Cow-calf Lease Agreement

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Foreword

This publication provides an overview of some of the different types of cow-calf leasing arrangements. Different types of leasing arrangements may be developed to meet the needs of the parties involved. It is essential that all parties understand the implications and are comfortable with all aspects of the arrangement prior to entering into an agreement. A lease is a legal document.

This publication should not be considered as either an interpretation or complete coverage of all the laws or legislation affecting lease arrangements, nor the implications of *The Income Tax Act* (see Appendix 6).

All lease agreements should be discussed with a third party such as a Professional Agrologist, accountant, tax consultant and/or lawyer before they are signed. Revenue Canada will also provide information on tax implications.

This publication describes livestock leasing based on good business practices. The sample lease agreement provided in the publication is for illustrative purposes only. It should be an objective of the parties to keep the lease agreement as clear and concise as possible. **A lawyer should review any lease agreement before it is finalized.**

For more information, contact the Agriculture Knowledge Centre at 1-866-457-2377 or visit *saskatchewan.ca/agriculture.*

DISCLAIMER:

The information and sample lease agreement contained in this publication is intended to assist landlords and tenants in negotiating and administering cow-calf lease agreements. It is not intended to take the place of legal, accounting, or tax advice and should not be relied on for those purposes. Anyone entering into a cow-calf lease should review their situation with a lawyer and an accountant before entering into the agreement.

The calculations contained in this publication are included for illustrative purposes only. The Ministry of Agriculture makes no representations as to the completeness or accuracy of the calculations, nor does it make any claims as to the currency, representative nature or appropriateness of the amounts used in the calculations.

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Key Definitions

Owner: The individual who has invested into the operation through the purchase of livestock while receiving a payment that is set out in the contract. The owner will have little control over the daily ranching operations unless stated within the contract.

Operator: The individual responsible for the everyday care of livestock, maintenance on buildings and equipment, storage of forage, marketing of livestock, and any other responsibilities relating to the cow-calf operation.

Market risk: The risk that the value of your investment will decrease due to a change in market factors such as price of calves or timing of sale.

Production risk: Any production event or activity where the producer or owner is uncertain of the outcome; risks can be caused by weather, pests, disease, human error or misuse of technology.

Cash lease agreements: An agreement where the owner receives a fixed annual payment from the operator. The operator generally accepts all or virtually all of the production and marketing risk in this type of agreement.

Percentage of cost lease agreement: An agreement where the owner and operator share the revenue based on the percentage of cost that each party has contributed to the operation. In this type of agreement, both the owner and operator share the marketing and production risk.

Flexible lease agreement: Is based on the percentage cost from each party. Revenue from the sale of calves is used to cover operating cost first, followed by fixed cost, and if there is any additional surplus, opportunity costs will be covered last. The percentage of cost each party contributes will determine the percentage of revenue that each party receives.

Fixed number of calves lease agreement: The owner receives a predetermined number of calves as payment for their investment. The operator incurs all the production risk and a portion of marketing risk.

Introduction

A lease agreement is a legal document that outlines the responsibilities and obligations of each party. A formally-written lease provides protection to the parties in the event of death, dissolution or dispute by assisting in the settling of differences or misunderstandings by clearly addressing all possible issues in an orderly fashion.

Leasing offers profit and risk sharing between the owner of the livestock and the operator. Remember, there are many terms and conditions that may be included in an agreement.

It is important to consider the quality of management, the fairness of income versus services provided and the adequacy of the terms that govern the arrangement before entering into the agreement. All agreements have some risk associated with them. Both parties must carefully examine the terms and conditions of the proposed agreement to ensure that they are understood and acceptable before agreed to.

It is important to have these agreements in writing. As noted earlier, **it is also important for the parties to obtain legal advice before entering into any agreements.** This publication provides some sample clauses for a cow-calf lease agreement.

Advantages and Disadvantages of Leasing

In the past, livestock leasing was a popular way to obtain access to exotic breeds of cattle or purebred herds. Today, good genetics and reduced debt loads are still benefits of a livestock lease agreement.

Advantages of Leasing

The owner can:

- test the viability of the enterprise before making a large investment into land and facilities;
- retain ownership of their herd, while focusing in another area of business or personal life;
- adjust the scale of their operation to a manageable size by leasing out part of their livestock assets (i.e. when forage or facilities are lacking);
- have access to another operation’s genetics and skilled management if their own is limited; and
- maintain an active interest in cattle production and/or maintain a manageable tax load while phasing into retirement. **Accountants should be consulted with respect to any tax considerations.**

The operator can:

- reduce fixed capital costs, cash requirements and risk when entering the industry or expanding their operation;
- make further use of resources such as livestock buildings, feed and pasture;
- test the viability of an enterprise before making a large investment; and
- gain experience in livestock production under the direction of an experienced owner.

Disadvantages of Leasing

The owner:

- has the potential for low returns if the operator is inefficient;
- loss of direct control over management of livestock; and
- can find it difficult to keep the livestock, especially in the short term, if the agreement is terminated.

The operator might:

- find that the owner interferes with management decisions;
- have the potential for low returns if the livestock come to the farm in poor condition or health;
- require enhanced biosecurity practices to prevent the introduction of acute or chronic diseases; and
- find it difficult to adjust production processes, especially in the short term, if the agreement is terminated.

Designing a Lease Agreement

A livestock lease agreement can be based on the sharing of expenses or the sharing of production or market risks, or all of the above. Production risks include feed costs, pounds of gain, pregnancy and calving rates and death loss. Marketing risks include fluctuating prices and timing of sales. The type of agreement and proper management can minimize some of the production and marketing risks. There needs to be a balance between risk and potential profit for each party.

Trust is also a very important component of any livestock leasing agreement. Many things can go wrong in a business arrangement, so when it comes to the very subjective area of how you treat livestock, trust becomes an important component. Credit checks and/or character references may be useful.

The agreement should be comprehensive and it should be in writing. The information needed to create an agreement is outlined in this document and is available from other sources as well, including your own experience and those of other owners and operators in the industry. However, it will ultimately be up to you to decide how you want to deal with each issue and come to an agreement with the other party involved. A successful long-term lease agreement must meet the expectations of both parties.

Going through this sample agreement will prompt you to think about the many important aspects of an agreement. The following issues are some that should be considered and agreed upon by both parties before entering into the agreement.

Considerations for the owner:

- Do you trust the operator? Can you obtain character references and/or credit checks?
- Where will the cattle be kept? Under what circumstances will they be relocated?
- How often will the livestock be checked?
- What assistance, if any, will be provided at calving time?
- Are you comfortable with how the operator manages and handles the livestock in accordance with the Codes of Practice?
- Will you have access to the livestock and/or performance records?
- How hands-on can you/do you want to be? For example, can you be present at branding to ensure the brands are correct.
- Will you register a security interest in the cattle at Personal Property Security Registry?

Considerations for the operator:

- Are the animals in good condition according to the Canadian Body Condition Scale?
- What degree of involvement in decision-making regarding the animals do you want to have?
- Is this a short-term or long-term agreement?
- Are you comfortable that the agreement gives some flexibility for you to manage the herd properly (i.e. bull removal dates, breeding ratios and feeding program)?
- Is there an incentive for the number of calves produced?

Considerations of Importance to both parties:

- Are both parties familiar with the animal care requirements and recommended practices in the Codes of Practice? Are there additional animal care expectations over and above those outlined in the Codes of Practice?
- Will the animals be branded? With which party's brand?
- Will the animals have individual tags in addition to tags in accordance with legislation?
- What biosecurity practices will be implemented? Are there concerns with additional stock with the leased herd?
- Who designs and implements the feeding program?
- Will water and feed quality be checked? Who is responsible for doing so?
- Is there a plan in place if feed is limited? Are you comfortable with this back-up plan?
- Is there a minimum and/or maximum number of head that the herd will contain at all times?
- Who will pay for transportation of the herd under specific or all circumstances (i.e. pasture moves, veterinary visits, marketing, etc.)?
- What stipulations, if any, are there on body condition score going into and leaving the arrangement? Will there be compensation if condition is not maintained?
- Is there a breeding plan in place? Who will select and purchase bulls or semen? When will animals be bred?
- What are acceptable pregnancy and calving rates?
- What is an acceptable death loss? How will death loss be handled and losses verified?
- What is the replacement heifer plan? Will they be purchased or home-raised? How will the number be determined?
- Which certified veterinarian will be used?
- Is there a herd-health plan in place? Who will pay for medicine and veterinary services?
- When and how will culls and calves be sold? What factors will determine culls? Will there be a certain percentage of animals culled per year?
- Will you be involved in the Verified Beef Production Plus Program?
- How long will the agreement be in effect?
- Do you have a provision to renew or cancel the agreement?
- Will both parties be required to carry liability insurance?
- What other forms of insurance can/will be purchased (i.e. Western Livestock Price Insurance or Forage Rainfall Insurance)?
- How will strays and stolen cattle be handled?
- What happens if the owner or operator dies, has a dispute or terminates the agreement?
- Are both parties comfortable that they are protected against the other's creditors or heirs?
- How will disagreements be handled? Is there a formal process or is there a mediator to call?
- If something changes in the future, or was not initially stated in the agreement, how will those items be discussed and drafted into the agreement?
- Are all facilities, pastures, etc. enrolled in the Saskatchewan Premises Identification system?

Completing a Lease Agreement

Read this publication and study the sample clauses and considerations carefully to determine the impacts of each clause. Calculate what you think is an equitable arrangement. Examples and worksheets are included to serve as guidelines in calculating the contributions of each party to the arrangement. Both parties should meet to discuss the terms of the prospective lease, deciding which clauses are needed and removing the ones which are not. Make changes where desired and have one party draft the agreement. Each party should consult their own lawyer to determine final wording to meet the needs of both parties. Both parties sign and date the final copy in duplicate.

Types of Livestock Leasing Arrangements

The type of lease will establish the sharing of expenses, income, production risks and market risks. The five most common types of livestock leasing arrangements are:

1. Market Value
2. Cash Lease
3. Percentage of Cost Approach (or Contributions Approach)
4. Flexible Share
5. Fixed Number of Calves

Note: The calculations contained in this section are included for illustrative purposes only. The calculations may not be complete or accurate, and they do not purport to be up-to-date or relevant to your own situation. You will need to perform your own calculations based on your own information regarding values, interest and potential costs.

1. Market Value

In the market value agreement, owners and operators establish rates based on their costs and prevailing factors. By going through the calculation of your actual costs, a more specific rate can be established rather than simply asking other operators what they charge. Rates will vary with the type of services being provided and with the terms and conditions of the agreement. These will need to be taken into consideration when using the rates being charged by other producers as a guide. Costs vary from farm to farm and will often depend on the individual farm manager’s current operation. The owner and operator may come to an agreement on the rate by taking an average of the going rates or by coming to an agreement on a specific rate.

2. Cash Lease

In a cash lease agreement, the owner receives a fixed annual payment from the operator. The annual payment can be negotiated each year or set for the term of the lease. Change in the rental amount could reflect the increasing or decreasing value of the breeding stock.

In a cash lease agreement, the operator:

- accepts all production and marketing risk;
- receives all income from the sale of the calves; and
- pays a direct cash payment to the owner.

The operator's returns will vary with weaning percentage, weaning weight, calf price and feed costs, while the owner's return is not affected by production or price.

When negotiating a cash lease, the owner will want to receive enough income to cover all costs of owning the breeding herd. The annual cost of owning cattle should include an annual cost for replacement, interest on investment on bulls and cow herd, and a value for death loss.

The formulas in Appendix 4 may be used to estimate these costs.

Table 1: Determining Ownership Costs Example

Average Cow Value	$2,000.00
Replacement Cow Value	$1,800.00
Cull Cow Value	$1,400.00
Average Bull Value	$4,700.00
Replacement Bull Value	$3,500.00
Cull Bull Value	$2,500.00
Cows per Bull	25.00
Years of Use	
Cows	8
Bulls	4
Death Loss	1.25%
Interest Rate	5.0%

Ownership Cost $/Cow

Cows	
Replacement	$50.00
Interest	$100.00
Death Loss	$25.00
	$175.00
Bulls	
Replacement	$10.00
Interest	$9.40
Death Loss	$2.35
	$21.75
Total Ownership Costs	**$196.75**

Note: The interest rate needs to reflect the fact that the owner is taking very little risk and that the operator is taking all of the production and market risk. Assumptions: 300 head cows with 12 bulls. ***Values are for illustrative purposes.***

In this example, the owner's total annual cost per head is $196.75. This includes the owner's fixed and opportunity costs. This is the amount the owner would need to cover costs. However, the owner may want to consider a margin to cover the risk associated with the ownership of cattle. In addition, prevailing market conditions may dictate something other than the value calculated above.

Cash rent is best suited to owners who do not want to share market and production risk, and for operators who can accept all of the marketing and production risks. Therefore, the operator will need to receive enough income to cover all the costs associated with taking care of the animals. This type of agreement is often used for over-wintering cows.

The owner and operator will need to consider all factors and negotiate a cash rental amount.

3. Percentage of Cost (Contribution) Approach

Under this type of agreement, the owner and the operator share both the production and market risks. Each party's share will vary with the weight and the price of cattle sold. The owner and the operator share the revenue based on the percentage of the costs that each party contributes.

To create an equitable share leasing arrangement, the parties must:

- determine the cost categories that should be considered;
- determine the major costs each party will be contributing; and
- determine the percentage of the total costs each party will be contributing.

These factors should be determined by the owner and the operator working together and should be agreed upon prior to entering into the agreement. Once cost shares are calculated, the owner and operator can determine a percentage share of the income in the same proportion as their contribution towards costs.

Table 2 lists some cost categories and will assist in determining the contribution by each party. Tables 3 and 4 illustrate the fluctuation in net income when there is a price change for a 550lb steer. Prices and quantities used in the example are for illustration purposes only. The parties will need to work together to determine their own cost categories and contributions.

Replacements may be purchased or raised from heifers selected from the calf crop. The owner would be responsible for purchasing sufficient replacements to maintain the herd numbers. If replacements are retained from the herd, then the operator should receive some income for the extra costs of raising the heifer calves. In such cases, a separate agreement could be signed detailing the costs and compensation for the operator. This agreement could be based on a cash payment, cost per pound of gain, or a separate livestock agreement. In some long-term agreements, the operator receives a portion of the income from the sale of culls as compensation for raising the replacements.

Table 2: Example budget determining the percentage of costs contributed by each party. Based on a 300 head cow herd on feed for 200 days

	Example Farm (300 cows)		Owner	Operator
	Total Cost	$Per Cow	$Per Cow	$Per Cow
Operating Costs				
Grains and Concentrates	$10,710.00	$35.70		$35.70
Forages	$86,700.00	$289.00		$289.00
Salt and Minerals	$4,857.00	$16.19		$16.19
Straw	$9,000.00	$30.00		$30.00
Summer/Fall Grazing	$66,825.00	$222.75		$222.75
Veterinary Medicine & Supplies	$6,750.00	$22.50		$22.50
Breeding Costs	$24,000.00	$80.00		$80.00
Fuel	$10,800.00	$36.00		$36.00
Repair and Maintenance	$9,750.00	$32.50		$32.50
Marketing & Transport	$11,250.00	$37.50		$37.50
Custom Work	$2,250.00	$7.50		$7.50
Utilities & Miscellaneous	$7,650.00	$25.50		$25.50
Operating Interest	$6,600.00	$22.00		$22.00
Total Operating Expenses (A)	**$257,142.00**	**$857.14**	**$0.00**	**$857.14**
Fixed Costs				
Death Loss	$8,205.00	$27.35	$27.35	
Herd Replacement	$18,000.00	$60.00	$60.00	
Depreciation				
Buildings	$6,000.00	$20.00		$20.00
Machinery & Equipment	$12,999.00	$43.33		$43.33
Total Fixed Costs (B)	**$45,204.00**	**$150.68**	**$87.35**	**$63.33**
Opportunity Costs				
Interest on Facilities	$3,000.00	$10.00		$10.00
Interest on Equipment	$3,249.00	$10.83		$10.83
Bull Investment Cost	$2,160.00	$7.20	$7.20	
Cow Investment Cost	$25,500.00	$85.00	$85.00	
Labour (8hrs @$22.00/hour)	$52,800.00	$176.00		$176.00
Total Opportunity Cost (C)	**$86,709.00**	**$289.03**	**$92.20**	**$196.83**
Total Costs (A+B+C)	**$389,055.00**	**$1,296.85**	**$179.55**	**$1,117.30**
Percentage Share		100%	14%	86%

Formulas for calculating depreciation and interest costs are provided in Appendix 4: Formulas of this publication. A blank worksheet is also included in Appendix 1: Percentage Cost Worksheet. ***Values provided are for illustrative purposes.***

Assumptions:

- the owner supplies the breeding herd, replacement stock and bulls, and recovers the herd upon termination of the lease;
- ownership costs were taken from Table 1; and
- the operator provides all feed, pasture, facilities, vaccines, minerals and other general requirements for a cow-calf operation

Table 3: Fluctuation in Owner's Net Income When Price Changes; Percentage Cost Approach
550lb Steer. The owner has a 21 per cent share and the operator has a 79 per cent share.

Calf Prices ($/lb)	Weight of Calf (lbs)	Revenue	Owner Percentage Share	Owner Revenue	Owner Cost	Owner Net Income
$1.90	550	$1,045.00	21%	$219.45	$302.20	-$82.75
$2.15	550	$1,182.50	21%	$248.33	$302.20	-$53.87
$2.40	550	$1,320.00	21%	$277.20	$302.20	-$25.00
$2.65	550	$1,457.50	21%	$306.08	$302.20	$3.88
$2.90	550	$1,595.00	21%	$334.95	$302.20	$32.75
$3.15	550	$1,732.50	21%	$363.83	$302.20	$61.63

Table 4: Fluctuation in Operator's Net Income When Price Changes; Percentage Cost Approach
550lb Steer. The owner has a 21 per cent share and the operator has a 79 per cent share.

Calf Prices ($/lb)	Weight of Calf (lbs)	Revenue	Operator Percentage Share	Operator Revenue	Operator Cost	Operator Net Income
$1.90	550	$1,045.00	79%	$825.55	$1,125.69	-$300.14
$2.15	550	$1,182.50	79%	$934.18	$1,125.69	-$191.51
$2.40	550	$1,320.00	79%	$1,042.80	$1,125.69	-$82.89
$2.65	550	$1,457.50	79%	$1,151.43	$1,125.69	$25.74
$2.90	550	$1,595.00	79%	$1,260.05	$1,125.69	$134.36
$3.15	550	$1,732.50	79%	$1,368.68	$1,125.69	$242.99

Please note that the numbers and values provided are for illustrative purposes only.

4. Flexible Share Lease Agreement

The flexible share lease agreement is comparable to the percentage of cost (contribution) agreement in that both agreements use the percentage of cost approach. However, under a flexible share lease agreement, revenue from calf sales is used to cover the operating costs first, followed by the fixed costs (i.e. depreciation on buildings and equipment and herd replacement allowance). Any surplus revenue is divided based on a predetermined share to cover opportunity costs, such as interest on investment and returns to management.

Under the flexible share lease agreement, the owner of the cattle is exposed to a greater amount of production and market risk. In exchange for accepting more risk, the owner should have an opportunity to receive a higher percentage share in years when the revenue exceeds all of the operating, fixed and opportunity costs. In years of low revenue, the flexible share lease agreement provides the operator with protection as he/she knows that the operating and fixed costs will be covered first. In years of lower revenue, due to lower calf prices, a lower weaning percentage or lower weaning weights, the owner receives a smaller percentage of the revenue.

As outlined in the percentage of cost (contribution) approach, the owner and operator should determine in advance the cost categories to be considered, the major costs each party will be contributing and the percentage of the total costs each party has contributed in the corresponding cost categories. As well, the parties must agree on how surplus revenue is to be split.

Although this type of agreement appears to be more complicated than the other types of arrangements, it does provide the operator with the ability to reduce their risk by transferring some of the market and production risk to the owner. Owners would only typically enter into this type of an arrangement if they felt confident that returns would exceed all costs of production.

Table 5: Flexible Share Lease Example

	Example 1			**Example 2**		
	Owner	Operator	Total	Owner	Operator	Total
Revenue[1]			$1,400.00 **A**			$1,250.00 **A**
Estimated Operating Costs	$0	$857.14	$857.14 **B**	$0	$857.14	$857.14 **B**
Percentage of Operating Costs	0%	100%		0%	100%	
Calculated Share of Revenue[2] (Bx%)	$0	$857.14		$0	$857.14	
Remaining Revenue (A-B)			$542.86 **C**			$ 392.86 **C**
Estimated Fixed Costs	$87.35	$63.33	$150.68 **D**	$87.35	$63.33	$150.68 **D**
Percentage of Fixed Costs	58%	42%		58%	42%	
Calculated Share of Revenue[2] (Dx%)	$87.35	$63.33		$87.35	$63.33	
Remaining Revenue (C-D)			$392.18 **E**			$242.18 **E**
Estimated Opportunity Costs	$92.20	$196.83	$289.03 **F**	$92.20	$196.83	$289.03 **F**
Percentage of Opportunity Costs	32%	68%		32%	68%	
Calculated Share of Revenue[2] (Fx%)	$92.20	$196.83		$77.50	$164.68	
Remaining Revenue (E-F)			$103.15 **G**			-$46.85 **G**
Distribution of Surplus as per Agreement	50%	50%		50%	50%	
Calculated Share of Remaining Revenue[2] (Gx%)	$51.58	$51.58		-$23.43	-$23.43	
Total Revenue	$231.13	$1,168.88	$1,400.00	$164.85	$1,085.15	$1,250.00
Percentage of Total Revenue	17%	83%		13%	87%	

[1]*Revenue equals the average sale value per calf multiplied by the weaning percentage.*

[2]*If costs (B) are greater than revenue (A) or (D greater than C) or (F greater than E), then the calculated share in dollars for each category is the percentage of remaining revenue. For instance, in example two, opportunity costs (F) are greater than revenue (E). The share of revenue in dollars is calculated by multiplying the percentage E rather than F.* ***Values provided are for illustrative purposes.***

5. Fixed Number of Calves

In a fixed number of calves lease agreement, the owner receives a predetermined number of calves as rent or lease payment. In this type of agreement, the operator maintains almost all of the production risk and a portion of the market risk. The operator is exposed to the variations in weaning percentages, weaning weights, market price and feed costs. The owner's risk is limited to variations in weaning weights and market price on the number of calves received as lease payment. The owner's revenue will not vary with total number of calves weaned.

The percentage of costs contributed could be used as a basis for determining the number of calves received as payment. For example, using the example budget from Table 2, the owner may decide that 30 per cent of the expected calf crop is a reasonable arrangement. Based on a 90 per cent weaning rate, the owner may expect an arrangement which would return 27 calves per hundred bred females leased. A description of the calves including the size, type and gender to be taken as payment should be specified in the agreement.

Appendix 1: Percentage Cost Worksheet

Work Sheet with Sample Cost Categories to Assist in Determining the Percentage of Cost Contributed by Each Party

	Total Cost ($)	**Cost Per Cow ($)**	**Owner** Cost Per Cow ($)	**Operator** Cost Per Cow ($)
Operating Costs				
Grains and Concentrates				
Forages				
Salt and Minerals				
Straw				
Summer/Fall Grazing				
Veterinary Medicine & Supplies				
Breeding Costs				
Fuel				
Repair and Maintenance				
Marketing & Transport				
Custom Work				
Utilities & Miscellaneous				
Operating Interest				
Total Operating Expenses (A)				
Fixed Costs				
Death Loss				
Herd Replacement				
Depreciation				
Buildings				
Machinery & Equipment				
Total Fixed Costs (B)				
Opportunity Costs				
Interest on Facilities				
Interest on Equipment				
Bull Investment Cost				
Cow Investment Cost				
Labour (8hrs @$22.00/hour)				
Total Opportunity Cost (C)				
Total Costs (A+B+C)				
Percentage Share				

Appendix 2: Flexible Share Lease Worksheet

Work Sheet to Assist in Determining Income Sharing Based on Pre-determined Percentage Cost Calculation

	Owner	Operator	Total
Revenue[1]			A
Estimated Operating Costs			B
Percentage of Operating Costs			
Calculated Share of Revenue[2] (Bx%)			
Remaining Revenue (A-B)			C
Estimated Fixed Costs			D
Percentage of Fixed Costs			
Calculated Share of Revenue[2] (Dx%)			
Remaining Revenue (C-D)			E
Estimated Opportunity Cost			F
Percentage of Opportunity Costs			
Calculated Share of Revenue[2] (Fx%)			
Remaining Revenue (E-F)			G
Distribution of Surplus as per Agreement			
Calculated Share of Remaining Revenue[2] (Gx%)			
Total Revenue			
Percentage of Total Revenue			

[1]*Revenue equals the average sale value per calf multiplied by the weaning percentage.*

[2]*If costs (B) are greater than revenue (A) or (D greater than C) or (F greater than E), then the calculated share in dollars for each category is the percentage of remaining revenue. For instance, in example two, opportunity costs (F) are greater than revenue (E). The share of revenue in dollars is calculated by multiplying the percentage E rather than F.*

Appendix 3: Sample Cow-Calf Lease Agreement

This Cow-Calf Lease Agreement made in duplicate this ________________ day of ____________, 20__.

BETWEEN:

____________________________________	of	____________________________________
(Owner's Name)		(Address)

In the Province of Saskatchewan, ("the Owner")

-and-

____________________________________	of	____________________________________
(Operator's Name)		(Address)

In the Province of Saskatchewan ("the Operator")

THE PARTIES AGREE AS FOLLOWS:

<u>1. Description of the Herd</u>

a) The Owner shall deliver _________cows and/or heifers (*you may want to indicate a range of numbers, such as 'not more than but not less than' and you may want to ensure that the cows are certified bred*) described in Schedule A, ("*the Herd*") at the Operator's farm on or before___________(*date*).

b) The Herd shall arrive in good condition. The cattle will have a condition score between ________and ________ on arrival (*Scoring should be done* ac*cording to the Canadian Body Condition Score (BCS) Scale, or weighed on a scale, or method determined by the parties*).

c) The animals shall be clearly marked with a brand, Canadian Cattle Identification Agency (CCIA) tags, and/or other marking/tag, agreed to by both parties.

d) Bred cows and/or heifers from the Herd shall be certified to be pregnant (to calve starting ______ [date]) by a certified veterinarian *(It is recommended that verification of pregnancy be done yearly).* The __________________(*Owner or Operator*) shall be responsible for costs relating to pregnancy testing.

e) The livestock will be fed and cared for at the facilities located on _____________________ *(legal land location, description and Premises Identification Number)* and will not be moved without the Owner's consent.

2. The Offspring

a) It is agreed and understood that the Owner owns the Herd. All offspring born during this agreement are the property of the Owner until________________*(specific date or life stage such as birth or weaning, or at the date of sale)* of each year, after which ownership shall transfer to the Operator as specified in this agreement.

b) All offspring will be identified with the Owner's ____________ (*brand, tag, or other method of identification*) until ownership changes. At the time when ownership changes, a brand release (*if applicable*) shall be signed by the Owner to acknowledge the transfer of ownership to the Operator. (*You may wish to clearly indicate how and when the unique identification tags will be used, in accordance with legislation*.)

(*The key point of this section is to make it clear to all parties the point at which ownership transfers whether it occurs at birth, weaning, or some other time. This may not seem all that important, especially if the lease is based on sharing the revenue from the sale of the calves. However, it is very important if the agreement is to be terminated for some reason.)*

c) The Operator will keep an accurate record of performance of the herd (*You may wish to identify the information that the operator will record – such as death loss, weaning weights, BCS, etc. and what program, if any, should be used, and if/when the records are shareable to the Owner)*.

3. Breeding

a) The Owner shall provide _________ breeding bulls which meet mutually agreeable standards *(these standards may stipulate that the bulls are fit and have been recently semen tested by a certified veterinarian)* and any injured or non-performing bulls will be replaced at the expense of the Owner so that the cow to bull ratio is not more than _______ cow (or heifer) to one mature bull and _____ cow (or heifer) to one young bull.

– or –

The Operator shall provide ________ breeding bulls which meet mutually agreeable standards *(these standards may stipulate that the bulls are fit and have been recently semen tested by a certified veterinarian)* and any injured or non-performing bulls will be replaced at the expense of the Operator so that the cow to bull ratio is not more than________cows (or heifers) to one mature bull, and ______ cows (or heifers) to one young bull.

b) The Operator agrees that the bulls will be placed with the cows (or heifers) on ____________ *(date)* and removed by ___________ *(date)* of each contract year. *(You may want a clause to clearly state any specific breeding requirements; such as may be the case where the Owner wants his/her cows bred by the Owner's bull only.)*

c) Artificial insemination (AI) shall be handled in the following manner: __________________________
____
The clause must address who pays for semen and the additional time and labour, etc.

4. Management, Care and Veterinary Services

a) In consultation with a livestock nutritionist and certified veterinarian, the Operator shall supply at his or her cost *(or as determined by this agreement)*; good quality pasture, feed and forage, good quality water, vitamins and minerals, necessary shelter, and all labour for supervision and care of the animals, in order to promote growth, prevent disease, and care for the well-being of the Herd and its offspring. *(This listing should include or exclude any of the above and can extend to routine care, such as de-worming, growth hormones, or antibiotics.)*

b) The Operator shall care for the livestock in accordance with industry's recommended Code of Practice. *(You may wish to specifically identify the code, such as the Code of Practice as written by the National Farm Animal Care Council. If both parties decide to be a part of the Verified Beef Production Plus Program, or McDonald's Verified Sustainable Beef Program, it should be noted that the Operator shall care for the livestock in accordance to the program's specifications as well.)*

c) The Operator will keep the livestock in good condition, and maintain a condition score of not less than _________, and no more than __________, on the Canadian Scale. (*It is recommended that body condition scoring be done three times in each production year; fall pregnancy check/start of winter feeding, at calving, and at thirty days before the breeding season begins. The Canadian Body Condition Score Scale can be found in Appendix 5)*

d) If grazing capacity is reduced due to drought or any other natural disaster, the following plan will be enacted:____

____

____

No over-grazing will ensue. *(You may wish to detail how pasture health will be determined).*

e) The Owner and Operator shall share, in the same proportion as the calf crop, *(or whatever method of sharing as outlined in this agreement)* such costs arising from medications and treatment procedures by the Operator or any service administered by the certified veterinarian of the Herd and their offspring. *(This should include a listing of what medical treatments the Operator may perform, but for which the Owner is responsible. For example, treatment for footrot, or some injury where the animal must be segregated.)*

5. Death, Loss, Forced Sale and Insurance

a) Death, loss, or forced sale of any animal from the Herd shall be at the expense of the Owner, up to a loss rate of___________animals (*or %*). Any losses greater than this shall require a certified veterinarian, at the cost of the Operator, to verify the cause of death. If the cause of death is by natural causes, the Owner agrees to accept the loss.

If the Operator is deemed negligent toward the death, loss, or forced sale of an animal from the Herd, as determined by a certified veterinarian, then the Operator will be responsible for the replacement cost of that animal with an animal which is mutually acceptable to both parties.

– or –

Death, loss, or forced sale of any of animal of the Herd shall be at the expense of both parties, shared in the same proportion as the calf crop, up to a maximum loss rate of_______animals *(or %).* Any losses greater than this shall require a certified veterinarian, at the cost of the Operator, to verify the cause of death. If the cause of death is by natural causes, the Owner and the Operator agree to share the loss in the same proportion as the calf crop.

If the Operator is deemed negligent toward the death, loss, or forced sale of an animal from the Herd, as determined by a certified veterinarian, then the Operator will be responsible for the replacement cost of that animal with an animal which is mutually acceptable to both parties.

b) The Operator or Owner (*jointly or individually*) may, at his or her expense, carry insurance on the Herd or its offspring and that party would be entitled (*jointly or individually*) to any insurance proceeds. *(i.e. Western Livestock Price Insurance, Forage Rainfall Insurance, fire insurance, liability insurance, a security interest on the cattle at Personal Property Security Registry).*

6. Culls and Their Replacements

a) On or before ________________(*date*) of each year of this agreement, the Owner and Operator shall mutually agree upon the livestock that are to be culled, based on agreed factors such as temperament, feet/leg problems, udder problems, or pregnancy status. (*In some arrangements, the Operator may want to have the power to decide which animals need to be culled.)*

b) The animals identified as cull animals will be sold on or before ________________*(date)*. (*It should be determined if extenuating circumstances would affect this date. Examples include market factors, feed availability and/or Body Condition Score).*

c) The Owner will receive___________% of the proceeds from the sale of all cull animals and is responsible for all trucking and marketing costs.

d) Upon the sale of the cull animals, the Owner shall replace each cull animal with an animal mutually acceptable to both parties. *(It should be determined if these replacements are home raised or purchased. If replacements are purchased a protocol should be in place to handle new livestock entering the herd, including vaccination programs and quarantine times.)*

e) The replacement cost of those animals that die or are sold due to sickness or injury shall be the responsibility of the Owner.

7. Division of Income *(Use the appropriate clause)*

Cash Lease

The Operator agrees to pay the Owner the sum of $____________per cow or heifer delivered and described in Section 1 of this agreement. Payment is to be made on or before ________________ (*date*) of each year. (*In some arrangements the payment is based on a full season, by the month or even by the number of weaned calves.)*

– or –

Percentage of Cost Approach

The Operator shall be entitled to ____________% and the Owner___________% of the revenue from the sale of the calves by_______________(*date*) of each year. Revenue from the sale of the calves is herein considered to be gross receipts minus all marketing costs such as yardage, selling commissions, insurance, and transportation. Date of sale is to be as mutually agreed. *(It may be beneficial to attach worksheets that detail the cost categories and contribution of each party.)*

– or –

Fixed Number of Calves

The Operator agrees to provide the Owner with ____________calves by_________________ (*date*) of each year. The ownership of the remaining calves will be transferred to the Operator on____________________ (*date).* The method of fairly dividing the offspring shall be as follows:

____

____

______________. (*Describe how the calves are to be divided between the Owner and the Operator, including whether or not the size, type, and gender of the calves to be taken are to be specific or general, or the method to be used, such as alternating picks or chute run.)*

– or –

Flexible Share Lease

1. Operating Costs

The Operator shall be entitled to ____________% and the Owner___________% of the revenue from the sale of the calves for the first ____________________.(*Dollars per calf – operating costs*)

2. Fixed Costs

The Operator shall be entitled to ___________% and the Owner ___________% of the revenue from the sale of the calves for any amount greater than ________________ (*Dollars per calf – operating costs*) and less than ________________. (*Dollars per calf – operating plus fixed costs*)

3. Opportunity Costs

The Operator shall be entitled to ____________% and the Owner ____________% of the revenue from the sale of the calves for any amount greater than_______________ (*Dollars per calf – operating plus fixed costs*) and less than _____________ (*Dollars per calf – operating costs plus fixed costs plus opportunity costs*).

4. Additional Revenue

The Operator shall be entitled to ____________% and the Owner ___________% of the revenue from the sale of the calves for any amount greater than _________________(*Dollars per calf – operating costs plus fixed costs plus opportunity costs).*

Revenue from the sale of calves is considered to be gross receipts minus all marketing costs such as yardage, selling commissions, insurance, and transportation. Date of sale is to be as mutually agreed.

The revenue received from the sale of the calves will be divided between the Owner and Operator in the same portion as they contribute to the operating costs, fixed costs, and opportunity costs. If revenue is insufficient to cover all costs (operating, fixed, and opportunity costs), the revenue will be divided on the basis of the contributions toward operating costs, until all operating costs are covered; then the revenues will be divided on the basis of the contributions toward the fixed costs, until all fixed costs are covered; with any balance being divided on the same basis as the contributions toward opportunity costs. If revenue exceeds all of the costs (operating, fixed and opportunity), the surplus revenue will be divided as described in this agreement.

The parties will agree to complete Appendix 2 which will describe the percentage of operating, fixed, and opportunity costs that each party is contributing. This will also indicate how any surplus revenue is to be divided.

– or –

Market Value

____

____

______________________________. *(Describe the market value rate established between the Owner and the Operator.)*

8. Term and Termination of This Agreement

a) This agreement will commence on ____________ (*date*) and expire on ____________(*date*). The Owner or the Operator may terminate this agreement by providing _____ days written notice to the other party, or by mutual agreement at any time.

b) Upon termination of this agreement, the Operator shall deliver the Herd and the Owner's share of its offspring to a place as directed by the Owner. The Owner shall pay costs of transportation over_________(*distance in miles/kilometers*).

c) ___________% of the cattle so delivered shall be confirmed pregnant by a certified veterinarian; the cost of such confirmation shall be paid by the Operator. In the event that less than the required amount of animals are bred, the Operator will replace, at his or her expense, a sufficient number of the open cows with animals that are confirmed to be pregnant and are of similar quality, in order to ensure that the percentage of bred animals is met.

d) At the time of delivery, the cattle shall be in good health and condition. If the parties cannot agree concerning the health of a particular animal, the matter shall be determined by a certified veterinarian, with the expenses shared equally by both parties. If a particular animal is not in good health, the Operator shall replace the animal with one which is in good health.

e) Upon the death of the Owner, this agreement will terminate on December 31 in the year of death. The Herd and the Owner's share of the offspring shall be returned to the estate, with the Operator responsible for transportation costs.

f) Upon the death of the Operator, the agreement will terminate immediately and the Herd and the Owner's share of its offspring shall be returned to the Owner, with the Owner responsible for transportation costs. The Operator's estate will be entitled to compensation as if the Operator was still alive.

9. Owner's Rights

a) If, during the term of the lease, any of the goods and chattels of the Operator are seized by any creditors of the Operator, or if the Operator makes any assignment of chattels involved in the lease for benefit of creditors without first obtaining written consent from the Owner, or if the Operator becomes bankrupt, this lease shall, at the option of the Owner, become forthwith forfeited and void and the year's share of the offspring and/or income shall become forthwith due. (*Note: Owners who learn of a seizure or potential action taken with respect to the Herd should obtain legal advice as soon as possible*.)

b) The Operator shall permit the Owner to enter onto the property to examine the Herd, its offspring, and/or records on any day between the hours of ___________and ___________. *(Note: Owners can carry greater risk in these transactions as they simply do not have possession of the animals and have therefore lost control. It is important to exercise due diligence. For example, credit checks, character references, registering a security interest in the cattle at Personal Property Security Registry and/or being more hands-on in monitoring the lease. This can be detailed as elaborately as necessary in the agreement).*

10. Operators Rights

a) If the Operator fulfils the terms and conditions of this agreement, he/she shall, and may peaceably possess and enjoy, the cattle for the duration of the agreement without any interruption or disturbance from the Owner, or any person claiming through the Owner except as noted in 9(b).

b) If during the term of the lease, any of the goods and chattels of the Owner are seized by any creditors of the Owner, or if the Owner becomes bankrupt, this lease shall, at the option of the Operator, become forthwith forfeited and void and the year's share of the offspring and/or income shall become forthwith due.

11. Provisions for Arbitrations

Any disagreement which may arise between the contracting parties with respect to the rights and responsibilities as provided for by this agreement shall, when a mutually satisfactory settlement cannot otherwise be reached, be submitted to arbitration, pursuant to *The Arbitration Act* (see Appendix 6).

12. Subsidies or Compensation

Any subsidies or compensation shall go to the party owning the animals on which the payment is made. (*You may consider an added paragraph on compensation from Agriculture and Agri-Food Canada if herd has to be disposed of and compensation is paid.)*

\- or -

Any subsidy or compensation arising from the Herd shall go to the Owner, and any subsidy or compensation arising from the offspring of the Herd shall be shared in the same proportion as the calf crop.

13. General Indemnity

The Operator shall indemnify and save harmless the Owner against all claims, liabilities, demands, damages or rights or causes of action whatever made or asserted by anyone arising out of or incidental to the actions or omissions of the Operator in providing services pursuant to this Agreement.

14. Renewal

The term of this Agreement may be extended by mutual agreement between the Owner and Operator for a further period upon the same terms and conditions as contained herein, except as otherwise agreed in writing by the parties executing a renewal statement.

15. Arbitration

The Owner and Operator may by mutual agreement submit any disagreement, which may arise with respect to the terms and conditions of this lease, to arbitration in accordance with *The Arbitration Act*. (*This should be considered to be an optional provision*.)

16. Non-waiver

A failure of the Owner to immediately declare any default by the Operator at the time of its occurrence, or any delay in taking any action in connection with the default does not affect the right of the Owner to take such action at any later time.

17. Saskatchewan Laws Apply

The contents of this agreement shall for all purposes be construed according to the laws, legislation and regulations of the Province of Saskatchewan.

18. Severance

If any provision of this agreement is declared invalid, illegal or unenforceable, such provision shall be severed from this agreement and the other provisions shall remain in full force and effect.

19. Entire Agreement

This Agreement, including the Schedules, and any documents incorporated by reference, constitutes the entire and exclusive agreement between the parties relating to the subject matter of the Agreement and supersedes all prior agreements, undertakings, representations and understandings, written or oral, between the parties or their representatives. No amendment of this Agreement shall be effective unless it is in writing and executed by both parties.

SIGNED AND DELIVERED on ____________________________________, 20_____.

____________________________________	____________________________________
Witness	Owner
____________________________________	____________________________________
Witness	Operator

Schedule A: The Herd

Number of Animals	Breed/Species	Age (years)	Sex	Brand/Tattoo /Tag	CCIA Tag #	Other Features
Example: *50*	*Black Angus*	*3-8*	*Cows*	*Tag #s 25z-75z*		*60z Short Tail 25z White Face*
2	*Black Angus*	*2-5*	*Bull*	*Tag # 5c and 25c*		

Appendix 4: Formulas

$$\text{Cow replacement cost} = \frac{\text{replacement value} - \text{cull value}}{\text{years of use}}$$

Cow death loss = average cow value x death loss

$$\text{Bull replacement} = \frac{\text{replacement value} - \text{cull value}}{\text{Years of use} \times \text{cows per bull}}$$

$$\text{Bull death loss} = \frac{\text{average bull value} \times \text{death loss}}{\text{cows per bull}}$$

$$\text{Depreciation on buildings} = \frac{\text{replacement value} - \text{salvage value}}{\text{years of use}}$$

$$\text{Depreciation on equipment} = \frac{\text{replacement value} - \text{salvage value}}{\text{years of use}}$$

$$\text{Interest on facilities} = \frac{(\text{replacement value} + \text{salvage value})}{2} \times \text{interest rate}$$

$$\text{Interest on equipment} = \frac{(\text{replacement value} + \text{salvage value})}{2} \times \text{interest rate}$$

Interest on cow herd = average cow value x interest rate

$$\text{Interest on bull} = \frac{\text{average bull value} \times \text{interest rate}}{\text{cows per bull}}$$

$$\text{Investment Calculation} = \frac{(\text{Beginning} + \text{Ending Value})}{2} \times \text{Interest Rate}$$

Appendix 5: Canadian Body Condition Score (BCS) Scale

Score 1: The individual short ribs are fairly sharp to the touch and there is no fat around the tail head. The hip bones, tail head and ribs are visually prominent

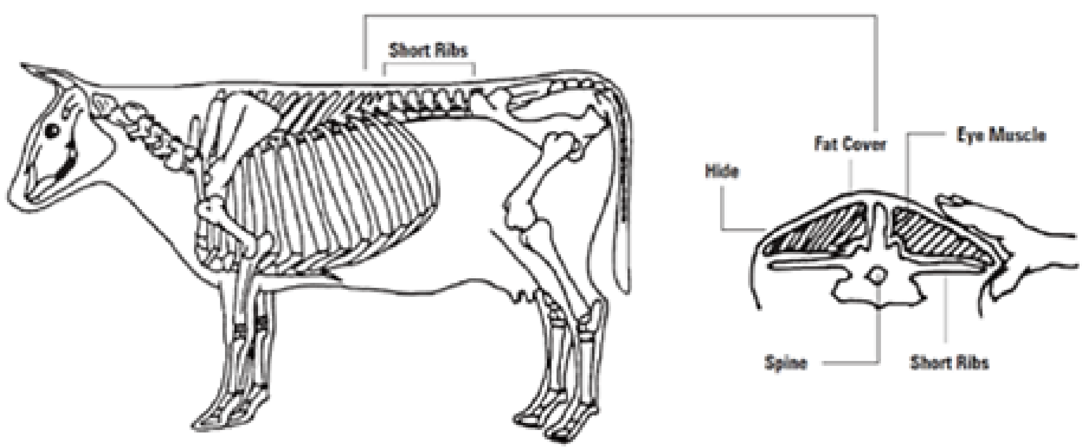
Score 2: The short ribs can be identified individually when touched but feel rounded rather than sharp. There is some tissue cover around tail head and over the hip bones and the flank. Individual ribs are no longer obvious.

Score 3: The short ribs can only be felt with firm pressure. The areas on either side of the tail head now have a degree of fat cover, which can be easily felt.

Score 4: Fat cover around tail head is evident as slight "rounds" that are soft to the touch. The short ribs cannot be felt even with firm pressure, and folds of fat are beginning to develop over the ribs and thighs of the animal.

Score 5: The bone structure is no longer noticeable and the animal has a "blocky" appearance. The tail head and hip bones are almost completely buried in fat and folds of fat are apparent over the ribs and thighs. The short ribs are completely covered by fat and the animal's mobility is impaired by the large amounts of fat.

Where To Condition Score:
Because there is no muscle between the end of the short ribs and the skin, any padding felt by the thumb will be fat. There are two main areas to check in order to determine body condition score: the short ribs and on either side of the tail head. The tail or pin bones can also be checked to determine fat cover.



Appendix 6: Acts and Regulations Referenced in this Publication

Below are links to the Acts referenced in this publication. For further interpretation on this legislation and others that may impact this agreement, please consult your lawyer.

- *The Income Tax Act* – http://publications.saskatchewan.ca/#/products/583
- *The Arbitration Act, 1992* - http://publications.saskatchewan.ca/#/products/77659