PREMIUM OFFER

Grain Marketing Contract

WHAT IS THE PREMIUM OFFER CONTRACT?

- The Premium Offer contract pays a Premium on grain sold today in exchange for a Firm Offer to sell additional Deferred Delivery grain under certain conditions
- The Firm Offer for Deferred Delivery grain will come into effect if the futures price is at or above the Firm Offer Price on an established Pricing Date

Should I use this contract? Yes, if you:

- Would like to receive an upfront payment for a commitment to potentially sell additional production
- Intend to make forward delivery commitments
- Understand your cost of production and feel confident establishing an appropriate Firm Offer Price

Benefits:

- The Premium Offer contract provides an enhanced cash price
- The basis can be established on the Firm Offer commitment up to and including the Pricing Date to achieve full basis appreciation potential
- There are a variety of Firm Offer Prices, Pricing Dates and Premium values available
- There is no obligation to deliver more grain unless the Firm Offer is triggered
- You retain the Premium even if the offer is not triggered

When should I use this contract?

- Use the Premium Offer contract as part of your grain marketing plan
- At harvest, to receive an upfront Premium on harvest deliveries with a Firm Offer on grain that you will store for the winter
- Prior to harvest, to receive an upfront Premium on winter deliveries and to assist with spring purchases with the Firm Offer established on new crop production

Definitions:

PREMIUM: The upfront funds received upon entering into a Premium Offer contract. Each Firm Offer Price has an associated bonus Premium. The value of the Premium reflects the realism of the Firm Offer Price being triggered.

FIRM OFFER: The agreement to sell grain to Cargill at the Firm Offer Price (less the applicable basis) if the futures price on the Pricing Date meets or exceeds the Firm Offer Price

FIRM OFFER PRICE: The futures price at which the Firm Offer is triggered

PRICING DATE: The day the Premium Offer will be executed (i.e. the Firm Offer Price will be compared to the futures closing price for that day only)

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How Premium Offer works

Considerations:

- The Firm Offer is executed only on the Pricing Date – not before
  - The market could rally and exceed the Firm Offer Price before the Pricing Date but fall below the Firm Offer Price on the Pricing Date
- If the Firm Offer is executed, the Firm Offer Price (less the applicable basis) will be applied to an additional delivery contract, not the current futures price
  - The market could be trading higher than the Firm Offer Price on the Pricing Date. Because of this, we suggest only a portion of production be applied to a Premium Offer agreement, allowing you to take advantage of an improved futures price on the remaining production
  - If the basis is not established before the Pricing Date, the posted basis on the Pricing Date will be used to establish the cash price
- The Firm Offer does not guarantee the deferred sale of the grain
  - If the Firm Offer Price is not reached, you are not obligated to deliver

How does the Premium Offer contract work?

EXAMPLE:

On February 15 you decide to deliver a load of canola prior to spring road bans.

You enter into a Premium Offer contract to apply a $5.00 Premium on the load delivered today for a firm commitment on a load of new crop canola if the November futures price closes at or above the Firm Offer Price of $600.00 on August 1.

The elevator basis bid for current delivery is $20.00 under the March futures. The March futures are trading at $575.00.

To ensure harvest delivery, you decide to establish the basis on the Firm Offer at $25.00 under the November futures.

TODAY'S DELIVERY BID (CURRENT DELIVERY)

Futures	$575.00
Basis	(20.00)
Today's Bid	$555.00
Premium Offer	5.00
Total Payment	$560.00

FIRM OFFER CONTRACT PRICE (POTENTIAL FUTURE DELIVERY):

Futures	$600.00
Basis	(25.00)
Firm Offer	$575.00

SCENARIO 1

On August 1 – the Pricing Date – the futures price closes at $595.00.

- In this case, the futures price closes below the Firm Offer Price. Therefore, no futures price is established
- You can apply the current futures price to the basis contract to receive a full price of $570.00 ($595.00 current futures less $25.00 Fixed Basis contract price) or continue to monitor the market and establish a futures price at a later date

SCENARIO 2

On August 1 – the Pricing Date – the futures price closes at $605.00.

- In this case, the futures price is above the Firm Offer Price. Therefore, the final price for your September delivery will be $575.00 ($600.00 Firm Offer Price less $25.00 Fixed Basis contract price)
- Consider: The improved futures price should be taken into consideration on a portion of your new crop deliveries

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