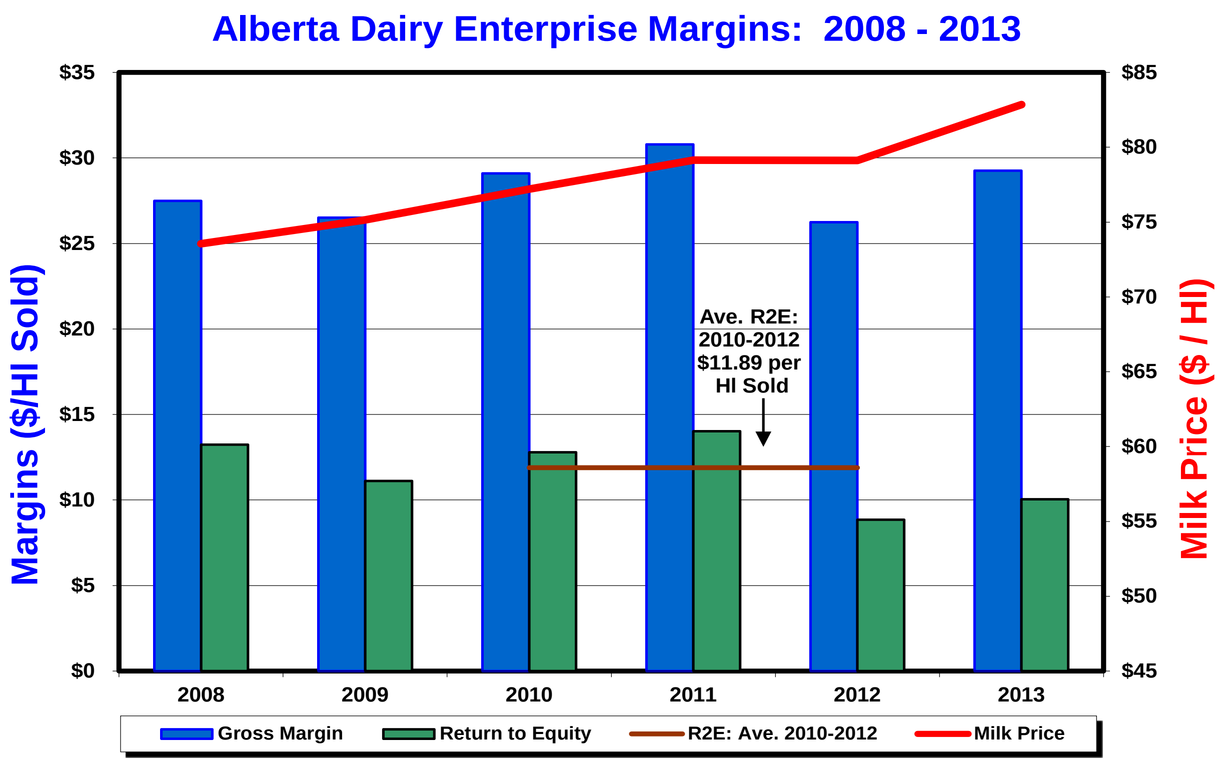

Purpose:

- To indicate average returns to milk production in Alberta over time.
- Gross Margin and Return to Equity each have specific interpretations and farm management applications. These margins can be used as key financial and economic indicators, or "benchmarks", for farm businesses.

Gross Margin:

1. **DEFINITION**: Gross income less cash costs (home grown feeds are included at market value). The costs remaining to be covered from this "margin" include unpaid (family) labour, depreciation allowance (and/or principal payments), and family living withdrawals.

2. **APPLICATIONS**: Gross margin can be used as primary indication of the enterprise's ability to meet it's primary cash commitments. Significant variations from these benchmarks suggest that cash flow problems may be looming, or conversely, the enterprise is making a significant contribution to the farm's working capital.

Return to Equity (R2E):

1. **DEFINITION**: Gross income less total production costs (home grown feeds are included at market value). The costs remaining to be covered from this "margin" generally are cash flow items such as principal payments and living withdrawals. Return to equity represents the enterprise's contribution to the farm.

2. **APPLICATIONS:** Return to equity is essentially the "bottom line" for the enterprise. This is what is left over to pay the operator for his management and equity invested.