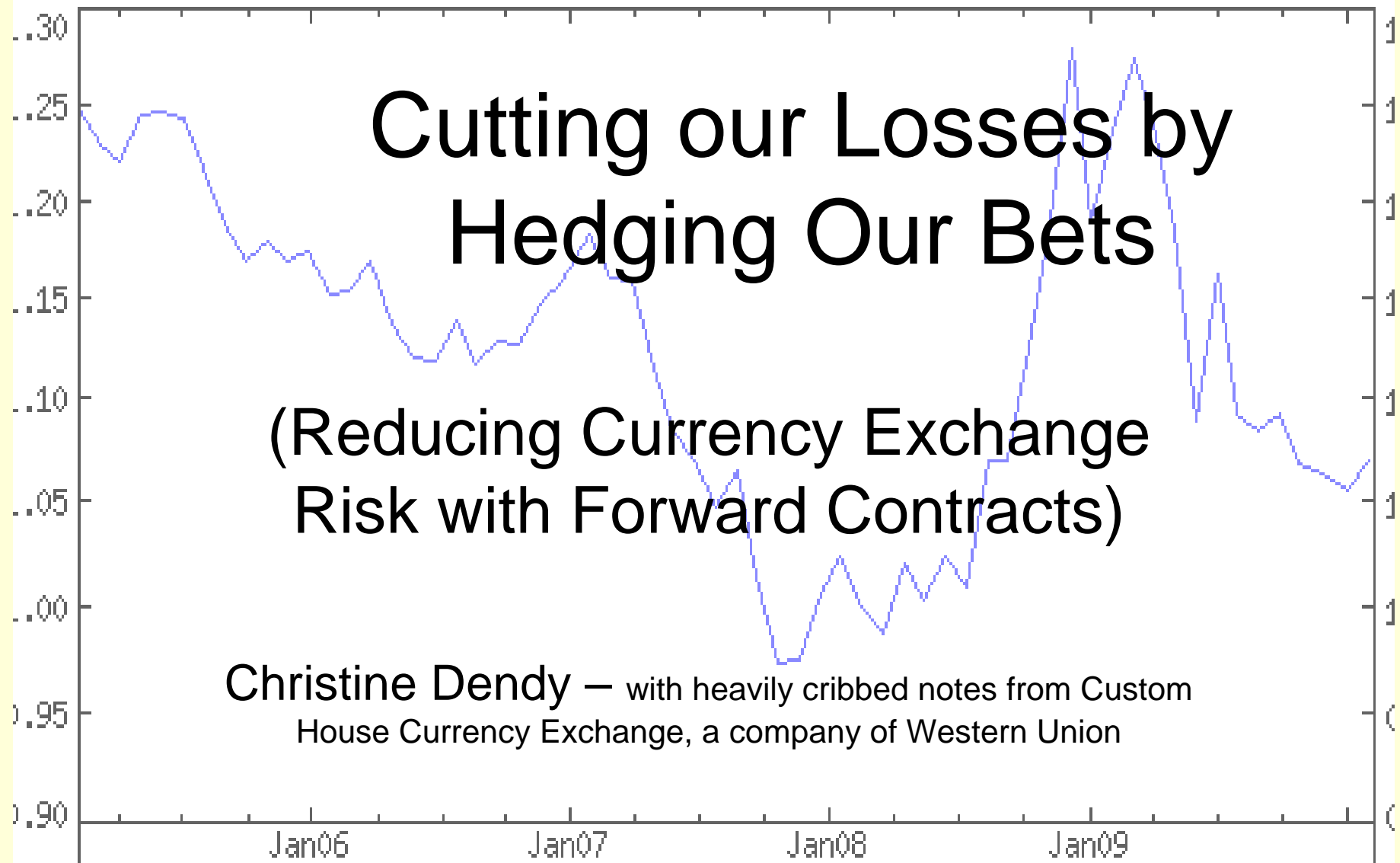


usdcad=x

as of 2-Feb-2010



Cutting our Losses by Hedging Our Bets

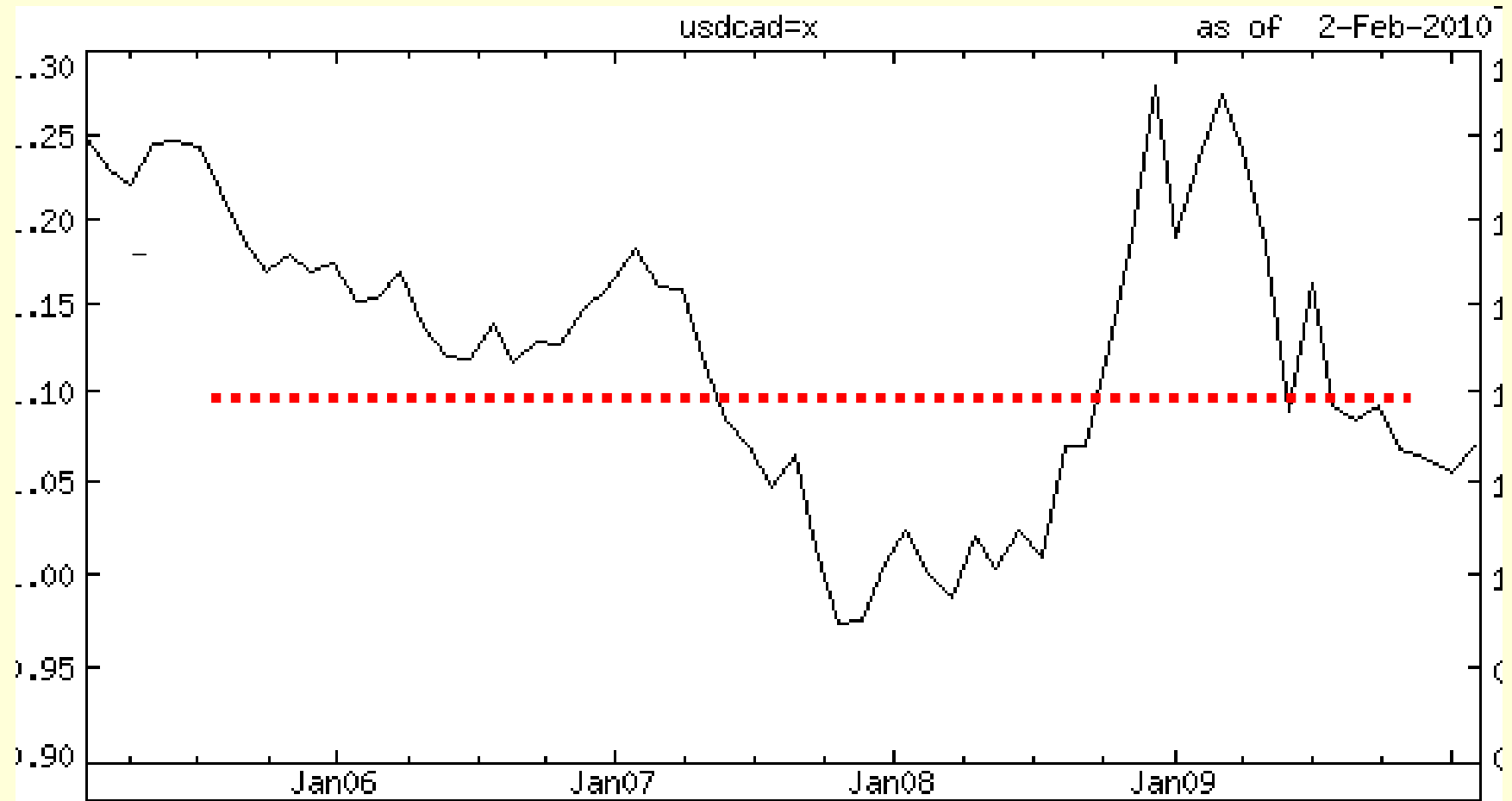
(Reducing Currency Exchange Risk with Forward Contracts)

Christine Dendy — with heavily cribbed notes from Custom House Currency Exchange, a company of Western Union

Some things we can't control...

- We have **some** control over production risks (helicopters, crop insurance, diversity of varieties)
- We have **less** control over competition - but can work to position ourselves in the market a bit
- We have **no** control over the US\$ - and this has the single most dramatic effect on the bottom line for export cherries.

5 Year US\$:Cdn\$ Exchange Rate



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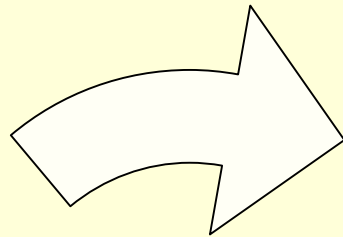
<http://finance.yahoo.com/>

A “Forward Contract”

- the most straightforward currency hedging tool available.
- effectively allows you to buy or sell a foreign currency at **today’s market price**, while delaying the settlement of the contract to some future point in time, thus reducing your exposure to currency exchange fluctuations.
- An adjustment, called the ***forward points***, is applied to the spot price to compensate for the interest rate differential between the two currencies in question and the passage of time.

When the rate is good:

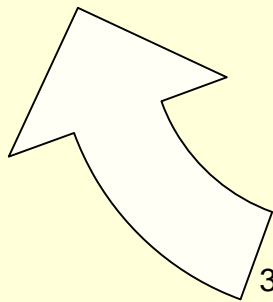
1. Contract to purchase X Canadian dollars by a future date



2. As US funds come available, pay down the contract,

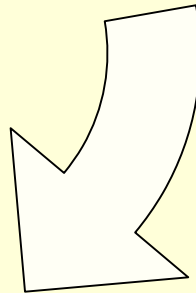
1. Contract to buy x Canadian dollars by a certain date.

2. As US funds come available, buy down the contract by the contract date.



3. Receive Canadian dollars at the contracted rate.

3. Receive Canadian dollars at the contracted rate.



Example:

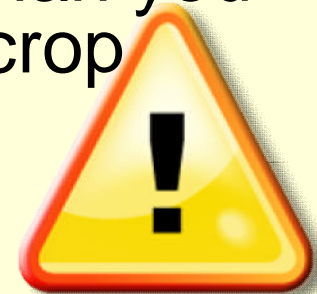


1. December 20xx US\$ = 1.09 C\$ and you expect the Canadian \$ to strengthen over the next year, possibly above par.
2. Forward contract rate is offered at 1.085
3. You expect to receive \$200,000 in US revenue next September and October.
4. You decide to contract $\frac{1}{2}$ your expected US \$ revenue - to be paid out by November the following year.
5. Regardless what the currency rate is then, you pay down your contract by and receive C\$108,500 instead of ???

Cautions:



- This is not a speculation gamble to get rich.
- It is a calculated decision to get an acceptable rate that reduces your risk of unacceptable currency exchange losses in the future.
- It only works if there is an opportunity to buy the contract at a rate you can live with.
- There are no guarantees you make the most lucrative decision.
- Don't contract for a larger amount than you are sure you can deliver (consider crop losses, future fruit prices).



Costs

- Will depend on your banker/currency broker and the amount you contract.
- May require a deposit with little or no interest (which ties up some cash for the duration).
- May require other security, submission of financial statements, and authorization.
- May cost you your marriage if you get too cocky and screw up.

Critical Elements

- If the current rate isn't what you want, and/or you think the exchange rate will be okay next year (or the year after), don't bother.
- Be prepared to make less than you might have if the currency exchange rates end up more favourable than expected but you were locked in on your contracted rate.
- Don't contract a bigger portion of your expected future revenue than you feel comfortable with.
- This is a tool to reduce some of the unknowns we deal with. It is an option only, and one **you** make the decisions on.
- Seek advice. Think. Seek a bit more advice. Act if the time is right, don't act if not....

