- Increased cash flow;
- Ability to lock in a floor price contract.

If cash flow is the reason for signing up an EPO contract, producers may want to consider using the 80 and 90 per cent EPO programs to minimize the EPO discount cost while still providing an increased cash flow benefit following delivery. The 100 per cent EPO discount, although providing the greatest cash flow, also comes with a substantially more expensive discount due to the nature of risk associated with offering this level of price guarantee.

Producer's objective – floor price protection

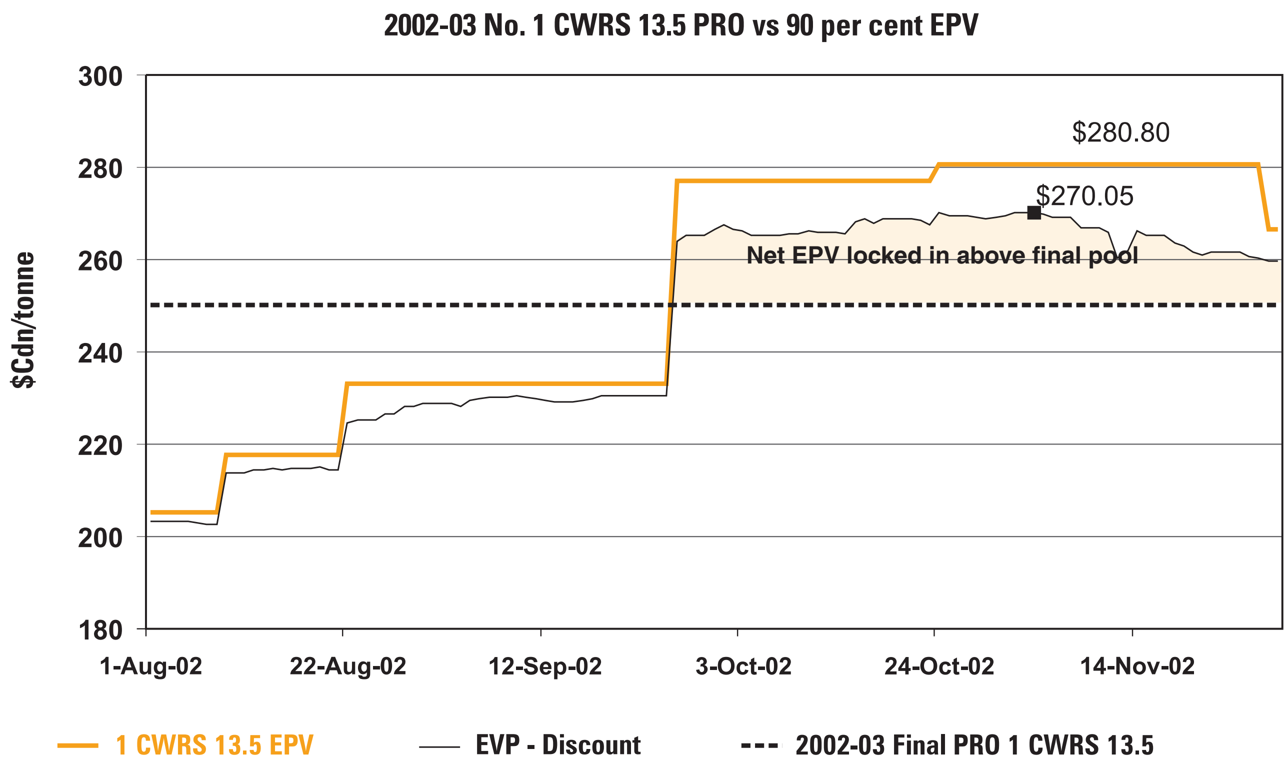
In addition to providing increased cash flow, the EPO program also provides the benefit of a floor price (EPV).

In order to achieve the highest possible floor price, producers will attempt to lock in a combination of the highest possible PRO value along with the least expensive EPO discount to provide the highest possible net EPV, i.e. "floor price".

Generally, as the U.S. futures increase relative to the current PRO value, the EPO discount decreases in cost. Conversely, as the markets weaken relative to the current PRO, the discount typically becomes more expensive. Because the PRO typically changes only once a month whereas the futures trade daily, a producer may attempt to time the market during this period, waiting for the futures values to increase, resulting in a less expensive discount cost.

Net EPV = EPV – discount

To achieve the highest possible EPV, only the 90 and 100 per cent EPO levels should be considered as the 80 per cent level most likely will not provide a sufficient EPV for this purpose. Example:



During the 2002-03 crop year, the October 2002 PRO for No. 1 CWRS 13.5 was $312 per tonne in store. When the Minneapolis HRS futures were trading at their highest levels, the 90 per cent EPV discount could have been locked in at $10.75 per tonne, providing producers with a net EPV (i.e. floor price) of $280.80 – $10.75 = $270.05 per tonne. As the Minneapolis futures dropped in value, the EPV discount gradually increased in cost and topped out at $26.25 per tonne resulting in a net EPV of $254.55 per tonne. As the crop year progressed and world wheat values continued to decline, all subsequent PRO's were lowered, ending the year with a final No. 1 CWRS 13.5 pool return of $250 per tonne.

Producers who locked in a 90 per cent EPV from September 26, 2002 to November 30, 2002, effectively locked in a floor price that exceeded the final CWB pool return (see shaded area of graph). Even those producers who paid the highest EPO discount of $26.25 per tonne still ended up with a higher return than the final pool return.

100 per cent EPO contract – a Fixed Price Contract with a floor price option?

A 100 per cent EPV is offered for all seven classes of wheat and feed barley. Since the program gives producers the opportunity to lock in the total current PRO value, essentially this program can be considered a Fixed Price Contract with a floor price option.

Producers should closely monitor the monthly PRO updates, and when they feel a PRO is set above what they believe may be the final returns, they should consider locking in the value.

By offering a 100 per cent EPV, the CWB is exposed to greater price risk, and will have to take a more aggressive market position to protect this price guarantee. As a result, the EPO discount will be substantially more expensive due to the higher cost of hedging this position in the North American futures and options markets.

Discount cost – Factors that influence the daily EPO discount cost

- PRO
- North American futures
- Foreign exchange
- Initial Payment values
- Percentage of pool sold

Effect to EPO discount

Action	Discount cost	Impact to CWB (reason for change to discount)
PRO increases	Increases	Increased risk, time value of money
US Futures increase	Decreases	Decreased risk and hedging cost
Initial payments increase	Decreases	Decreased risk, decreased time value of money
Percentage of pool sold increases	Decreases	Decreased risk

PRO

If the PRO is increased, so too are the early payment values for each level. By offering a higher EPV to the producer, there is increased risk and hedging cost to the CWB to guarantee the higher EPV's. The increased risk will result in an increase to the EPO discount cost. Conversely, if the PRO is decreased, so too are the EPV's and the risk to the CWB.

North American futures

If the futures markets drop in value (quoted in Canadian dollars per tonne), it is quite likely the EPO discount will increase in cost due to the increased hedging (put option) cost in the futures markets. If the futures increase in value, the put options and EPO discount will likely decrease in value.

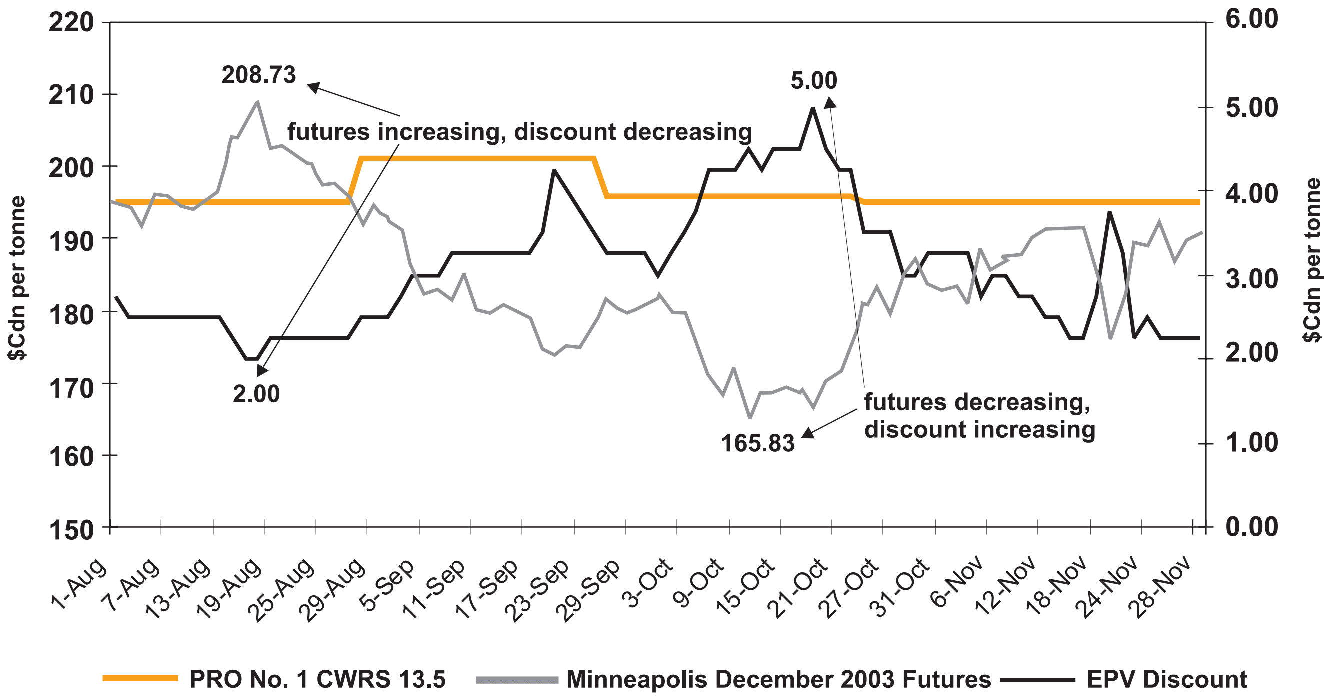
HRS Minneapolis futures vs EPO discount

The PRO contains several components, two of them being an estimated futures value and an estimated basis. The EPO discount is used to "hedge" or protect the estimated futures value. A significant portion of the overall EPO discount (particularly early in the crop year when only a fraction of the pool accounts are sold) is the cost to the CWB to purchase put options on the various North American commodity exchanges.

The chart below plots the monthly PRO along with the Minneapolis December 2003 futures and the daily CWRS 90 per cent EPV discount cost. The PRO, Minneapolis futures and EPV discount are all shown in Canadian dollars per tonne.

Referring to the chart, when the Minneapolis futures dropped below $169.00 (low of $165.83) per tonne, the discount cost is at its highest level at $5.00 per tonne. When Minneapolis futures rose above $200.00 (high of $208.73) per tonne, the discount cost is at its lowest level at $2.00 per tonne.

HRS Minneapolis futures vs EPO (90 per cent) discount



Foreign exchange

The majority of hedging activity for the EPO programs is performed on the U.S. futures and options markets and in U.S. dollars. As the Canadian dollar strengthens in value relative to the U.S. dollar, the foreign exchange will result in a lower futures value when converted to Canadian funds. A lower futures price in Canadian dollars will cause the EPO discount to increase in cost. Conversely, as the Canadian dollar weakens relative to the U.S. dollar, the futures will increase in value when converted to Canadian funds. A weaker Canadian dollar will result in a lower EPO discount.

Initial payments

When the initial payments are increased later in the year, producers receive a greater percentage of their total EPV from the grain company in the form of the initial payment, and thereby reducing the EPO additional payment issued from the CWB. Assuming the PRO values are stable throughout the crop year, the risk and financing costs to the CWB decreases as the initial payments are increased, resulting in an overall reduced EPO discount cost.

Percentage of pool sold – decreasing EPO discount later in the year

Another reason producers should consider contracting only the amount of production that the CWB has called to date is the possibility of the EPO discount becoming less expensive as the crop year progresses. Assuming the PRO value remains stable from month to month, the EPO discount typically decreases in cost later in the crop year, a result of decreasing risk to the CWB as a greater percentage of the pools are sold. However, under volatile market conditions, the PRO may become less predictable, and can result in the discount cost becoming more expensive, particularly if the PROs increase in value.

Part 2 – Buyout strategies

Buying out of an EPO when the initial payments have surpassed the EPV may be more cost effective than to continue to apply deliveries.

If producers have EPO contracts where the EPV has been surpassed by the reference grade initial payment, it may be to the producers' benefit to buy out the remaining portion of the contract rather than filling it, since the contract will no longer generate an EPO additional payment from the CWB.

As deliveries are applied to an EPO contract (regardless of whether the EPV has been surpassed by the initial payment), producers are charged the EPO discount but are partially reimbursed in the form of an incremental payment for deliveries made later in the year. When an EPO contract is signed, the incremental payment rates are also locked in.

Considering these two components, a producer's net cost to participate in the EPO program can be described as follows:

Net EPO cost = EPO discount – Incremental Payment for month of delivery

The incremental payment increases in value for each month, effectively reducing the producers net cost for deliveries made later into the crop year.

If producers buy out the tonnes remaining on the contract, they will still have to pay for the EPO discount but will be credited back the maximum (July) incremental payment rate that was locked in when the contract was signed up. The maximum incremental payment rate is usually equal to the time value of money component of the EPO discount.

Buy out cost = EPO discount – Time value of money

Example:

A Producer locks in a 90 per cent EPV contract on August 15 for 400 tonnes, locking in an EPV of $180 per tonne minus a $3.00 per tonne discount. Also listed below are the producer's incremental payments for deliveries that will be made later in the crop year:

Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.
$0.00	$0.15	$0.35	$0.50	$0.60	$0.70	$0.75	$0.85	$0.90	$0.95	$1.00	$1.05

On September 15, the producer hauls 100 tonnes. The producer's net cost to participate in the EPO program is the net difference of the EPO cost less the incremental payment for the month of delivery:

EPO discount	$3.00
September incremental payment	$0.15
Net cost to producer	**$2.85 per tonne**

On December 10, the producer hauls another 100 tonnes. The producer's net cost to participate in the EPO program is as follows:

EPO discount	$3.00
December incremental payment	$0.60
Net cost to producer	**$2.40 per tonne**

The producer's next deliveries occur in March at which time the reference grade initial payment has been increased above the producer's contracted EPV. Since the initial payment is above the contracted EPV, no additional payment will be generated, and essentially the EPO contract is no longer providing the producer with any increased cash flow above the initial payment following delivery. The producer has two choices:

1. Continue to apply deliveries and fill the contract, or
2. Buy out of the remaining 200 tonnes.

If the 200 tonnes of March deliveries are applied, the producer's net EPO cost is:

EPO discount	$3.00
March incremental payment	$0.85
Net cost to producer	**$2.15 per tonne**

If the producer buys out of the remaining 200 tonnes the buyout cost (i.e. net EPO cost) is:

EPO discount	$3.00
Maximum incremental payment	$1.05
Net cost to producer	**$1.95 per tonne** + $15 per transaction administration fee

In this situation, the producer may want to consider buying out of the remaining 200 tonnes of the EPO contract and achieve a savings of $2.15 – $1.95 = $0.20 per tonne. A $15 per transaction administration fee will also be added to the buyout cost.

Producers can initiate an EPO buyout by contacting the CWB Business Centre at 1-800-275-4292. The CWB can provide a buyout quote anytime throughout the crop year. Unlike the FPC and BPC program, the buyout quote will not change following contract sign up, and will be in effect until the end of the crop year. EPO contracts that are not completely filled will be automatically bought out by the CWB at the end of the crop year, and the producer will be assessed pricing damages.

Glossary

Acceptance levels
The CWB will determine the maximum tonnage it can accept under each delivery contract program. Following the sign-up deadline date for each series, the quantity of grain offered under the contract will be compared to sales requirements and transportation capacity.

Actual grade
The grade and protein of grain delivered as reported on the producer certificate.

Additional payment
A payment made by the CWB to producers after grain is delivered against a PPO contract. Additional payments equal the contracted price less the initial price for the relevant reference grade at the time of delivery.

Adjustment factor
Average futures and foreign exchange on CWB sales made to date.

Adjusted basis
Adjustment to basis price caused by roll of tonnes in BPC from one futures month to another.

Administration
Represents the cost to operate the PPO programs. The CWB Producer Payment Options must be self-financed so there will be no costs incurred to the pool accounts. General administration costs include computer resources, staffing, filing, office expenses, etc.

Arbitrage
Simultaneous purchase and sale of the same or equivalent security in order to profit from price discrepancies.

Assignments
In the event of a crop failure or if producers wish to reduce their EPO, they can transfer. Transfers involve completing an assignment form, available from the CWB, and assigning all or a portion of their contracted tonnage to another producer.

Basis
Is the difference between the CWB's PRO and the forecasted futures less a discount.

Basis payment contract (BPC)
Enables producers to lock in a price for their wheat on two components: the basis and the futures price on the corresponding commodity exchange.

Basis risk
A measurement of the uncertainty that the CWB will not be able to perfectly hedge the PPO prices offered.

Bear
A market trending downward, or a person who expects prices to go lower.

Bull
A market trending upward or a person who expects prices to go higher.

Buyout
The cost producers need to pay in order to reverse their PPO contract obligations. A calculation is performed to charge producers pricing damages for non-delivery of the contract to cover the CWB's hedged position.

Call option
An option that gives the option buyer the right but not the obligation to buy (go "long") the underlying futures contract at the strike price on or before the expiration date.

Contingency fund
A fund established so that the PPOs can operate without any impact to the CWB pool accounts. Included in the fund is the annual surplus or deficit arising from the operation of the PPOs.

Contract call
Delivery calls that are made for all or part of the accepted delivery contract amount.

Contract transfer
See assignment

Country basis
The difference between the in store Vancouver or St. Lawrence value and the farmgate price. This is equal to the freight and elevator handling charges.

Default
Failure to comply with the terms and conditions of a PPO contract and a delivery contract. Both contracts are subject to damages; pricing damages for PPO contracts and liquidated damages for delivery contracts.

Delivery contract
An offer from a producer that becomes a binding contract when accepted by the CWB. It specifies the type, grade and quantity of grain the producer wants to deliver.

Discount
A fee covering costs related to administration of the PPOs, risk and time value of money.

Early payment option (EPO)
A program to provide producers with improved cash flow and a guaranteed payment value.

Early payment value (EPV)
The published value representing the percentage of the PRO before the discount.

Exchange for physicals (EFP)
A procedure by which producers exchange a wheat futures contract with the CWB for the CWB's futures price.

Expiry date
The last day that the CWB provides a futures price quote for a given futures month. For example the last price quote for the December 2006 futures contract will be offered on November 30, 2006. Producers with December BPC contracts will need to lock in this price or complete a rollover to a forward futures month. Producers who take no action before or on the expiry date will be automatically priced at the last day's price.

Farmgate price
The net price received by a producer after the relevant deductions are subtracted from the in store Vancouver or St. Lawrence price.

Feed discount
A discount applied to deliveries of No. 4 CWRS, No. 4 CWHWS, No. 3 CWSWS, and CW Feed applied against Basis Payment and Fixed Price contracts. The discount accommodates producers who need to deliver lower quality grain against these contracts.

Financial futures
Futures contracts based on interest-rate instruments (T-bonds. T-bills, etc.), foreign currencies and indexes.

Fixed Price Contract (FPC)
Producers lock in the price for their wheat, durum, selected barley and feed barley and receive full payment within 10 business days of delivering their grain. They are ineligible for further payments, i.e. adjustment interim or final.

Feed grade wheat
For the purpose of the EPO program, wheat grading No. 4 CWRS, No. 4 CWHWS, No. 3 CWSWS, and CW Feed.

Floor price
A guaranteed minimum price which cannot be further reduced due to declining PROs or futures markets.

Foreign exchange
Rate at which one currency is converted to another. The PPO prices are determined by converting the relevant U.S futures prices into their Canadian dollar equivalents.

Foreign exchange risk
The exposure to changes in foreign exchange rates that may adversely affect Canadian dollar returns to the CWB.

Forecasted futures
The CWB's forecasted average price for a futures contract over the length of the pool period. This value is used to calculate the PRO.

Futures contract
A term used to designate standardized contracts covering the purchase and sales of grain for future delivery on one of the futures markets.

Futures market
A location where buyers and sellers get together for price discovery and risk management through open outcry. The PPO programs use the Chicago Board of Trade (CBOT), Kansas City Board of Trade (KBOT), Minneapolis Grain Exchange (MGEX) and Winnipeg Commodity Exchange (WCE) futures markets.

Guaranteed delivery contract (GDC)
A delivery contract for feed barley that guarantees 100 per cent delivery by the date specified for each GDC offer period. Producers have the option to price a GDC with an EPO, FPC or apply deliveries to the feed barley pool period associated with the GDC offered.

Hedge
A sale of futures contracts or the purchase of put options to offset the ownership or purchase of the underlying cash commodity in order to protect it against adverse price moves.

Incremental payment
A payment to compensate producers for wheat and barley delivered later in the crop year. The payment represents the time value of money to the producer. The value is set at the time of contract sign up and based on the month of delivery.

Initial payment
A payment issued, by an elevator (grain company) on behalf of the CWB, to a producer for a grain delivery, specific to the grain, class, grade and protein delivered.

Interested party
Landlords, vendors or mortgagees who are not actually engaged in the production of the crop but who share in the proceeds of grain sales.

Landlord
Someone who rents land to an actual producer under a crop-share agreement. People with cash rental agreements are not entitled to a share of the grain grown on the land and their names should not appear on the delivery permit as a landlord.

Liquidated damages – or delivery damages
A contract performance clause whereby producers are expected to deliver at least 90 per cent of the accepted amount of grain. Failure to do so results in liquidated damages being assessed on the shortfall.

Locked-in price
The in store price obtained by producers with basis contracts after they commit to a futures price. The lock-in price is equal to the basis and futures settlement price combined.

Long
One who has bought futures contracts or owns a cash commodity.

Margin
Money that individual buyers and sellers of futures and options contracts are required to deposit with brokers. Within the futures industry, financial guarantees required of both buyers and sellers of futures contracts and sellers of options contracts to ensure fulfilling of contract obligations. Margins are determined on the basis of market risk and contract value.

Margin call
A call from a brokerage firm to a customer, to bring margin deposits up to a required minimum level.

Minimum delivery guarantee
Before the start of the EPO and FPC for durum, the CWB announces a minimum delivery guarantee to guide producers when they are determining how much of their durum to commit to a PPO. It guarantees to producers who commit to a PPO for durum that they will be able to deliver a certain guaranteed percentage of volumes committed to A, B and C series contracts.

Misgrade
The grade of grain being delivered is a different grade or protein than the original delivery contract.

Nearby delivery month
The futures contract month closest to expiration. Also referred to as spot month.

Off-board wheat & barley
Wheat and barley that is marketed into the domestic feed market, outside of the CWB.

Original basis
A producer's first basis contract, before any rollovers are completed.

Pricing damages
A PPO contract performance clause whereby producers are required to settle on 100 per cent of their PPO contracted tonnage.

Producer payment option (PPO)
Contract programs that allow producers more flexibility in pricing their grain and to improve cash flow by paying out or advancing money earlier in the crop year. This includes various CWB pricing alternatives such as the Fixed Price Contract (FPC), the Basis Payment Contract (BPC), the Early Payment Option (EPO) and the Daily Price Contract (DPC).

Pool Return Outlook (PRO)
Are the CWB's forecast of the total market return for grain delivered during the crop year. PROs are not price guarantees. They are estimates based on price behavior, sales volumes and handling costs, both actual and projected.

Premium
The amount by which a given futures contract's price or commodity's quality exceeds that of another contract or commodity (opposite of discount). In options, the price of a call or put which the buyer initially pays to the option writer (seller).

Producer certificate
A certificate manually or electronically issued to the producer at time of settlement for a delivery. Also includes value only tickets for advance issuance or refunds against cash advance accounts.

Put option
An option that gives the option buyer the right but not the obligation to sell (go "short") the underlying futures contract at the strike price on or before the expiration date.

Reference grades
The grade within a class of grain used to establish the posted price. For example: the reference grade for the CWRS class is No. 1 CWRS 13.5%.

Relevant futures price
The daily closing price for one of the following contracts: Chicago Soft Red Winter, Kansas Hard Red Winter, Minneapolis Hard Red Spring or Winnipeg Commodity Exchange.

Risk
Part of the cost associated with offering the EPO, FPC and BPC program. The cost associated with price protection and hedging activities on various North American commodity futures and options markets to protect against declines in the market price.

Risk Premium
The cost to transfer an EPO contract to a feed grade or milling grade class.

Rollover
Closing out the basis position in the currently held month futures contract and taking a fresh position on a different month futures contract. For example, a producer holding a Dec contract basis can roll it over by closing it out with a short position and simultaneously taking a new basis position (adjusted basis) in the March contract.

Settlement date
The date on which a producer certificate is issued by a grain company.

Settlement price
The last price paid for a commodity on any trading day. If there is a closing range of prices, the settlement price is determined by averaging those prices. Also referred to as the settle or closing price.

Short
One who has sold futures contracts or plans to purchase a cash commodity. Selling futures contracts or initiating a cash forward contract sale without offsetting a particular market position.

Speculator
A trader who takes an outright long or short position in the market (opposite of "hedger"). Some speculators also trade spreads.

Spread
The deference between the initial price for the reference grade and the initial price for the delivered grade. Strike price - in options, the price at which a futures position will be established if the buyer exercises (also called strike or exercise price).

Target pricing
A service that enables producers to place and order with the CWB on the target value at which they want to lock in their fixed price, basis or futures price.

Time value of money
A component of the EPO discount charged to producers for the cost to the CWB to finance early payments. The time value of money is increasingly offset by the incremental payment for deliveries made later in the crop year.

Transfer
The process to switch a wheat, durum, or select barley EPO contract to a feed grade EPO of the same EPV level.

Transfer fee
The cost to transfer an EPO contract. The fee is equal to: {(original discount of the existing EPO – current discount of the existing EPO) + (current discount of the transfer class – original discount of the transfer class)}; if less then $0, then $0.

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