2006-07

Daily Price Contract

for wheat

PPO

Producer Payment Options

CWB

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Introduction

Producer Payment Options

Producer Payment Options (PPO) provide pricing flexibility, cash flow and management tools for producers. In an effort to enhance pricing and cash flow alternatives, the CWB has expanded the PPO portfolio to include a Daily Price Contract (DPC). The DPC provides more choice for producers who want greater control over marketing their grain.

Why a Daily Price Contract ?

The DPC is a program designed to provide producers with an opportunity to capture a daily cash price, based on the U.S. market. The DPC is another marketing alternative for producers, enhancing a mix of pricing options available through the PPO programs.

Principles sustaining a Daily Price PPO

- The program does not adversely affect the pool accounts;
- The program does not adversely affect grain delivery or single desk sales;
- The program is self-financing, with the cost of administration borne by the program participants; and
- Gains or losses in hedging activity are absorbed by the PPO contingency fund.

2006-07 PPOs at a Glance

In addition to the new DPC, the CWB currently offers three other payment options.

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

Managing risk and returns with PPOs

Producers can manage the degree of price and production risk 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. However, these options are based on commodity markets, which can be volatile.

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, PPOs can be used to provide a balanced marketing strategy throughout the crop year.

	Features			Eligible Crops				Program Duration
	Pays on delivery	Lock in price	Pricing damages	Wheat	Durum	Feed barley	Selected barley	Start Date & End Date
Priced off Futures								
Daily Price Contract	✓	✓	✓	✓				**Sign-up** June 1, 2006 to July 21, 2006 **Pricing** Aug 1, 2006 to July 31,2007
Fixed Price Contract	✓	✓	✓	✓	✓	✓	✓	Feb 27, 2006 to Nov 1, 2006 at 7:30 a.m. CT
Basis Price Contract	✓	✓	✓	✓			✓	**Sign-up** Feb 27, 2006 to Nov 1, 2006 at 7:30 a.m. CT **Futures** February 27, 2006 to June 30, 2007
Priced off PRO								
Early Payment Option	✓	✓	✓	✓	✓	✓	✓	Aug. 1, 2006 to July 31, 2007

What is the Daily Price Contract?

Sign-up period

Producers wanting to price their wheat under the DPC program can do so by signing up for the program before the start of the crop year. Sign up occurs *before* the beginning of the pricing period.

During the **sign-up period**, producers indicate the tonnage they wish to commit to the program. The sign-up period for the 2006-2007 DPC begins on **June 1, 2006** and ends on **July 21, 2006**.

Tonnage maximum

Participants can commit their non-durum wheat to a DPC until the sign-up period **deadline**, or until the program limit of 500 000 tonnes is met.

Pricing period

The pricing period runs from **August 1, 2006 to July 31, 2007**, with the CWB offering a daily cash price for reference grades of the seven classes of wheat. Producers who committed tonnes during the sign-up period can lock in a DPC value during the pricing period.

Reference grades for DPC wheat classes:

No. 1 CWRS 13.5
No. 1 CWHWS 13.5
No. 1 CWES
No. 1 CPSR
No. 1 CPSW
No. 1 CWRW
No. 1 CWSWS

Locking in cash grade spreads

Cash grade spreads are the second pricing component of the DPC program. The cash spread values can change daily, and are posted on a separate daily pricing schedule between **August 1, 2006 and July 31, 2007**. The cash spreads fine tune the DPC reference grade value to the current market values for the grades delivered. The cash spreads for which a producer is eligible are locked in based on the *final settlement date* on the producer's cash ticket. Producers must be aware of this, and may want to monitor the cash spread trends over a period of time before advising the elevator to settle their deliveries against their DPC.

Delivery options

Producers with a DPC can deliver to the CWB or market their grain to the U.S., using a Producer Direct Sales (PDS) contract.

CWB

Producers with a DPC who wish to deliver to the CWB must offer their production on Series A, B or C delivery contracts, and deliver in accordance with delivery calls. Delivery calls do not restrict the amount of tonnes a producer can price at any time.

U.S.

For producers wishing to market their grain to the U.S., the DPC may be an attractive tool. Using a DPC in conjunction with a PDS can reduce pricing uncertainty and price risk on PDS transactions. By simultaneously locking in a PDS value and a DPC value, producers can fix the spread between their DPC and their PDS, essentially locking in their PDS cost. The PDS values should closely follow the DPC values, reducing the producer's price risk on PDS transactions. Producers who **do not** price their DPC and PDS values together may be exposed to additional price risk if PDS values increase between the day the DPC is priced and the day the PDS occurs.

Part 1 – How the Daily Price Contract Works

Components of the Daily Price Contract

Similar to the FPC, the DPC will be offered as a flat price based on a reference grade, that combines the nearby U.S. wheat futures with a daily basis specific to the DPC program.

Pricing formula

Daily Price (of the reference grade)= DPC Basis + nearby futures

Basis

A separate basis will be calculated for each of the seven classes of wheat, based on average daily U.S. elevator prices from locations primarily in Montana and North Dakota. When combined with the daily wheat futures settlement prices, a reference grade DPC value is determined for each class of wheat.

Futures

The CWB uses the nearby futures month from the relevant futures market to establish the futures component of the DPC. Table 1 indicates the relevant futures market for each of the seven reference grades of wheat. The futures added to the cash basis provides the DPC value.

Table 1 Reference grades and relative futures contracts for the DPC

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

Cash spreads (grade & protein adjustments)

Cash spreads form the second component of the DPC. In addition to locking in a daily cash price value for the reference grade, a set of cash spreads - based on all grades and protein levels - determines the producer's **final** daily cash price value. Because DPC prices are only posted for the reference grades, they don't represent the full spectrum of grades and protein levels that producers deliver. The intent of the cash spreads is to adjust the DPC contract value to reflect the market value of the actual grade the producer delivers. A third party grade assessment may be used to verify grade and protein levels of grain settled against DPC's, for the purposes of determining cash spreads.

Daily Price (for all grades) = Daily Price (reference grade) +/- Cash Spreads

Lock in cash spreads at settlement

The DPC reference grade prices and cash spread values for all grades and protein levels will be posted daily. Local freight and elevation deductions must also be considered when determining a farmgate value.

IMPORTANT

- Producers receive the cash price spread in effect on date of initial payment **settlement**.
- Cash price spreads cannot be locked in before or after settlement.
- By applying a delivery to the DPC upon settlement, producers elect to take the DPC cash spread effective that day.

Initial cash spreads vs. DPC cash spreads

When a producer delivers and settles grain against a DPC, they receive the initial payment for that grade at the elevator. Since the initial payments for all grades are set differently than the DPC cash spreads for those same grades, the DPC value is effectively influenced by the initial payment spreads. As a result, an extra calculation is required to ensure the final DPC is reflective of the DPC cash spreads, not just the initial payment spreads in effect at the time of settlement. This extra calculation is referred to as the **DPC premium or discount**.

DPC premium/discount (to initial payment spreads)

The initial payment paid to the producer at settlement accounts for a portion of the final DPC payment. If the DPC cash spread in effect on date of settlement is of higher value than the initial payment spread for the grade delivered, the producer will receive an additional **DPC premium** for delivering that grade. Conversely, if the DPC cash spread in effect on date of settlement is of lower value than the initial payment spread, the producer will receive a **DPC discount** for delivering that grade (refer to "Calculating the DPC premium/discount" on page 9).

Receiving the initial payment spread for the grade delivered is how the Fixed Price and Basis Payment contracts are adjusted to reflect the value for the actual grade delivered. The DPC cash spreads include this initial payment spread, plus or minus the DPC premium or discount, to reflect the cash market on the day of settlement.

Calculating DPC payments and cash spreads

Additional Payment Calculation

Upon settlement of deliveries against a priced DPC, the CWB issues an additional payment directly to the producer, representing the difference between the contracted price and the amount already received from the initial payment.

The DPC's additional payment can be calculated using two different formulas.

The ***delivered grade*** formula calculates the producer's additional DPC payment using:

- the DPC price (reference grade value);
- the initial payment for the **grade delivered;**
- the DPC cash spread in effect at settlement.

Payment formula using "delivered grade"

DPC ref. grade value
- delivered grade initial price
-/+ DPC Cash spread
= Additonal DPC payment

The ***reference grade*** formula calculates the producer's additional DPC payment using:

- the DPC price (reference grade value);
- the initial payment for the **DPC reference grade**;
- the DPC premium/discount in effect at settlement – calculated using the DPC cash spread and the initial payment spread.

Payment formula using "reference grade"

DPC ref. grade value
- reference grade initial price
-/+ DPC premium/discount
= Additonal DPC payment

DPC premium/discount is calculated by taking the DPC cash spread less initial payment spread at settlement.

Example: CWRS DPC cash spreads to the reference grade No. 1 CWRS 13.5 ($/tonne in store) and resulting DPC premium/discount.

Grade	DPC cash spread from reference grade DPC (A)	DPC value	CWB initial payment	Initial payment spread from reference grade (B)	*DPC premium/ discount by grade (C)=(A)-(B)
1 CWRS 15.5	61.35	267.51	172.25	16.10	45.25
1 CWRS 14.5	29.55	235.71	163.75	7.60	21.95
1 CWRS 14.4	26.37	232.53	162.90	6.75	19.62
1 CWRS 14.3	23.19	229.35	162.15	6.00	17.19
1 CWRS 14.2	20.01	226.17	161.40	5.25	14.76
1 CWRS 14.1	16.83	222.99	160.65	4.50	12.33
1 CWRS 14.0	13.65	219.81	159.90	3.75	9.90
1 CWRS 13.9	10.92	217.08	159.15	3.00	7.92
1 CWRS 13.8	8.19	214.35	158.40	2.25	5.94
1 CWRS 13.7	5.46	211.62	157.65	1.50	3.96
1 CWRS 13.6	2.73	208.89	156.90	0.75	1.98
1 CWRS 13.5	0.00	206.16	156.15	0.00	0.00
1 CWRS 13.4	-2.73	203.43	155.40	-0.75	-1.98
1 CWRS 13.3	-5.46	200.70	154.80	-1.35	-4.11
3 CWRS	-47.57	158.59	126.00	-30.15	-17.42
CW Feed	-91.81	114.35	84.00	-72.15	-19.66

*values are for illustration only.

DPC premium/discount calculation

DPC premium/discount = DPC cash spread - initial payment spread

Example:

For delivery of ***No.1 CWRS 14.5***, with the cash ticket settled against a DPC contract, (reference grade of ***No.1 CWRS 13.5***) the DPC premium or discount would be calculated like this:

Note: There is no cash spread for No.1 CWRS 13.5. because it is the reference grade. The DPC price is based on this grade, and therefore cannot have a premium or discount to itself.

(A) DPC cash spread

The DPC cash spread for No. 1 CWRS 14.5 at the time of settlement is $29.55/ tonne.

Grade	DPC cash spread from reference grade (A)
1 CWRS 14.5	$ 29.55
1 CWRS 13.5 (reference grade)	$ 0.00

(B) Initial payment spread

Initial payment spread between No.1 CWRS 13.5 & No.1 CWRS 14.5 equals $7.60/tonne.

Grade	Initial payment	CWB initial payment CWB spread from (B)
1 CWRS 14.5	$ 163.75	$ 7.60
1 CWRS 13.5 (reference grade)	$ 156.15	$ 0.00

(C) DPC premium/discount

The CWB pays the producer the DPC premium/ discount of $21.95/tonne when the CWB additional payment is issued.

This equals the cash spread of $29.55/tonne minus the initial payment spread of $7.60.

Grade	DPC U.S Premium (C)
1 CWRS 14.5	$ 21.95
1 CWRS 13.5 (reference grade)	$ 0.00

(A) – (B) = (C)
$29.55 – $7.60 = $21.95

Based on this example, a producer settling No. 1 CWRS 14.5 against a DPC on this date will receive an additional payment ("DPC premium") of $21.95 per tonne, because the CWB initial payment spread is not reflecting the current cash market value for this grade at this time.

A producer settling No. 1 CWRS 13.3 would see their payment discounted ("DPC discount") by $4.11 per tonne, because the CWB initial payment spread is not discounting the lower protein delivery to the current cash market value. (See DPC premium/discount chart on page 9.)

Illustration of DPC premiums and discounts for Canada Western Red Spring (CWRS):

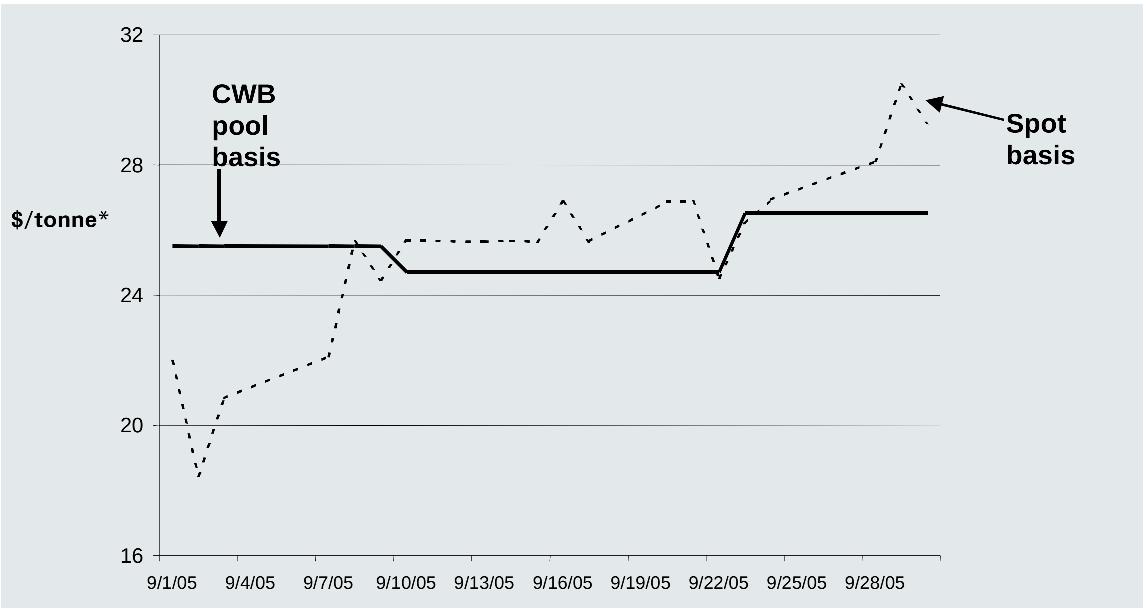
Grade	DPC cash spreads from reference grade No. 1 CWRS 13.5	Initial payment spreads from reference grade No. 1 CWRS 13.5	DPC premium or discount
1 CWRS 14.5	$29.55	$7.60	$21.95
1 CWRS 14.4	$26.37	$6.75	$19.62
1 CWRS 14.3	$23.19	$6.00	$17.19
1 CWRS 14.2	$20.01	$5.25	$14.76
1 CWRS 14.1	$16.83	$4.50	$12.33
1 CWRS 14.0	$13.65	$3.75	$9.90
1 CWRS 13.9	$10.92	$3.00	$7.92
1 CWRS 13.8	$8.19	$2.25	$5.94
1 CWRS 13.7	$5.46	$1.50	$3.96
1 CWRS 13.6	$2.73	$0.75	$1.98
1 CWRS 13.5	**$0.00**	**$0.00**	**$0.00**
1 CWRS 13.4	($2.73)	($0.75)	($1.98)
1 CWRS 13.3	($5.46)	($1.35)	($4.11)

How does the DPC compare to the FPC or BPC?

The theory behind the DPC is similar to that of the FPC, however some features of the DPC are very different, specifically, the basis calculation and application of the grade and protein spreads.

Spot basis vs Pooled basis

The DPC basis uses a "spot" basis, not a "pooled basis" (like the FPC) when calculating the daily price. A spot (or cash) basis is subject to more volatility, reacting to daily markets, whereas the FPC pooled basis is an expected average value of pooled sales made over the entire crop year.



*for illustration only

DPC cash grade spreads vs initial payment spreads

Application of distinct grade and protein spreads is another difference between the DPC and FPC. The FPC price adjusts for grade/protein levels apart from the reference grade, using the initial payment grade spread in effect at time of settlement. Because initial payment spreads change according to adjustment payments, FPC grade spreads remain stable for extended intervals through the crop year. The DPC price uses cash spreads when calculating payment for deliveries other than the reference grade. The DPC cash spreads for grade and protein levels can fluctuate daily, impacting the producer's total returns on the DPC.

Administrative details for sign-up and pricing periods also differ from the FPC. See the chart on the following page.

How do the DPC, FPC and BPC compare?

Details	Fixed Price Contract (FPC & BPC)	Daily Price Contract
Sign-up period	Feb 27, 2006 to Nov 1, 2006 at 7:30 a.m. CT	Jun 1, 2006 to Jul 21, 2006
Pricing period	FPC & Basis: Feb 27, 2006 to Nov 1, 2006 at 7:30 a.m. CT Futures: Feb 27, 2006 to Jun 30, 2007	Aug 1, 2006 to Jul 31, 2007
Pricing method	**FPC** • Must lock basis and futures at the same time through 1-800-275-4292 or by fax **BPC** • Choose basis first, prices futures later. • Choose futures first, lock in basis later. • Roll basis before expiry month Auto-priced on basis contract month expiry,if not rolled	**DPC** • No separate basis contract offered • Price locked in through 1-800-275-4292 or by fax • Cash spreads locked in at time of settlement Auto-priced on Aug 1, 2007 at 7:30 a.m. CT
Contract price calculation	FPC derived using a CWB pooled basis FPC=CWB pooled December basis + December futures.	DPC derived using cash basis DPC= cash basis + nearby futures +/- cash spread on date of settlement
Minimum tonnage	Must commit a minimum of 20 tonnes	Must commit a minimum of 20 tonnes
Reference grades	No.1 CWRS 13.5 No.1 CWHWS 13.5 No.1 CPSR No.1 CPSW No.1 CWSWS No.1 CWRW No.1 CWES	No.1 CWRS 13.5 No.1 CWHWS 13.5 No.1 CPSR No.1 CPSW No.1 CWSWS No.1 CWRW No.1 CWES
Grade/protein spreads	Determined by CWB initial payment spreads	Determined by DPC cash spreads
Grade/protein spread locked at:	Time of settlement	Time of settlement
Buyout calculation	The greater of: Current FPC - producer's FPC *or* Current futures - contracted futures If negative - then $0/tonne. (plus $15 administration fee)	The greater of: Current FPC - contracted DPC *or* Current futures - contracted futures If negative- then $0/tonne. (plus $15 administration fee)
Pricing damages	Calculation same as buyout, using Jul 31, 2007 pricing schedule	Calculation same as buyout, using Jul 31, 2007 pricing schedule
Additional payment calculation	FPC - initial payment of reference grade +incremental payment	Reference grade DPC- initial payment of reference grade +/- DPC premium/discount
Feed deliveries	Yes - but feed discount in effect at settlement is deducted from additonal payment	Yes - but DPC cash spread in effect on date of settlement is deducted from additional payment
Commodity exchanges	CWRS, CWHWS, CWES = Minneapolis CPSR, CPSW, CWRW = Kansas City CWSWS = Chicago	CWRS, CWHWS, CWES = Minneapolis CPSR, CPSW, CWRW = Kansas City CWSWS = Chicago
Tonnage cap	None, but reserve the right to withdraw the program without prior notice	500 000 tonnage cap - all classes combined

Payment of the DPC

Producers will recieve payment from a DPC in two steps.

1. DPC Initial payment

From the elevator, producers receive the initial payment for the grade and protein delivered, less deductions for freight and handling. At this time, the producer also locks in, but does not receive, the daily cash spread for the grade delivered.

2. DPC Additional payment

DPC premium/ discount is calculated by taking the DPC cash spread less initial payment spread at settlement

The additional payment from the CWB calculates the difference between the producer's reference grade DPC price and the initial payment value for the reference grade. When using the "reference grade" formula, the DPC premium/discount (DPC cash spread minus the initial payment spread) is added to or subtracted from the additional payment. The reference grade additional payment formula is:

Payment formula using "reference grade" →

DPC ref. grade value
- ref. grade initial price
-/+ DPC premium/discount
= Additonal DPC payment*

***Additional payments are subject to deductions for defaulted advances, liquidated damages, pricing damages , statutory deductions, and Western Grains Research Foundation (WGRF) deductions.**

Payment deductions

The additional payment issued by the CWB is subject to deduction for wheat, durum and barley research. Producers who choose not to participate can mail or fax a written note to the Western Grains Research Foundation (WGRF) before settlement or no later than August 31, each year. Notice must include full name, CWB producer identification number, crop year, and full address.

Western Grains Research Foundation
214-111 Research Drive
Saskatoon, SK S7N 3R2
Ph: 1-306-975-0060 Fax: 1-306-975-0316

Alberta barley is exempt, the check-off is administered by the Alberta Barley Commission.

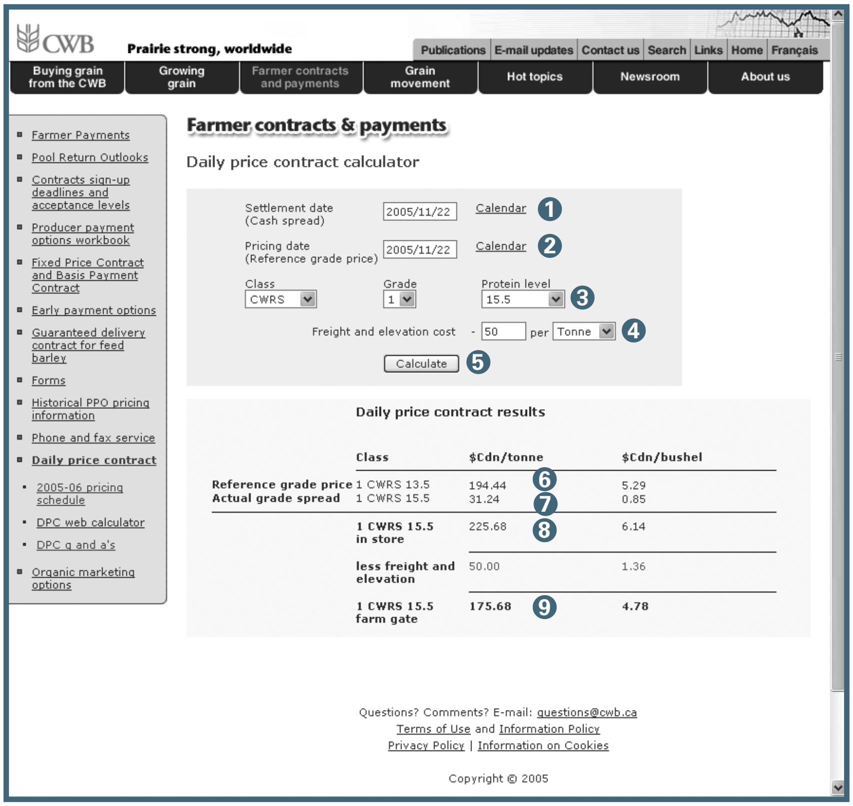
The additional payment is also subject to any other appropriate deductions including but not limited to outstanding defaulted cash advance accounts, liquidated damages, pricing damages or transaction fees related to the PPO programs.

Daily Price Contract Calculator

– used for calculating total farmgate price

1. Enter the date of settlement on the cash ticket.
2. Enter the date the DPC reference grade was priced.
3. Enter the class, grade and protein of grain delivered.
4. Enter freight and elevation cost.

5. Click on the calculate button.
6. This is the DPC reference grade price.
7. This is the DPC grade spread of grade delivered
8. In store value of grade delivered
9. Farm gate value of grade delivered



DPC – Payment example:

On July 15, Bob commits 100 tonnes to a CWRS DPC contract. On November 22 the DPC value is $194.44 (based on No. 1 CWRS 13.5).

Bob priced and delivered against his contract on November 22 thereby locking in both the DPC and the premiums/discounts for that day.

Bob's Payment:
1 CWRS 15.5% delivered:
CWB Initial for 1 CWRS 15.5% - $157.60

Additional payment

DPC value (based on 1 CWRS 13.5)	$194.44
CWB Initial payment (based on 1 CWRS 13.5)	$133.60
= Additional payment	$60.84
plus: DPC spread (premium/discount) ($31.24-$24=$7.24)	$7.24
Total Payment: (157.60+60.84+7.24=$225.68)	$225.68 (in store)

Marketing grain to the CWB with a DPC

Example #1: Simultaneous pricing and delivery

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

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

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

1. July 15, 2006
   Signs 100 tonne DPC

2. September 1, 2006
   Delivers 100 tonnes No. 1 CWRS 14.5
   Receives initial payment of $160.00/tonne

3. September 1, 2006
   Prices 100 tonne DPC contract
   Locks in $220.00/tonne. DPC value based on No. 1 CWRS 13.5

4. September 15, 2006
   Receives additional payment of $80.00/tonne for Sept. 1 delivery

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

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

DPC reference grade value	$ 220.00
Ref. grade initial payment -	$ 150.00
	= $ 70.00
DPC premium	+ $ 10.00
	= $ 80.00

Additional payment = $ 80.00

Total DPC payment = $240.00

Example #2: Pricing before delivery

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

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

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

2. September 1, 2006
   Prices 100 tonne DPC contract
   Locks in $220.00/tonne. DPC value based on No. 1 CWRS 13.5

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

3. November 1, 2006
   Delivers 100 tonnes No.1 CWRS 14.5
   Receives initial payment of $160.00/tonne

4. November 15, 2006
   Receives additional payment of $85.00/tonne for Nov. 1 delivery

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

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

DPC reference grade value	$ 220.00
Ref. grade initial payment	- $ 150.00
	=$ 70.00
DPC premium	+ $ 15.00
	=$ 85.00

Additional payment = $ 85.00

Total DPC payment = $245.00

Example #3: Pricing after delivery

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

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

1. July 15, 2006
   Signs 100 tonne DPC

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

2. September 1, 2006
   Delivers 100 tonnes No. 1 CWRS 14.5
   Receives initial payment of $160.00/tonne

3. November 1, 2006
   Prices 100 tonne DPC contract
   Locks in $230.00/tonne. DPC value based on No.1 CWRS 13.5

4. November 15, 2006
   Receives additional payment of $90.00/tonne for Sept. 1 delivery

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

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

DPC reference grade value	$ 230.00
Ref. grade initial	- $ 150.00
	=$ 80.00
DPC premium	+ $ 10.00
	=$ 90.00

Additional payment = $ 90.00

Total DPC payment = $250.00

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

Example #1: Simultaneous pricing of DPC and PDS

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

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

3. November 1, 2006
   Prices 100 tonne DPC contract
   Locks in $255.00/tonne DPC value based on $230.00/tonne No.1 CWRS 13.5
   and a cash spread of $25.00/tonne for No. CWRS 14.5

   *DPC cash spread locked in based on the date the producer certificate is issued.

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

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

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

DPC and PDS price spreads*

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

Example #2: Pricing the DPC after the PDS transaction

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

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

3. November 26, 2006 (U.S. futures market has declined)
   Prices 100 tonne DPC contract
   Locks in $250.00/tonne DPC value based on $225.00/tonne No.1 CWRS 13.5 and a cash spread of $25.00/tonne for No. CWRS 14.5 delivery

   *DPC cash spread locked in based on the date the producer certificate is issued.

4. November 1, 2006
   Locks in PDS/DPC spread of $10.00/tonne

PDS/DPC spread = PDS value - DPC value
$10.00/tonne $260.00 $250.00

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

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

DPC and PDS price spreads*

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

Part 3– Administration of the Daily Price Contract Program

Prices and sign-up

The DPC program consists of three components, a **sign-up period**, a **pricing period** and **locking in cash spreads**.

Step 1 – Sign up

The sign-up period for the DPC is **June 1 to July 21, 2006**. During the sign-up period, the CWB will accept new tonnage commitments. Producers can later choose to decrease their commitments before July 21, but will incur a $15 per transaction administration fee. Decreases to contract commitments after July 21 will be subject to pricing damages.

The tonnage maximum for this program is limited to 500 000 tonnes. Once this tonnage maximum is met, the sign-up period terminates. The CWB will provide advance notice when the program is nearing capacity ensuring those who are interested in committing tonnes can do so before the sign up is terminated.

Step 2 – Price

The pricing period for the DPC runs from **August 1, 2006** to **July 31, 2007** and corresponds with the 2006-07 crop year. During this time, daily pricing schedules offer the cash price values for the reference grades of the seven classes of wheat. Unpriced contracts will be automatically priced on August 1, 2007 by 7:30 a.m. CT.

For both sign-up and pricing, producers must commit a minimum of 20 tonnes.

Step 3 – Lock in cash spreads

The DPC cash spread values will be posted on a separate pricing schedule, valid from **12:00 a.m. to 11:59 p.m. CT daily, beginning August 1, 2006 to July 31, 2007**. The cash spreads producers receive for the DPC contract is determined by the cash ticket settlement date.

It is important that cash tickets are reported correctly so producers will capture the intended spreads posted on that date. The CWB will not allow the cancellation and replacement of cash tickets with different settlement dates. If a cash ticket needs to be corrected, it must be cancelled and replaced with the original PC date. The CWB will monitor these transactions.

Sign-up and pricing methods

The CWB offers two methods of sign-up, ***telephone*** or ***fax***.

Using their CWB PIN (Personal Identification Number) and CWB Producer Identification Number, producers can sign up and price by phone, at 1-800-275-4292.

Telephone
1-800-275-4292

Fax
1-204-983-8031

Forms

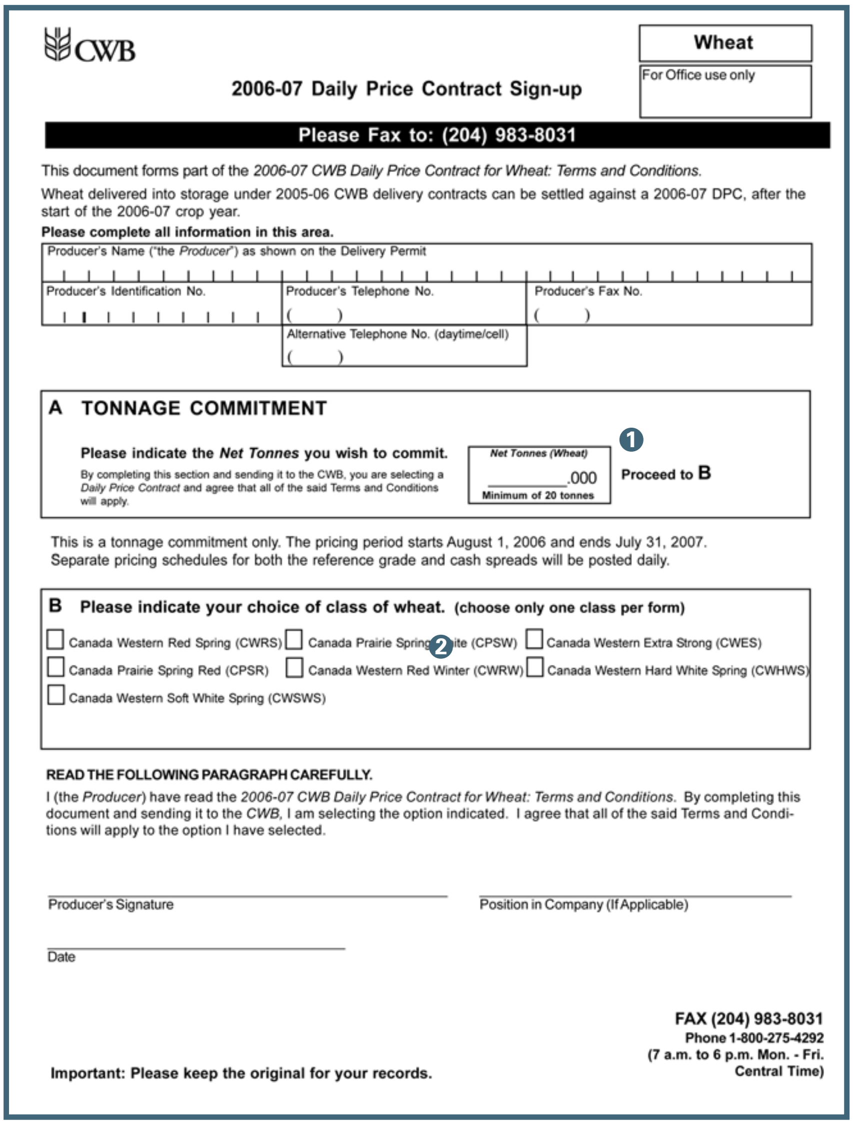
Sign-up forms and pricing forms are available on-line, by Fax on Demand, or can be requested by calling the CWB. Forms must be completed accurately and signed before faxing to the CWB.

DPC pricing schedules, published daily from August 1, 2006 to July 31, 2007, are effective between 2:30 p.m. and 7:30 a.m. CT the following day. Incomplete or late pricing forms that cannot be processed before 7:30 a.m. and telephone sign-up after 7:30 a.m. receive the next available value, posted at 2:30 p.m. CT.

Contracts and Information Statements, outlining the contract number, tonnes, class of wheat, sign-up date, pricing date and the value locked in, are mailed directly to the producer.

Terms and Conditions are available on the CWB Web site, by Fax on Demand or by calling the CWB. Before making a commitment, producers should be familiar with the terms and conditions of the DPC.

Pricing contracts are not delivery contracts. During the crop year, producers must offer their production through regular CWB delivery contracts. Producers must also deliver 100 per cent of the tonnes committed to DPC contracts, or be subject to pricing damages.



CWB

2006-07 Daily Price Contract Sign-up

Wheat

For Office use only

Please Fax to: (204) 983-8031

This document forms part of the *2006-07 CWB Daily Price Contract for Wheat: Terms and Conditions.*

Wheat delivered into storage under 2005-06 CWB delivery contracts can be settled against a 2006-07 DPC, after the start of the 2006-07 crop year.

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) ( )

A TONNAGE COMMITMENT

Please indicate the *Net Tonnes* you wish to commit.

By completing this section and sending it to the CWB, you are selecting a *Daily Price Contract* and agree that all of the said Terms and Conditions will apply.

Net Tonnes (Wheat) .000 Minimum of 20 tonnes

1 Proceed to B

This is a tonnage commitment only. The pricing period starts August 1, 2006 and ends July 31, 2007. Separate pricing schedules for both the reference grade and cash spreads will be posted daily.

B Please indicate your choice of class of wheat. (choose only one class per form)

- ☐ Canada Western Red Spring (CWRS)
- ☐ Canada Prairie Spring White (CPSW) 2
- ☐ 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)

READ THE FOLLOWING PARAGRAPH CAREFULLY.

I (the *Producer*) have read the *2006-07 CWB Daily Price Contract for Wheat: Terms and Conditions*. By completing this document and sending it to the *CWB*, I am selecting the option indicated. I agree that all of the said Terms and Conditions will apply to the option I have selected.

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.

How to sign a DPC

Please refer to the "2006-07 Daily Price Contract Sign-up" form for wheat.

Section A

1. Enter the net tonnes. Commitments must be a minimum of 20 tonnes and reported in whole numbers (no decimals) to avoid processing errors. If less than 20 tonnes are entered, the CWB will not process the contract.

Section B

2. Choose the class of wheat.

Lock-in form for the DPC

Please refer to the "2006-07 Daily Price Contract Lock-in" application

1. Enter the six-digit CWB DPC number in the space provided.
2. Enter the net tonnes to be locked in. Commitments must be a minimum of 20 tonnes or the balance of the contract and reported in whole numbers (no decimals) to avoid processing errors.

DPC pricing schedules, published daily from Aug 1, 2006 to July 31, 2007, are effective between 2:30 p.m. and 7:30 a.m. CT the following day. Incomplete or late pricing forms that cannot be processed before 7:30 a.m. and telephone sign up after 7:30 a.m. receive the next available value, posted at 2:30 p.m. CT.

Contracts and Information Statements, outlining the contract number, tonnes, class of wheat, sign-up date, pricing date and the value locked in are mailed directly to the producer.

Terms and Conditions are available on the CWB Web site, by Fax on Demand or by calling the CWB. Before making a commitment, farmers should be familiar with the DPC terms and conditions of the DPC.

Pricing contracts are not delivery contracts. During the crop year, farmers must offer their production through regular CWB delivery contracts. Farmers must also deliver 100 per cent of the tonnes committed to DPC contracts, or be subject to pricing damages.

CWB

Wheat

2006-07 Daily Price Contract Lock-in Application

Please Fax to: (204) 983-8031

This document forms part of the *2006-07 CWB Daily Price Contract for Wheat: Terms and Conditions*.

The pricing period is from August 1, 2006 to July 31, 2007.
Separate pricing schedules for both the reference grade and cash spreads are posted daily.

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) ( )

LOCK-IN **Complete all information in the box below.**

I have a Daily Price Contract (DPC).
I wish to lock in the reference grade for my DPC.

1 Contract Number	Net Tonnes (Wheat) 2
	________.000 Minimum of 20 tonnes

If less than 20 tonnes are unpriced, the entire amount must be locked in.

Cash spreads are locked in at the time of initial payment settlement for the grade(s) applied against your DPC.

READ THE FOLLOWING PARAGRAPH CAREFULLY.

I (the *Producer*) have read the *2006-07 CWB Daily Price Contract for Wheat: Terms and Conditions*.
By completing this document and sending it to the *CWB*, I am selecting the option indicated.
I agree that all of the said Terms and Conditions will apply to the option I have selected.

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.

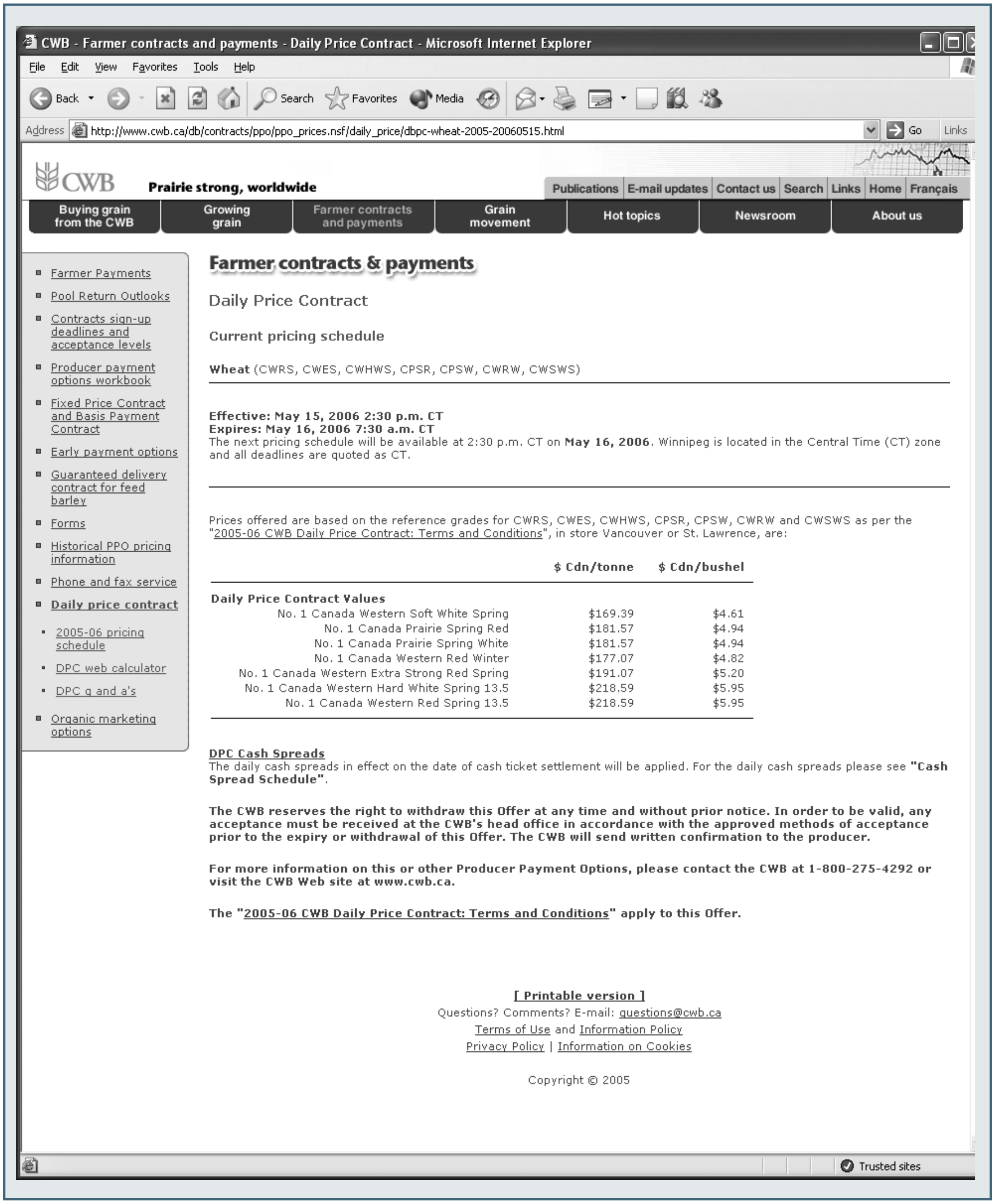
Pricing transactions

Daily DPC pricing schedule

Effective 2:30 p.m. to 7:30 a.m.

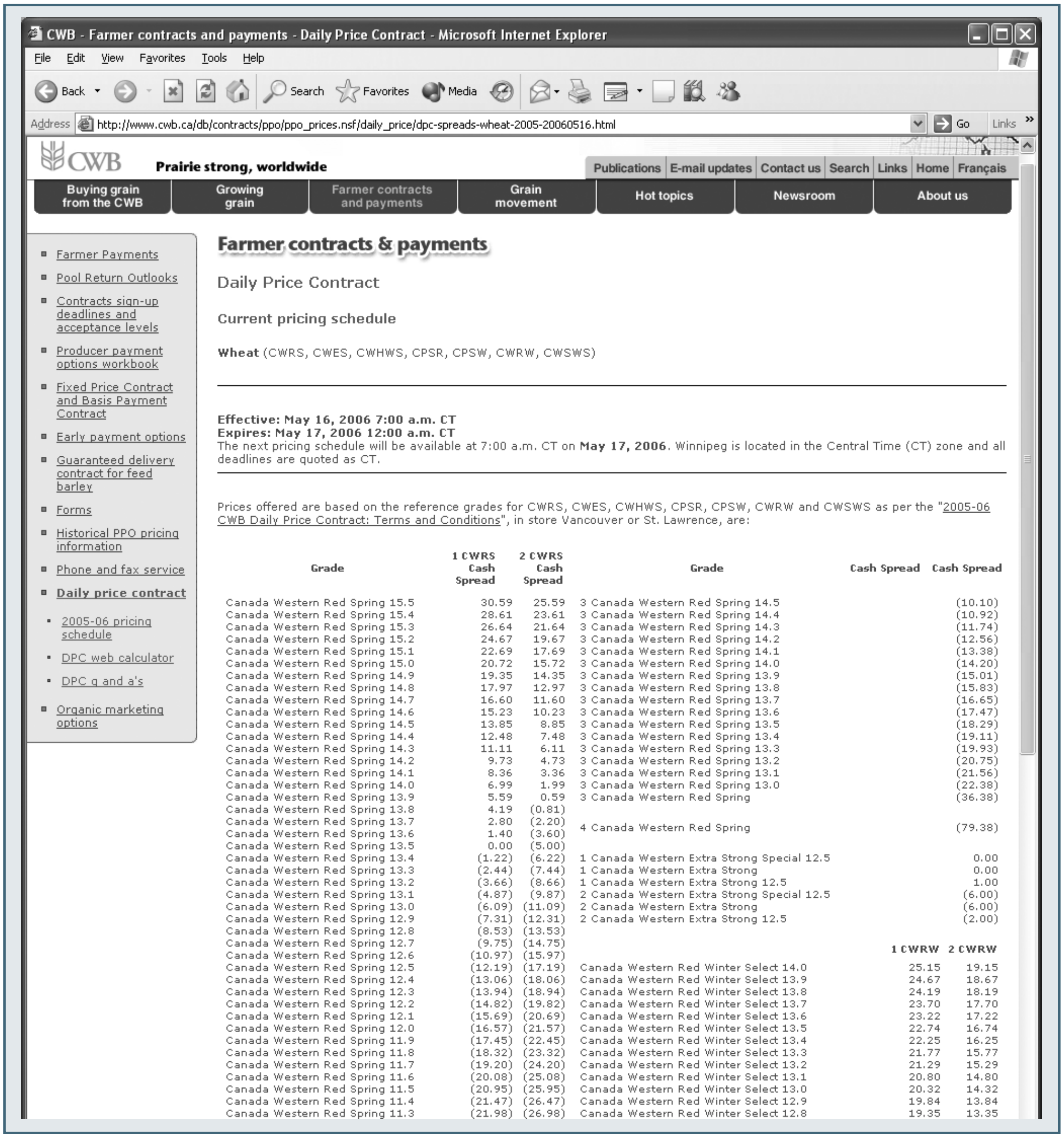
During the pricing period (August 1, 2006 to July 31, 2007) the CWB publishes the ***daily DPC values***.

The DPC pricing schedules are posted by class and the related U.S. futures market, at 2:30 p.m. CT each day and are effective until 7:30 a.m. CT the next business day.



Daily DPC cash spread tables

Upon delivery, the producer's DPC (based on the reference grade price) is adjusted in value to reflect grade and protein delivered. These grade adjustments are premiums or discounts determined by daily grade and protein spreads available in the spot market. Daily cash spread tables are effective daily for settlement of cash tickets. The relevant daily cash spread is applied to all deliveries reported that day.



CWB - Farmer contracts and payments - Daily Price Contract - Microsoft Internet Explorer

Address http://www.cwb.ca/db/contracts/ppo/ppo_prices.nsf/daily_price/dpc-spreads-wheat-2005-20060516.html

CWB Prairie strong, worldwide

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- Phone and fax service
- **Daily price contract**
  - 2005-06 pricing schedule
  - DPC web calculator
  - DPC q and a's
- Organic marketing options

Farmer contracts & payments

Daily Price Contract

Current pricing schedule

Wheat (CWRS, CWES, CWHWS, CPSR, CPSW, CWRW, CWSWS)

Effective: May 16, 2006 7:00 a.m. CT
Expires: May 17, 2006 12:00 a.m. CT
The next pricing schedule will be available at 7:00 a.m. CT on **May 17, 2006**. Winnipeg is located in the Central Time (CT) zone and all deadlines are quoted as CT.

Prices offered are based on the reference grades for CWRS, CWES, CWHWS, CPSR, CPSW, CWRW and CWSWS as per the "2005-06 CWB Daily Price Contract: Terms and Conditions", in store Vancouver or St. Lawrence, are:

Grade	1 CWRS Cash Spread	2 CWRS Cash Spread	Grade	Cash Spread	Cash Spread
Canada Western Red Spring 15.5	30.59	25.59	3 Canada Western Red Spring 14.5		(10.10)
Canada Western Red Spring 15.4	28.61	23.61	3 Canada Western Red Spring 14.4		(10.92)
Canada Western Red Spring 15.3	26.64	21.64	3 Canada Western Red Spring 14.3		(11.74)
Canada Western Red Spring 15.2	24.67	19.67	3 Canada Western Red Spring 14.2		(12.56)
Canada Western Red Spring 15.1	22.69	17.69	3 Canada Western Red Spring 14.1		(13.38)
Canada Western Red Spring 15.0	20.72	15.72	3 Canada Western Red Spring 14.0		(14.20)
Canada Western Red Spring 14.9	19.35	14.35	3 Canada Western Red Spring 13.9		(15.01)
Canada Western Red Spring 14.8	17.97	12.97	3 Canada Western Red Spring 13.8		(15.83)
Canada Western Red Spring 14.7	16.60	11.60	3 Canada Western Red Spring 13.7		(16.65)
Canada Western Red Spring 14.6	15.23	10.23	3 Canada Western Red Spring 13.6		(17.47)
Canada Western Red Spring 14.5	13.85	8.85	3 Canada Western Red Spring 13.5		(18.29)
Canada Western Red Spring 14.4	12.48	7.48	3 Canada Western Red Spring 13.4		(19.11)
Canada Western Red Spring 14.3	11.11	6.11	3 Canada Western Red Spring 13.3		(19.93)
Canada Western Red Spring 14.2	9.73	4.73	3 Canada Western Red Spring 13.2		(20.75)
Canada Western Red Spring 14.1	8.36	3.36	3 Canada Western Red Spring 13.1		(21.56)
Canada Western Red Spring 14.0	6.99	1.99	3 Canada Western Red Spring 13.0		(22.38)
Canada Western Red Spring 13.9	5.59	0.59	3 Canada Western Red Spring		(36.38)
Canada Western Red Spring 13.8	4.19	(0.81)			
Canada Western Red Spring 13.7	2.80	(2.20)	4 Canada Western Red Spring		(79.38)
Canada Western Red Spring 13.6	1.40	(3.60)			
Canada Western Red Spring 13.5	0.00	(5.00)			
Canada Western Red Spring 13.4	(1.22)	(6.22)	1 Canada Western Extra Strong Special 12.5		0.00
Canada Western Red Spring 13.3	(2.44)	(7.44)	1 Canada Western Extra Strong		0.00
Canada Western Red Spring 13.2	(3.66)	(8.66)	1 Canada Western Extra Strong 12.5		1.00
Canada Western Red Spring 13.1	(4.87)	(9.87)	2 Canada Western Extra Strong Special 12.5		(6.00)
Canada Western Red Spring 13.0	(6.09)	(11.09)	2 Canada Western Extra Strong		(6.00)
Canada Western Red Spring 12.9	(7.31)	(12.31)	2 Canada Western Extra Strong 12.5		(2.00)
Canada Western Red Spring 12.8	(8.53)	(13.53)			
Canada Western Red Spring 12.7	(9.75)	(14.75)			
Canada Western Red Spring 12.6	(10.97)	(15.97)		1 CWRW	2 CWRW
Canada Western Red Spring 12.5	(12.19)	(17.19)	Canada Western Red Winter Select 14.0	25.15	19.15
Canada Western Red Spring 12.4	(13.06)	(18.06)	Canada Western Red Winter Select 13.9	24.67	18.67
Canada Western Red Spring 12.3	(13.94)	(18.94)	Canada Western Red Winter Select 13.8	24.19	18.19
Canada Western Red Spring 12.2	(14.82)	(19.82)	Canada Western Red Winter Select 13.7	23.70	17.70
Canada Western Red Spring 12.1	(15.69)	(20.69)	Canada Western Red Winter Select 13.6	23.22	17.22
Canada Western Red Spring 12.0	(16.57)	(21.57)	Canada Western Red Winter Select 13.5	22.74	16.74
Canada Western Red Spring 11.9	(17.45)	(22.45)	Canada Western Red Winter Select 13.4	22.25	16.25
Canada Western Red Spring 11.8	(18.32)	(23.32)	Canada Western Red Winter Select 13.3	21.77	15.77
Canada Western Red Spring 11.7	(19.20)	(24.20)	Canada Western Red Winter Select 13.2	21.29	15.29
Canada Western Red Spring 11.6	(20.08)	(25.08)	Canada Western Red Winter Select 13.1	20.80	14.80
Canada Western Red Spring 11.5	(20.95)	(25.95)	Canada Western Red Winter Select 13.0	20.32	14.32
Canada Western Red Spring 11.4	(21.47)	(26.47)	Canada Western Red Winter Select 12.9	19.84	13.84
Canada Western Red Spring 11.3	(21.98)	(26.98)	Canada Western Red Winter Select 12.8	19.35	13.35

Effective 12:00 a.m. to 11:59 p.m. daily (24 hours)

Use our online tool to calculate DPC values and cash spreads for all deliveries.

Visit the CWB Web site for more information.

Prices and forms

CWB Web site	**www.cwb.ca**
Fax on Demand	1-800-275-4292 (telephone menu option #3)
Telephone	1-800-275-4292
Contact	CWB Farm Business Representatives
Visit	CWB Handling Agents

Reporting DPC deliveries

Producer certificates

Six-digit DPC

Like all PPO contracts, producer certificates (PC's) applied to a DPC must be reported using the **six-digit DPC number.** Reporting the six-digit contract number is critical for fixing the cash spreads on deliveries, since the cash spreads in effect at the time of settlement alter the DPC value.

Improper reporting of cash tickets

Producer certificates missing the six-digit contract number will not be applied to a DPC. Cancellation and replacement reporting of PC's will be monitored ensuring the original settlement date is used is used when corrections are required.

IMPORTANT:

Delivery must be applied accurately to a DPC at settlement to ensure the integrity of the application of daily cash spreads. Canceling and replacing PCs with a different settlement dates and grades will alter the cash spreads previously applied against a DPC.

Class-specific

Deliveries assigned to a DPC are class-specific. For example, only CWRS deliveries can be applied toward a CWRS DPC.

Payment upon delivery

The elevator manager is responsible to pay the producer the initial payment for the grade and protein delivered (less freight and elevation) and to report the DPC contract number on the cash ticket as instructed by the producer. Following settlement, if the producer has previously priced the DPC, they will receive an additional payment within 10 business days.

REMEMBER:

The additional payment determines the producer's final DPC value. The DPC additional payment is affected by:

- the DPC cash spread in effect at the time of final settlement; and
- the initial payment spreads received at the elevator

Partially priced contracts

If the DPC has been partially priced, the producer receives an additional payment for the priced tonnes only.

Unpriced contracts

When deliveries are reported against a DPC that has not been priced, the additional payment is withheld until the pricing transaction occurs. The producer then receives the additional payment for the priced tonnes only.

No pool payments

Deliveries applied to DPC are not eligible for adjustment, interim or final payments from the CWB. The initial payment plus the additional payment represent the producer's full payment.

Feed discount

There is no additional feed discount for the DPC program as the DPC cash spread in effect at time of settlement for a feed grade will adjust the producer's contract value to the current cash market value for feed wheat.

Additional program details

*

Note: The CWB does not pay out basis or futures gains to producers wishing to cancel their contract.

Buyout costs & assignments

Buyouts

Producers wishing to terminate or reduce their DPC due to production shortfall or a change in their marketing strategy can choose to partially or completely buyout of their contract. The buyout formula is the greater of:

Current FPC – contracted DPC + $15 administration fee

OR

Current futures – contracted futures + $15 administration fee

Pricing damages

Producers must deliver and price 100 per cent of the tonnage committed to the DPC. Failure to do so results in the assessment of pricing damages on any tonnage shortfall. Pricing damages are assessed on August 1, 2007 and are calculated using the buyout formula above.

Assignments

The assignment process is another option for producers wishing to terminate or reduce their DPC contract. Through the assignment process, producers can transfer all or a portion of their tonnage to another producer. Assignments are a business arrangement between two producers. The CWB does not arrange these transactions. A $15.00 transaction fee applies to assignments. Contact the CWB for assignment forms.

Liquidated damages (delivery damages)

All tonnage committed to a BPC/FPC contract must also be committed to a CWB delivery contract. Producers must deliver a minimum of 90 per cent of the tonnage committed to delivery contracts. Liquidated damages will be assessed on any shortfall. The formula used to calculate liquidated damages includes administration, demurrage, penalties and lost opportunity. The minimum rate for liquidated damages is $6 per tonne. The maximum rates are $15 per tonne for wheat and durum and $25 per tonne for barley.

Producers who buy out of their BPC/FPC contracts have to consider the tonnage assigned to Series A, B, or C contracts separately to avoid liquidated damages before the deadline date. If a producer buys out of an FPC or BPC and still meets the obligation on delivery contracts, there will be no liquidated damages assessed.

Contract sign-up corrections and cut-off procedures

Procedure to handle corrections

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

If fax transactions are received with incomplete information, the CWB cannot process the transaction. The CWB will contact the producer to gather missing information, and the producer will receive the contract price that is in effect at the time of confirmation.

If the information submitted on the fax form is complete, the CWB will process the transaction based on that information. When producers receive their Information Statement, 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.

Fax transmission failures

The CWB fax machine maintains a log of all incoming faxes received. The log indicates the time, originating fax number, number of pages received and status of the transmission. This log will be used to verify if a fax was transmitted to the CWB. It is the sender's responsibility to ensure their fax transmits successfully. When in doubt, they should immediately call the CWB to confirm receipt of their application.

Cancellation and replacement of producer certificates

The additional payment issued to farmers on the PPO programs is dependent on accurate delivery reporting.

Producer certificates are monitored for reporting errors. The CWB will contact farmers or elevator agents to confirm reporting errors, and will correct PPO contract numbers and delivery call years upon confirmation. Changes to identification number, grain, grade and protein musts be done by the grain company by cancelling the original producer certificate and issuing a replacement producer certificate for the correction

Program cut-off procedures

The PPO programs have tonnage limitations and sign-up may be cut off before the sign-up deadline dates.

Each Friday, the CWB will review the tonnage committed to the programs. If total producer commitments are approaching program limits, consideration will be given to terminating the program over the course of the following week. On that Monday, the CWB will issue a Country Elevator News (CEN) bulletin, informing agents of the potential closing of the program. This is a warning that the program may be cut off at any time after 7:30 a.m. CT the next business day. Producers wanting to make commitments to the program should be advised to do so immediately.

If a program is terminated, the CWB will initiate an automated call to elevator managers, advising them of the program close and a CEN bulletin will be released that morning.

Any contract commitments received after 7:30 a.m. CT on the day 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.

Part 4 – Questions and answers

Why is sign up capped at 500 000 tonnes?

The DPC offers a spot basis derived from U.S. elevator bids each day. The spot basis can widen or narrow considerably over the crop year having more volatility then the pooled basis attained from CWB sales. In order for the contingency fund to be sustainable, the pool return must be equal to or be greater than the DPC price on average to support the spot basis component. Basis risk can not be hedged therefore the 500 000 tonne cap is in place to manage the higher basis risk associated with offering the spot basis component. Based on program performance and producer feedback, the sign up limit may be increased in future crop years.

How is the CWB determining the DPC?

The DPC will be an average of a basket of North Dakota and Montana elevator prices. A reference grade DPC price will posted for each of the seven classes of wheat, and posted as an in store Vancouver or St. Lawrence value. Producers will have to deduct rail freight and handling to arrive at a farm gate price.

Why is the spot price at a US elevator located a few miles from my farm much better than your current DPC value?

The DPC reflects an averaged US elevator price, and from time to time can be significantly less than a specific local US elevator bid. This situation will occur when a US elevator is caught short on supply, and will improve it's wheat basis to attract immediate deliveries from it's local US producers. If you wish to capture such a premium, you can price your DPC contract in conjunction with the CWB Producer Direct Sales program effectively locking in a spread to access the US market.

Do I have to deliver this contract to a US elevator.

No. This contract was developed to provide all producers with a US equivalent price for deliveries applied against their CWB delivery contracts.

Since the CWB will only be posting a reference (base) grade DPC price, how will I know what my wheat is worth if I deliver a grade other than the reference grade?

A set of cash spreads specific to the DPC program will be posted daily for all grades and protein levels for wheat.

How do I lock in the cash spreads for my deliveries?

Cash spreads in effect on the date of initial payment settlement will be automatically applied against your contract.

Why are the DPC cash spreads different than the initial payment spreads?

DPC cash spreads reflect the daily cash market spreads between varying grades and protein content of wheat and can change in value every day. The initial payment spreads are set at the beginning of the crop year based on a long-term price outlook. As the crop year progresses, these spreads are reset as adjustments to the initial payments occur.

Can I apply deliveries to my contract before I price it?

Yes. The elevator will issue the initial payment based on the settlement grade and apply the deliveries against the contract. The CWB will issue the DPC additional payment after you price the reference grade portion of the DPC.

How can I lock in the DPC cash spread if my grain has not been called for delivery yet?

Your deliveries are based on Series A, B, C contract calls. You will have the opportunity to lock in the cash spreads for the amount of tonnes that are currently called for delivery.

What is the discount for applying feed grades to my contract?

There will be no additional discount applied to your contract for feed grade deliveries. The DPC cash spread for feed grades in effect at the time of initial payment settlement will be applied against your contract determining your final contract price.

I have multiple contracts (DPC, FPC and EPO), does it make a difference which contract I deliver against?

It's your choice. When settling your deliveries at the grain elevator, ensure the staff applies the correct contract numbers to your cash purchase tickets.

I applied deliveries against my DPC, but haven't priced it yet. Will I receive CWB adjustment payments on these deliveries until my contract is priced?

No. After receiving the initial payment you will not receive any additional payments from the CWB until you price the reference grade portion of the contract.

What happens if I don't price my DPC contract by July 31, 2007?

Any tonnes remaining to be priced will be automatically locked in on July 31, 2007. Producers, who cannot fill their contracts, or wanting to reduce their commitments, can assign their contracts to another producer prior to this date. They also have the option to buy out their DPC. The buyout cost is the greater of:

(Current fixed price contract (FPC) value – DPC)
or
(Current futures value – futures value on date of DPC lock in

Why do I have to price my entire contract by July 31, 2007? If the market prices are too low, can't I just cancel the tonnes remaining on my contract?

If the condition to price your contract by July 31, 2007 was not required, the DPC could be used to arbitrage to pool account. That is, producers would have the option to deliver against the DPC whenever the price exceeds the pool. Alternatively, if the pool account is priced higher than the DPC towards the end of the crop year, producers could deliver into the pool and cancel their DPC commitments at no cost.

Can I lock in the basis only and price the futures later under the DPC program?

No. The DPC is offered as a flat price contract only, there is no separate basis and futures contract. You can still sign a basis contract under the CWB basis payment contract (BPC) program.

I plan to use the DPC with a Producer Direct Sale (PDS). Do I have to complete the two transactions at the same time?

No, you can price the DPC before or after you complete a PDS. By locking in the values on different days you leave yourself exposed to the PDS/DPC spread widening and increasing your cost to access the US market. On the other hand the spread may also narrow in your favour.

What if I think that the spreads are unattractive at time of delivery?

Grain can be put on storage to be priced at a later date in order to capture a more favorable spread for the grain delivered.

Part 5 – 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.

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 expences, 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 DPC, they can transfer their contract. Transfers involve completing an Assignment form, available from the CWB, and assigning all or a portion of their contracted tonnage to another producer.

Basis
See cash basis, or pooled basis

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.

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.

Cash basis
The basis value used for the DPC program. The cash basis reflects average daily U.S. elevator prices from locations primarily in Montana and North Dakota, and is combined with the nearby futures to create DPC reference grade values.

Class specific contract
Deliveries assigned to a PPO contract (including the DPC) must match the class of wheat for which the contract was signed. For example, only CWRS deliveries can be applied toward a CWRS PPO.

Commodity Exchange
Centres where commodities or commodity futures contracts are bought and sold.

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

Daily price contract (DPC) for wheat
A pricing program for wheat that provides producers with an opportunity to capture a daily cash price based on U.S. grain elevator prices.

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.

DPC Additional payment
A payment made by the CWB to producers within 10 days of delivery, and after the DPC is priced. DPC additional payments are equal the DPC contracted price less the initial price for the relevant reference grade at the time of delivery, plus or minus the DPC premium or discount.

DPC cash grade spreads
A premium or discount, based on the grade and protein spreads from the DPC reference grade. DPC cash spreads are applied to the DPC contract value. The producer locks in the DPC cash spread at time of settlement for the actual grade delivered. The DPC spreads are published daily by the CWB.

DPC premium/discount
The difference between the DPC cash spread locked in by the producer, and the initial payment spread already paid to the producer at the elevator. The DPC premium/discount is based on the grade and protein delivered by the producer, and is included in the producer's DPC additional payment from the CWB.

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

Farmgate value
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 that applies to FPC and BPC programs. There is no feed discount for the DPC program. The DPC cash spread in effect at the time of settlement will adjust the producer's DPC contract value to the current cash market value for feed wheat.

Fixed price contract (FPC)
Enables producers to lock in a price, for their wheat, determined by the December basis plus the December futures. The FPC value is also used for the determination of the DPC buy-out price.

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 program use the Chicago Board of Trade (CBOT), Kansas City Board of Trade (KBOT), Minneapolis Grain Exchange (MGE),and Winnipeg Commodity Exchange (WCE) futures markets.

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.

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.

Initial payment grade spreads
The difference between the initial price for the reference grade and the initial price for the delivered grade.

Liquidated damages (or delivery damages) – A delivery 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 lock-in price is equal to the Daily Price Contract value plus the cash spread in effect on the date of settlement.

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

Personal identification number (PIN)
The PIN is a confidential, personal identification number assigned to a producer, enabling him to access the CWB's IVR system, online services and to perform business transactions via the telephone.

Pricing damages
A PPO contract performance clause which requires producers to settle on 100 per cent of their PPO contracted tonnage. Calculated using the buyout price.

Pooled basis
The basis value used in the FPC and BPC programs. The pooled basis is the difference between the CWB's PRO and the forecasted futures, less a discount. A pooled basis is different from the cash basis value used for the DPC program.

Producer direct sale (PDS)
A process that gives individual producers the opportunity to capture U.S. market premiums they identify.

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 Daily Price Contract (DPC), Fixed Price Contract (FPC), the Basis Payment Contract (BPC) and the Early Payment Option (EPO).

Pool Return Outlook (PRO)
Are the CWB's forecasts 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.

Pricing period
The time frame that a producer can lock in a DPC value for the reference grade of a particular class of wheat. The pricing period for the DPC program is August 1, 2006 to July 31, 2007.

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.

Reference grades
The grade within a class of grain used to establish the posted price for the DPC. 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
Is part of the cost associated with offering the DPC, EPO, FPC and BPC programs. 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.

Settlement date
The date on which a producer certificate is issued by a grain company, for wheat priced under the DPC.

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 thoseprices. Also referred to as the settle or closing price.

Sign up period
The time frame that a producer can sign up tonnes under the DPC program. The sign up period for the DPC program is June 1, 2006 to July 21, 2006. DPC tonnage cannot be priced during the sign up period.

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

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The Canadian Wheat Board

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