FARMERS FIRST

Annual Report 2006-07

the cwb is farmers

CWB

vision

Canadian farmers innovatively leading the way in the global grain market.

mission

Creating a sustainable competitive advantage for farmers and customers through our unique business structure, innovative marketing, superior service, profitable investments and effective partnerships.

Contents

corporate profile

The CWB markets western Canadian wheat, durum wheat and barley in Canada and throughout the world.

All sales revenue, less marketing costs, is returned to farmers. The CWB is controlled by a board of directors comprising 10 farmer-elected members and five federal government appointees. As a key international grain trader and major earner of foreign exchange, the CWB and Prairie wheat and barley producers compete successfully with other major players in the grain industry.

Financial highlights

	2006-07	2005-06	2004-05	2003-04	2002-03
Combined pool operating results ($ millions)					
Revenue	**$ 4,948.6**	$ 3,498.3	$ 3,739.3	$ 4,136.2	$ 3,339.9
Direct costs	**600.2**	458.3	417.2	369.7	318.7
Net revenue from operations	**4,348.4**	3,040.0	3,322.1	3,766.5	3,021.2
Other income	**218.0**	149.3	163.4	161.1	132.7
Net interest earnings	**30.6**	36.1	53.4	56.1	54.8
Administrative expenses	**(67.6)**	(69.8)	(69.2)	(67.6)	(54.1)
Grain industry organizations	**(2.0)**	(2.1)	(1.6)	(1.8)	(1.8)
Earnings for distribution	**$ 4,527.4**	**$ 3,153.5**	**$ 3,468.1**	**$ 3,914.3**	**$ 3,152.8**
Receipts from producers (000s tonnes)					
Wheat	**15 516.6**	11 971.2	13 296.3	12 376.0	8 696.0
Durum	**3 982.7**	4 308.9	3 824.0	3 079.7	3 804.0
Designated barley	**1 851.3**	1 464.7	1 752.5	2 138.4	891.0
Feed barley (pool A)	**147.5**	915.8	29.0	–	–
Feed barley (pool B)	**19.8**	127.5	468.7	–	–
Barley	**–**	–	–	844.0	40.0
Total	**21 517.9**	**18 788.1**	**19 370.5**	**18 438.0**	**13 431.0**

A message from the chair of the board of directors

November 2007

There's no better way to orient yourself to a challenge than to take stock of who you are and what you stand for. The 2006-07 crop year has been challenging in many ways. Throughout, the directors and staff of the CWB have continued to be guided by the principle that we are farmers' marketing agency and that farmers come first.

We came into being more than 70 years ago through the efforts of farmers. Almost all of my colleagues on the board of directors are farmers. Two-thirds of them, like me, were democratically elected by farmers.* We exist to ensure that it is farmers who profit from the sale of their grain. We sell on behalf of farmers and no one else; minus the cost of operations, every dollar that we earn is returned to farmers. We offer a growing array of programs to meet the needs of a wide variety of farm operations. We advocate on behalf of farmers on issues that concern their livelihood. In fact, as you'll read in the pages ahead, many of the CWB employees who carry out their work on behalf of farmers grew up in farm families. Every day, they come to work with values and knowledge shaped by the family farm.

In short, farmers are the whole point.

Like most years, this one had its ups and downs. However, it is our focus on farmers that has guided all of our decisions.

Farmers have clearly appreciated the pricing flexibility the CWB has developed over the past few years in order to meet the needs of diverse farming operations. This year saw a record response to the Producer Payment Options. Sign-up for both the Daily Price Contract and Fixed Price Contract was up significantly from the previous year in terms of both tonnage and number of producers. This is only a small part of the story.

- In 2006-07, we introduced two new policies to promote value-added processing on the Prairies. Under the New Generation Cooperative program, participating farmers may directly receive what the mill pays the CWB for their wheat or barley. Under the Field to Plate program, those involved in niche-market processing ventures can source grain directly from farmers.
- We expanded the Pre-Delivery Top-up program to include durum as well as wheat. This program gives farmers access to a greater share of the value of their crop early in the fall – before they deliver their grain and when the bills are due.
- We proposed that the CWB take over from the federal government the responsibility for adjustment, interim and final payments to farmers – another initiative to ensure that farmers are paid for their grain as soon as possible.
- We expanded the Delivery Exchange Contract so that all Prairie farmers are able to trade delivery periods among themselves to suit their business needs. Under the program, farmers know earlier what their acceptance levels and delivery periods will be.
- We introduced the Wheat Storage Program that pays farmers who store high-quality wheat on their farms. By offering farmers a contract premium and storage payment for on-farm storage of high-protein No. 1 Canada Western Red Spring (CWRS) wheat, the CWB is assured a consistent stock of high-quality product to satisfy the needs of premium customers.
- We continued to promote western Canadian wheat, durum and barley through an ongoing program of branding and market development. Around the world, for instance, a growing array of products made with 100-per-cent Prairie-grown wheat now carry CWB logos proclaiming in one of several languages "Canadian Wheat Makes It Good" or "Made from Canadian Wheat for Top Quality."
- We intervened in a major level-of-service complaint against CN Rail. The complaint, lodged by Great Northern Grain (GNG) of northern Alberta and supported by a variety of interveners, had vital implications for the CWB's ability to market farmers' grain in an orderly fashion and at a reasonable cost. The Canadian Transportation Agency ruled in favour of GNG in July 2007.

- We applauded the federal government's bilateral trade initiatives with Peru and Colombia, two significant customer countries for Prairie wheat. Bilateral trade agreements are increasingly important for western Canadian grain farmers, especially as the U.S. is pursuing these agreements aggressively with several key customer countries.
- We began a multi-year overhaul of operational processes to drive efficiencies as well as increased e-business opportunities for farmers. The streamlining of processes in every link of the grain-marketing chain will leave the CWB well positioned to capitalize on opportunities to offer farmers new and improved services.
- We launched a new Web site, on-line permit sign-up, and expanded e-Services designed to meet the needs of a burgeoning number of farmers who conduct their business over the Internet.
- Last but definitely not least, we successfully marketed one of the highest-quality crops of wheat, durum and barley that Prairie farmers have ever produced. Durum exports for 2006-07, with all farmers' durum accepted, were a record-setting 4.4 million tonnes.

All of these accomplishments, and others, were achieved by putting farmers first. We also put farmers first when we interacted with the federal government over aspects of the CWB's mandate and operations. We believed – and still believe – that it's important to defend the principle that it is farmers who control the CWB and its future. This, then, is what guided us when:

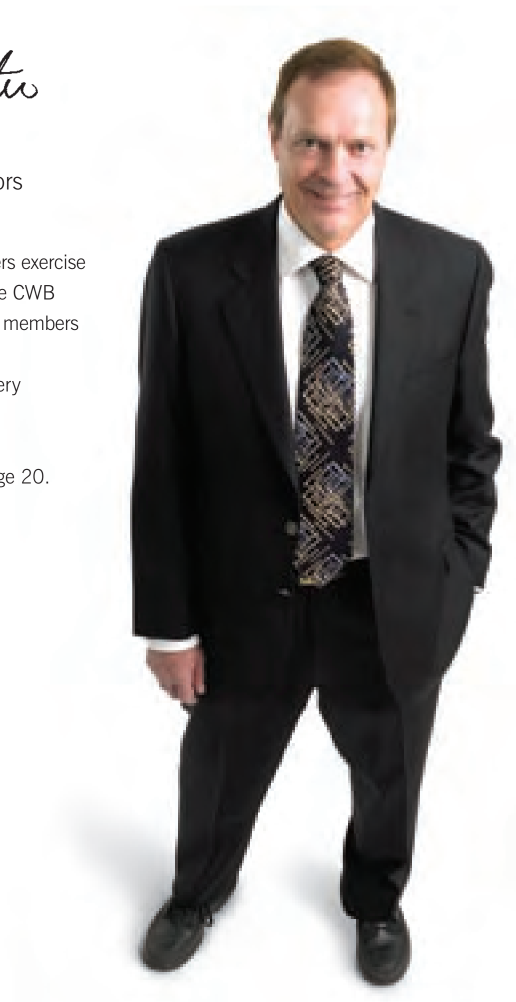
- early in the crop year, a government-established task force recommended ways to eliminate Prairie farmers' single-desk marketing system. We voiced our position that western Canadian farmers must be the ones to decide if the single desk should be retained.
- we challenged, before the Federal Court, a government directive preventing communication about the value of the single desk.
- we chose not to support the government's decision to terminate the president and CEO – selected by the board of directors and unanimously recommended for reappointment – or its decision to appoint an interim president and CEO without prior consultation with the CWB's board of directors.
- in response to the government's welcome announcement of a producer plebiscite on barley marketing, we called for a clear question that would produce an unambiguous result.
- we responded with a successful legal challenge to the government's attempt to dismantle farmers' single desk for barley as of August 1, 2007 by way of a Cabinet order.

The new crop year will contain its own challenges, both those we set for ourselves and those that come from the environment in which we operate. We'll face them with innovation and purpose – as we did at the end of the crop year when the Federal Court ruled in favour of our legal challenge over barley. We responded without complacency but with a commitment to improve and expand the price, payment and delivery options available to wheat, durum and barley farmers on the Prairies.

As I write this message, work is well underway on these new options and I anticipate they'll be an important theme in our annual report for 2007-08. The themes that run through the document you now hold in your hands reflect a profound commitment to western Canadian farmers. As we move forward, we'll continue to be guided by who we are and what we stand for.

Ken Ritter
Chair, board of directors

* Western Canadian farmers exercise democratic control of the CWB by electing 10 of the 15 members of its board of directors. Elections, scheduled every two years, were held in December 2006 for five board positions. See page 20.



FARMERS

Bruce Burnett
Karen Klimek
Chris Kuntz
Ward Weisensel

S FIRST

As CWB employees, we take a lot of pride in knowing that we work for the farmers of Western Canada.

It's what makes us strong and motivates us as we develop new and better ways to serve farmers and customers. It's the common thread that runs through our varied workforce, the sense of responsibility that holds together our diverse skills and expertise.

But more than this, many of us literally are *Farmers First*. More than one-third of the CWB's workforce are members of farm families. Our knowledge and values were shaped by what we learned on the family farm, and we bring these to work.

In the following pages you'll meet four CWB employees who are farmers first, who know first hand the hard work and rewards of earning a living from the land, and whose perspectives are so important to the life and work of the CWB.

PROFILE

Bruce Burnett

As a teenager, Bruce Burnett remembers thinking it was "kind of weird" when his uncle used part of his holiday to help with harvest on the family farm. Now, he says, it makes perfect sense.

Almost every year since he began working at the CWB in 1988, Bruce has headed out to the family farm in western Manitoba – now his brother's farm – to help with harvest. This year, he put in eight full days and two weather-shortened days combining 850 acres of CWRS wheat.

"If you're a farm kid, harvest is an exciting time," says Bruce, director of weather and market analysis. "You miss that. There's lots of pressure to it too, but for me it's a good break and a kind of reminder of why I do what I do."

The Burnett farm occupies 1,700 acres of rolling Newdale clay loam, just north of Binscarth, a town of 400 near the Manitoba-Saskatchewan border. Two-thirds of the farm is sown to wheat and the rest to canola. "Reasonably well drained, some rocks – it's pothole country, that's what it is," says Bruce, adding that his grandfather purchased the land in the 1930s, moving north from the Melita area.

"There were too many grasshoppers and too much drought farther south. So he moved northward to the area where my grandmother's family had settled."

"LET'S JUST SAY I'D RATHER WORK IN THE SECTOR OF THE INDUSTRY WHERE YOU'RE REPRESENTING FARMERS RATHER THAN TRYING TO MAKE A PROFIT OFF THEM."

In time, Bruce's father took over from his grandfather, and Bruce's younger brother Ken took over from their dad. Bruce, meanwhile, had completed a Bachelor of Science degree in agriculture at the University of Manitoba and was beginning a master's in soil science.

"We graduated at the same time – me with my bachelor's and Ken from the ag diploma program," says Bruce. "Ken went back to the farm. I went on to my master's and gravitated to other things. It just worked out that way."

Bruce has tracked weather and monitored crops for the CWB since 1988. He became director of weather and crop surveillance in 1998, and recently assumed responsibility for market analysis as well.

"The roles are complementary. Weather and crop surveillance is looking at global grain supply," he explains. "Market analysis is looking at demand and how it's going to influence the markets. It's a good dovetail."

The daily analyses of satellite weather maps and global crop production data produced by Bruce and his staff underpin the work of several key CWB departments including risk management, market analysis and marketing. In combination with continual monitoring and analysis of global markets, these analyses allow the creation of the monthly Pool Return Outlook (PRO) and the Producer Payment Options (PPOs) in which the PRO is a factor. All of this, Bruce relates back to the farm.

"The background on the farm helps quite a bit; it's true. I have a real-life perspective on what farmers' concerns are, what the important things are in terms of crop quality, crop growth cycles, how critical the critical stages can be in crop development, when farmers are going to want to sell, that kind of thing."

He adds that it's the CWB's relationship with farmers that gives his work its meaning.

"The values of the CWB fit with my personal philosophy of marketing power – who you're representing. I worked for for-profit companies before I came to the CWB. Let's just say I'd rather work in the sector of the industry where you're representing farmers rather than trying to make a profit off them."

The unique role and mandate of the CWB make for a job that demands full use of Bruce's training and convictions.

"From our perspective, we're trying to get the absolute highest price possible for farmers' grain – given all the permutations of the global market, given all the logistics and all of these other constraints. You have to have a lot more fundamental, more detailed view of what's happening around the globe than a grain company that's just buying and selling on margin."

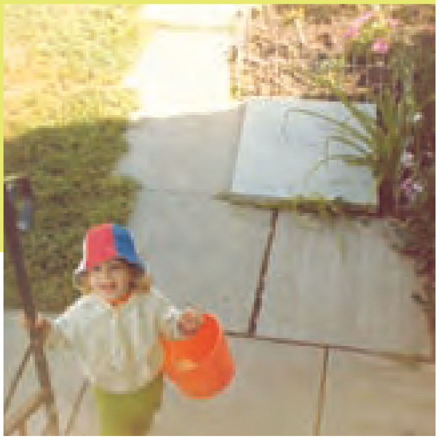
"I'm a farmer first. That helps not just with the job itself but relating to farmers and explaining things to farmers."

PROFILE

Karen Klimek

Karen Klimek works her way through a small pile of snapshots. Here she's a toddler holding a sample pail on her grandparents' front step. Here she's a teenager behind the wheel of the family grain truck.

Here a young woman in overalls scrambling to the top of a grain bin. These are the wild crocuses on the neighbour's hill. This is the local elevator where they used to haul their grain. It's not there anymore.



"I'M A FARMER FIRST. THAT HELPS NOT JUST WITH THE JOB ITSELF BUT RELATING TO FARMERS AND EXPLAINING THINGS TO FARMERS."

"Before I was old enough to work with equipment, my place on the farm was in the garden and the kitchen with my mom and grandma, making meals and helping with blanching, canning and processing a large amount of fruits and vegetables," she says. "Later on, my job was hauling grain, climbing up and down the bins and in and out of trucks, running samples to the elevator for moisture/protein testing and cultivating fields after harvest."

Karen Klimek, farm business representative (FBR) for northeastern Alberta/northwestern Saskatchewan, has been based in Lloydminster since 2004. She comes to the last photo in her hands.

"And that's my grandpa," she says with an affectionate smile. "He's getting his CWB farmer recognition certificate from Mel after 67 or 68 years of farming. It's one of his most prized treasures."

Karen's grandpa is Karol Ilnicki, who emigrated from Ukraine as a child with his parents and homesteaded northeast of Camrose in the 1920s. "He was so proud of me when I got this job."

Mel Ashcroft was Karen's colleague and mentor based in Camrose, who recently retired after 17 years as an FBR. It was Mel who answered Karen's questions when she worked for two years in the Agricore United elevator at Camrose East.

"He was my CWB rep when I was at the elevator, so I got to know him really well through things like pricing option meetings," Karen explains. "When I got this job, he kind of took me under his wing and eased me into it, so I was lucky."

Now, with almost four successful years under her belt: "I love it. I never have to use an alarm clock to get up in the morning. Every day if I've got a meeting or somewhere to go, I'm up and ready, no matter how early I have to start. Every day it's different work. One day, I'm doing meetings with producers or grain elevator staff. The next, I'm picking up grain samples or filling out a farmer's contract or telling him about a tour or course that's coming up."

Karen and her twin brother were preschoolers when her parents joined her grandparents' farming operation 13 miles northeast of Camrose. An acreage was split off and mom and dad built their own yard a mile from grandma and grandpa – "close enough to help but far enough to be out of the way." Karen's aunt and uncle and their family eventually joined the operation as well.

"It was a treat to go riding in the combine with grandpa," she says, adding with a laugh, "for eight hours!"

After high school, Karen enrolled in home economics at the University of Alberta but found it was the required agriculture courses that captured her imagination. She switched her major, graduated in 1999 with an agriculture degree in crop science and soil science, and was hired to work for the summer as a crop scout by Alberta Wheat Pool – "Agricore" by the time she actually started the job.

"My grandpa was always a big supporter of Alberta Wheat Pool. And that was my dream back then, to work for Alberta Pool."

At the end of the summer, she moved next door to Agricore's seed lab until Agricore gave way to Agricore United and the majority of the lab's services were discontinued and staff let go. Karen then started working in the elevator and moved easily through several roles for Agricore United. She landed eventually in sales, recommending and selling chemical, seed and fertilizer to local producers and buying their grain.

Then, late one spring night in 2004, waiting for a farmer to come for a load of fertilizer, she spotted a CWB ad for an FBR in a copy of *The Western Producer* that her grandma had passed along. She applied on a whim and hasn't looked back, although she still has a hand in the 1,600-acre grain farm now run by her dad and brother.

"I'm more of an advisor/consultant to my dad and brother now," she says, heading back for weekends whenever she can. It's a connection that defines who she is.

"I'm a farmer first. That helps not just with the job itself but relating to farmers and explaining things to farmers. It helps me give concrete examples when I'm explaining something like Producer Payment Options. It gives farmers more confidence in what I have to say."

She especially appreciates the questions she gets from farm women eager to build on their traditional homemaking and accounting roles and take greater responsibility in the business decisions of the farming operation.

"I really enjoy what I do. And I strongly, strongly believe in this organization. I see the difference we can make for farmers. There are so many things they have no control over in their business. We don't control everything either, but we can do our best to make sure farmers get the information they need to make the best possible decisions for their business."

"I guess I bring everything I ever worked at to the job."

PROFILE

Chris Kuntz

Chris Kuntz, CWB business centre representative, can't think of a better place to have grown up.

The yard was huge – perfect for four brothers to play football with their friends or horse around on the trampoline. There was a John Deere dealership in town, "so everybody had every John Deere toy that was ever made."

"Whatever was available to do in my hometown," Chris says, "we all did; we were all supported to do that by the family farm.

"Montmartre had the only park within four or five towns, the biggest school within four or five towns, a swimming pool, a senior hockey team – the Rivals, a church perogy club, 4-H, and a combined elementary school and high school. When I was there, the school had about 250 kids but it's more now because of school closures nearby."

Over the years, Montmartre, SK, population 550, located 50 miles west of Regina and 13 miles northwest of the Kuntz farm, thrived as other communities shrank and emptied out.

The farm itself was a second-generation farm established by Chris's grandparents and taken over by his mom and dad: 1,700 acres of wheat, barley, flax and canola; 50 cows, half of them purebred; 500 chickens; a garden; and a greenhouse.

"My main thing was the cattle and helping my mom with the garden," says Chris. "But it all depended on what was going on at the time. If the fence needed fixing, we all got together to fix the fence."

But there was a certain reality that the Kuntz brothers always understood – "the reality of four sons and a farm that was really only big enough for one person or maybe two at that time to take it over." Middle brothers Brian and Mark prepared themselves for a future in farming. Chris, the eldest, and Jonathon, the youngest, "were sort of groomed to go to school and take off, and that's what we did."

Chris, 6' 5", enrolled in agriculture at the University of Saskatchewan in Saskatoon, supporting himself by working as a bouncer in local bars. "It was the best five years of my life, learning and meeting people." Soon, he adds, he'll be best man at the wedding of a friend he met on his first day of orientation.

After university, in 2003, he went home to care for his ill mother and, as it turned out, "to help with the auction sale." It wasn't what the Kuntz brothers ever imagined or hoped for. But none of the brothers felt able to shoulder the debt load necessary to take over from their dad.

With the death of his mother, and his father working full-time at the seed-cleaning business he'd launched a few years earlier, Chris took a job with Pioneer Grain as a location assistant in Imperial, SK, and spent a valuable year-and-a-half "learning from an old-school crop trader and crop-input guy." From there, he was transferred to Pioneer's Wakaw elevator, "doing the same kind of job but at a far more hands-on, doing-everything level." When the elevator closed down, Chris was offered a transfer to another facility but applied to work at the CWB instead. It's been a great fit, to say the least. He stood out immediately in a department of two dozen employees noted for their broad knowledge, professionalism and commitment to farmers.

Wanda and Irvin Eberle farm six miles from where Chris grew up and have known him since he was in kindergarten. They're not at all surprised.

"We ran into him when he was home at Thanksgiving," explains Wanda. "He was so pumped and excited about his job and he was sharing it with us. We were just so impressed with him. Irvin says if you get him on the phone he just lays it all out for you: 'this is it'."

Chris's own take on the subject matches up pretty well.

"I guess I bring everything I've ever worked at to the job. Being immersed in the different payment options and all that every day, I can talk about them, no problem. I can do trade shows. I can talk to farmers in my hometown bar when I go home and visit for holidays. When they ask questions I can answer them in a few words.

"When you're working in a trade show or talking to a guy on the phone about a Fixed Price Contract or a Basis Price Contract, or having a beer with a guy at home and he gets what you're explaining to him and how it can work for his farm, or how this and that can work together, those are really rewarding conversations; those are the best conversations you can have in a job like mine."

"I GUESS I BRING EVERYTHING I'VE EVER WORKED AT TO THE JOB. BEING IMMERSED IN THE DIFFERENT PAYMENT OPTIONS AND ALL THAT EVERY DAY, I CAN TALK ABOUT THEM, NO PROBLEM."

He was so pumped and excited about his job and he was sharing it with us.

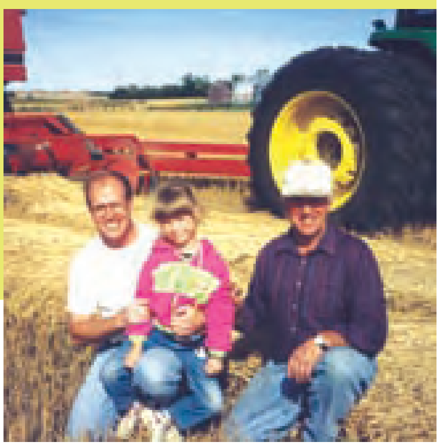
"It was a first. The first time anyone had recommended that we publish a Pool Return Outlook and an Estimated Pool Return."

PROFILE

Ward Weisensel

Within a couple of years of joining the CWB in 1991, Ward Weisensel and his fellow policy analysts appeared before the CWB board of commissioners with a message he has developed and promoted ever since.

The "service package" that the organization provided to farmers at the time was a one-size-fits-all approach consisting of price pooling and delivery contracts.



"IT WAS THE FIRST TIME ANYONE HAD RECOMMENDED THAT WE PUBLISH A POOL RETURN OUTLOOK."

"But each farmer is unique with different needs," says Ward, now chief operating officer. "Just like we treat our customers differently because they're different and have different needs, we were making the case that we needed to do the same thing with farmers – while continuing to provide price pooling as a clear choice that farmers want.

"It was the first time anyone had recommended that we publish a Pool Return Outlook. We also said that we have to move forward on pricing options. The concepts around the Fixed Price Contract and the Early Payment Option – they were all there. And I remember – I don't ever need a lot of notes to speak about a subject I feel strongly about – but this was so different."

He laughs and shakes his head.

"We were so concerned about how it would be perceived by the commissioners that we wrote it all down word for word and we actually read it. I remember the paper trembling in my hand. We were so nervous."

By the 1993-94 crop year, the PRO and Estimated Pool Return (EPR) had come into being. Having conceived and promoted them, Ward and his fellow policy analysts also became responsible for their creation. Some people might feel put upon, but not Ward. All through his CWB career, he says, "I've been part of the conceptual development of things, and I've had the good fortune to be in those positions where I then became responsible for implementing them."

Of course, he adds, much of what was laid out for the board of commissioners in the early-to-mid 1990s wasn't set in motion until 1998. That's when the board of commissioners was replaced by a farmer-controlled board of directors, the majority elected by western Canadian farmers.

Meanwhile, Ward had begun an impressive journey through various CWB departments – from policy analysis to sales, with a secondment to work on the Western Grain Marketing Panel, and by the mid-1990s, to head of corporate policy. Early in the new millennium, he rounded out his knowledge of CWB operations in the logistics department, and in 2003 became vice-president of marketing, a title that was changed to chief operating officer.

a message

he had developed and promoted ever since

What's the source of Ward's energy and commitment? The Canadian part of the story begins in Breman, SK, less than an hour's drive southeast of Saskatoon. The Weisensels, Ward's great-grandparents, homesteaded in 1905, moving from the U.S., where they'd initially settled as immigrants from Austria/Germany. His mother's family also homesteaded but not until 1938-39.

"My mom's father – my grandfather – was a forestry officer on the frontier in Czechoslovakia. The story goes that he was much more aware of what was happening in Germany than the general population of Czechoslovakia because he'd been talking to people along the border."

The family joined a brother already farming near Mistatim, SK, breaking a quarter section of forest that Ward's uncle and cousin continue to farm.

Ward's father and brother took over and expanded the Weisensel farm, but in 1975, Ward's uncle left the partnership.

"That created an opportunity for me," says Ward. "I became my dad's hired man. I was 12 years old, but I was basically running equipment, doing most of the work that my uncle had done. In spring, I'd prepare the land for Dad to seed behind, so I'd be running the tractor and the cultivators putting on the chemicals. We operated that way right through pretty close to when I moved to Winnipeg."

All through high school, all through the two years he played junior hockey for the Humboldt Broncos while carrying a half-load of courses at St. Peter's College, and all through his undergraduate and graduate studies at the University of Saskatchewan in Saskatoon, Ward continued as a partner in the family farm. At its peak in the mid-1980s, Ward and his father farmed about 2,300 acres of wheat, canola and barley. He graduated with a master's degree in agriculture economics in 1988.

Contract work at the university and for the Saskatchewan government put him in touch with several high-profile people at the CWB.

"They were very sharp people with a global outlook and an incredibly strong commitment to the farmers of Western Canada. That's something that really attracted me in terms of coming here and it's what makes me want to come to work now.

"I'd continued to work on the farm and come out every day that I could until then," he adds. "After I moved to Winnipeg, I was still able to travel out for harvest and in the spring, but to make that commute regularly, well, I guess I had to give it up."

Where will the CWB's chief operating officer be focusing his considerable energy in the coming year? Ward leans forward to answer.

"We've done a lot of things on the wheat side in terms of pricing options. We need to continue to refine those but we really need to advance things on durum and designated barley. We don't have the same flexibility there because there aren't futures markets to hedge risk the same way there are for wheat. But we've come up with some interesting approaches and I'm really looking forward to seeing them through. That's really the next critical stage."

1

performance is measured in terms of achievements

Corporate governance

The following section reviews the CWB's performance highlights, farmer-controlled board of directors, committee structure and leadership team.

CWB performance highlights

The CWB's performance is measured in terms of its achievements in four distinct areas: strategic relationships, business development, supply chain management and corporate development.

STRATEGIC RELATIONSHIPS

Strategic goal: To be recognized and respected as a valued business partner by our farmer-owners and our customers.

Initiatives

- Implement a corporate-wide relationship management approach for farmers
- Implement a corporate brand strategy
- Enhance customer relationship management in marketing
- Strengthen the CWB's trade position in international agreements

Achievements

- Enhanced services for farmers and elevator managers by making it possible to view PPOs online and through the electronic permits application.
- Implemented the Delivery Exchange Contract (DEC), under which farmers have greater flexibility and control over the timing of their deliveries through exchange of delivery periods with other farmers.
- Implemented the Wheat Storage Program (WSP) to store high quality stocks on farm. This will ensure supplies are available for key customers into the next crop year.
- Implemented durum contract changes.
- Developed domestic branding campaign and began national co-branding relationship with Smucker Foods of Canada Co. (Robin Hood flour).
- Continued to be the primary supporter of the Grains They're Essential campaign, designed to increase professional and public awareness of the health benefits associated with cereal grains.
- Completed market tours of China, Japan, Chile, Colombia, Ecuador and Peru to raise awareness of the CWB's branding strategy among key customers and investigate areas of mutual interest.

STRATEGIC RELATIONSHIPS (CONTINUED)

Strategic goal: To be recognized and respected as a valued business partner by our farmer-owners and our customers.

- Conducted a customer satisfaction survey and incorporated the results into the CWB's customer relationship management strategy. The survey results are used to formulate a customer satisfaction index (CSI), which for 2006-07 was 84.01, up from 79.99 two years ago.
- Further developed the CWB's customer database to store and track information about CWB customer preferences and demands in order to increase efficiency and effectiveness in meeting sales demands and ultimately maximize returns for farmers.
- Employed a comprehensive multilateral advocacy strategy to build support for the CWB's objectives for a World Trade Organization (WTO) Agreement on agriculture that benefits western Canadian Farmers.
- Urged the federal government to conclude existing and pursue new bilateral trade agreements in key markets to ensure unfettered, open market access for Canadian wheat and barley.

BUSINESS DEVELOPMENT

Strategic goal: To identify and develop opportunities to grow the CWB by strengthening our market position, investing in business prospects, and developing products and services that add value.

Initiatives

- Engage in a corporate value-added strategy to increase value-adding in Canada
- Continue development and implementation of long-term barley marketing strategies
- Further pursue variety development and distribution strategy
- Increase business development capabilities and pursue opportunities

Achievements

- Determined, through focus groups, farmers' views on the CWB's efforts to promote value-added in western Canadian wheat and barley. This will help ensure CWB policies and processes support value-added in all its forms.
- Created a differentiated pricing program for domestic processors to increase utilization of Canadian processing plants.
- Launched the New Generation Co-op (NGC) value-added initiative. This program offers farmers who are part of an NGC the ability to capture the pooled return for the North American domestic human consumption price.
- Launched the Field to Plate program. This program enables those involved in niche, value-added processing ventures to source grain directly from farmers. The program is designed to encourage and sustain small Prairie processors that have found niche marketing opportunities for processed wheat and barley products.
- Improved quality control for malting barley. Established a database of selected, tendered and cargo-quality supplies for CWB malting barley sales and developed a progress report and future recommendations on CWB-offered direct selection for producer car groups.

- Developed a discussion paper and recommendations regarding expansion of quality payments for malting barley for factors above and beyond protein, coupled with a revision of malting barley grades. This will provide greater incentive for farmers to grow malting barley, as they will receive a more accurate payment for the quality of barley they produce.
- Secured China Green Food label accreditation for all CWB malting barley shipments from Western Canada in order to pursue opportunities in this rapidly expanding market.
- Developed a specialized program in partnership with the Canadian International Grains Institute (CIGI) for potential North American and international processors and manufacturers of new food products containing barley. This program is designed to expand markets for western Canadian barley.
- Implemented a basis contract for malting barley customers that is tied to the western barley futures contract on the Winnipeg Commodity Exchange. This program was launched in the 2005-06 crop year and gives maltsters an added option for pricing.
- Examined the feasibility of production contracts to supply malting barley customers. These production contracts will be further considered for the 2008-09 crop, where warranted.
- Evaluated joint venture activities and potential new varieties to enhance the CWB's position in the development and distribution of wheat and barley varieties.
- Completed planning for the Canada Grains Council (CGC) workshops on Adventitious Presence and Coexistence. The CWB was part of the planning committee.
- Enhanced the CWB's biotechnology strategy to reflect new developments resulting from the Workshop on Adventitious Presence and Coexistence, discussions on the Responsible Introduction of Novel Agricultural Products (RIONAP) and customer interface with respect to Syngenta's fusarium-resistant wheat.
- Established a business development framework/roadmap to evaluate business opportunities, with the purpose of making wheat and barley more profitable. The framework will help management assess the benefits and risks of business development opportunities and provide an early signal on whether it is worth investing time and resources in the full business case development phase.

opportunity
support
commitment
excellence

SUPPLY CHAIN MANAGEMENT

Strategic goal: To develop and manage a supply chain that maximizes net value for farmers, fully satisfies customers' needs, and enhances market opportunities.

Initiatives

- Supply chain transformation
- Leading the industry in quality control and assurance

Achievements

- Developed an automated grain tendering system that will be used to electronically issue a request for quotes to grain companies, and then award the contract to the successful bidder.
- Developed a freight settlement tool to calculate freight charges for transporting grain by rail as directed by the CWB. The tool will also be used for calculating other related freight charges such as railway incentive payments that are paid to grain companies, as well as handling fees to the terminals. For those transportation activities where the CWB is identified as the payer of freight, the system will also automatically create invoices to initiate payment to the railway, freighter and grain companies based on the CWB's own records.
- Launched a strategic planning tool that, based on anticipated supply and demand, will create a Crop Year Plan that defines the most profitable way to allocate supply to customers.
- Launched an e-Permits tool that enables elevator staff, farmers and CWB staff to electronically complete a farmer's permit book application via CWB's e-Services. Eliminating paper applications will result in cost savings that can be passed on to farmers.
- Completed a 2007-08 plan for a food safety pilot program in conjunction with the CGC, as well as a comprehensive approach to food safety and traceability through an On-Farm Food Safety Program.
- Provided financial support and expert resources to develop promising new technology to identify wheat and barley varieties in the absence of Kernel Visual Distinguishability (KVD).

value
performance
satisfaction
pride

CORPORATE DEVELOPMENT

Strategic goal: To have the structure, capabilities and culture to realize the CWB's vision and mission.

Initiatives

- Develop best practice disciplines that enable the CWB to deliver against the long-term plan
- Strengthen and grow our human resources capabilities
- Develop information technology strategic direction that enables the CWB to deliver against the long-term plan

Achievements

- Prepared an analysis and recommendations on stakeholder and financial reporting gaps. This will ensure that disclosure of financial and other stakeholder information is meeting current best practices as well as farmers' needs.
- Completed an analysis and approved recommendations that the CWB comply with elements of Bill 198 within four years. This will result in the CWB's governance being consistent with best practices, while minimizing the cost of compliance.
- Conducted a review of the CWB's corporate performance management and reporting process to ensure proper alignment with the strategic goals and priorities of the CWB.
- Reviewed and redesigned the employee performance management process to more effectively align with other HR programs and services, such as competency management, learning and development, and compensation programs such as variable pay. This will ensure that performance management and our focus on total compensation at the CWB are in alignment with the corporate strategic goals.
- Implemented a new system to perform formal competency gap assessment through the performance management process. This represents the organization's efforts to grow corporate commitment to and application of CWB competencies that are the foundation for many employee programs and services (i.e., recruitment, learning and development, and succession planning).
- Conducted an employee survey and developed strategies and actions as required. The survey results were also used to create an employee satisfaction index, which was 3.07, below an aggressive target range of 3.5–3.75 but an increase of 0.07 from the previous survey.
- Developed and implemented a comprehensive learning and development program that will help make the CWB a more innovative employer. Learning and development opportunities are more focused towards meeting the organization's needs and direction.
- Implemented a business alignment model to ensure IT service delivery is aligned with business demand.
- Developed an architecture roadmap and competency assessment. This will improve corporate agility in response to changes in the business environment and the ability to reduce the time to market for products and services.
- Began the development of a business continuity strategy and plan to provide a set of guiding principles that will strategically influence technology decisions and ensure business alignment. This effort will continue into the 2007-08 crop year.

Access to information

The CWB became subject to the federal access to information legislation in April 2007 – despite the fact it is neither a Crown corporation nor a government agency. The CWB voiced its concern about inclusion in the legislation, given the strong requirement to protect the confidentiality of commercial transactions and the additional administrative expense it presents for farmers.

The CWB has hired an ATI director and support staff to establish protocols and deal with information requests. As of July 31, 2007, no requests had been received.

Board of directors

The CWB operates as a shared-governance corporation under *The Canadian Wheat Board Act*.

The board consists of 15 members: 10 farmers elected by their peers and five individuals appointed by the federal government, including the president and chief executive officer. In 1998, this unique board structure was created to reflect the CWB's accountability to farmers and to ensure that farmers are in control of their grain marketing organization.

Farmer directors are elected by producers in 10 electoral districts across Western Canada. To ensure continuity on the board, these directors have staggered four-year terms and elections are held every two years, alternating between odd and even-numbered districts. The 2006 elections were held in districts 1, 3, 5, 7 and 9. Two new directors were elected in districts 1 and 7, while incumbent directors were re-elected in the remaining districts. Appointed directors hold three-year terms.

ELECTED DIRECTORS

1. Ken Ritter Chair (District 4)

Ken has been the chair of the CWB's board of directors since its inception and has served on both the National Transportation Agency and the Saskatchewan Surface Rights Arbitration Board. He operates a family farm near Kindersley, SK. In addition to farming, he has practised law and taught school in both Canada and Australia. Ken has degrees in arts from Notre Dame College and the University of Ottawa, in education from the University of Regina and in law from the University of Saskatchewan.

2. James Chatenay (District 2)

Jim operates a family farm near Penhold, AB. He is a graduate of Olds Agricultural College and served six years as a director of the Alberta Charolais Association. He is a member of the Barley Advisory Committee of the Western Grains Research Foundation.

3. Rod Flaman (District 8)

Rod farms with his wife Jeanne just south of the Qu'Appelle Valley, near Edenwold, SK. They produce a variety of field and horticultural crops, including certified organic grain. Rod was educated at the University of Saskatchewan, where he received a Bachelor of Science in mechanical engineering. He worked in the oil, power generation and manufacturing industries for 10 years before returning to the family farm. Rod has served as a director of the Saskatchewan Fruit Growers Association, the Regina Farmers Market and Terminal 22, a farmer-owned grain terminal at Balcarres, SK. He serves as chair of the Wheat Subcommittee of the Western Grain Standards Committee.

4. Larry Hill (District 3)

Larry farms 4,300 acres near Swift Current, SK. He is a graduate of both agricultural engineering and farm business management at the University of Saskatchewan and has worked for Saskatchewan Agriculture. Since 2002, he has chaired the Audit, Finance and Risk Committee. He also serves as chair of the Ad Hoc Trade Committee.

5. Kyle Korneychuk* (District 7)

Kyle and his wife, Susan, farm 4,200 acres near Pelly, SK. Kyle is a graduate of the University of Saskatchewan and holds a Bachelor of Science in chemistry. He has been involved in numerous farm and community organizations, including Saskatchewan Wheat Pool, Borage Growers Group and Prairie Alliance for the Future. In addition to Kyle's farming experience, he has been employed in the mining industry and in government. He has represented both provincial and federal governments on national agriculture and environment committees.

6. Ian McCreary (District 6)

Ian was raised on the mixed farm near Bladworth, SK, that he operates today. He holds a master's degree in agricultural economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian has served as chair of the Farmer Relations Committee and the Strategic Issues Committee. His international experience includes managing a pilot project on food aid and food markets for the Canadian Foodgrains Bank, which included nine projects through Asia, Africa and Latin America.

7. William Nicholson (District 9)

Bill and his family operate a grain farm near Shoal Lake, MB. Bill has a degree in agricultural engineering and has worked in the farm machinery industry. He is in his third term as an elected director. He also served on the former CWB Advisory Committee, was a Manitoba Pool delegate and represented farmers on the Prairie Agricultural Machinery Institute Council. He is currently president of his local credit union board. Bill is past chair of the Strategic Issues Committee and currently co-chairs the Governance and Management Resources Committee. He also represents the CWB on the Barley Subcommittee of the Western Grain Standards Committee.

8. Allen Oberg (District 5)

Allen and his brother John run a grain and cattle operation near Forestburg, AB. Allen has served on the boards of numerous organizations throughout his career, including Alberta Wheat Pool, Agricore and the Canadian Co-operative Association. He currently serves as a board member of the Western Grains Research Foundation and is past chairman.

9. Bill Toews (District 10)

Bill and his wife, Barbara, operate Harambee Farms, a grain and special crops farm at Kane, MB. Bill has a degree in agriculture and a post-graduate degree in soil science. He has served as a director of Keystone Agricultural Producers, the Western Grains Research Foundation and the Manitoba Farm Products Marketing Council. Bill worked in Kenya and Pakistan with the Canadian International Development Agency and served as a sessional associate director and instructor at the University of Manitoba's School of Agriculture. He has been a member of the Manitoba Agri-Food Research and Development Council and currently serves on a local credit union board, the Canadian International Grains Institute and the Wheat Advisory Committee of the Western Grains Research Foundation.

10. Henry Vos** (District 1)

Henry has a degree in agriculture from the University of Alberta and is a professional agrologist. Henry and his wife Anne farm at Fairview, AB. Their farm is over 3,000 acres and specializes in the production of pedigreed seed for processing and retail sale. Henry is a member or shareholder of several Canadian seed companies. He has served on the board of governors of Fairview College, the Alberta Branch of the Canadian Seed Growers Association, the Winnipeg Commodity Exchange and the Alberta Canola Producers Commission. He has been a board member with the Alberta Agricultural Research Institute and a committee member with the Agriculture and Food Council.

APPOINTED DIRECTORS

11. Greg Arason

President and Chief Executive Officer

Greg was appointed interim president and chief executive officer of the Canadian Wheat Board on December 19, 2006. He was previously president and CEO of the CWB between 1998 and 2002. Greg has more than 35 years experience in the grain industry. He formerly served as CEO of Manitoba Pool Elevators (MPE) and as a director of several grain and food operations including CanAmera Foods, Can-Oat Milling, Chamber of Maritime Commerce, Canada Grains Council, Prince Rupert Grain, Westco Fertilizers, Western Grain Elevator Association, and XCAN Grain. He was raised on a grain farm near Glenboro, MB, and educated at the University of Manitoba and the Banff School of Advanced Management.

12. William Cheuk

William is president of Vancouver-based Origin Organic Farms Inc. and Vision Envirotech International Ltd. He is also commissioner of the BC Vegetable Marketing Commission and president of the Chinese Federation of Commerce of Canada. He has led numerous trade missions to Asia and has experience with international trade dispute resolution. William has played a central role in the Environmental Farm Planning Program for sustainable development in agriculture. He has a Bachelor of Business Administration, majoring in accounting, from Simon Fraser University, as well as bachelor and doctorate degrees in chemical and biological engineering from the University of British Columbia.

13. Glen Findlay

Glen and his wife Kay, along with their family, operate a 5,000-acre, 300-head beef farm at Shoal Lake, MB. Glen holds bachelor's and master's degrees in animal nutrition from the University of Manitoba and a Ph.D. in nutritional biochemistry from the University of Illinois. He has served as a post-doctoral fellow at the National Research Council in Ottawa and as a professor in the Faculty of Agriculture at the University of Manitoba. He was a member of the Manitoba Legislative Assembly for 13 years, where he served as minister of agriculture, minister of highways and transportation and minister responsible for telecommunications. While a minister, he was involved in numerous international trade missions. He also served as a member of the Canadian Transportation Act Review Panel and has been an Agricore United delegate. He has been active in several farm organizations and community sports.

14. Bruce Johnson

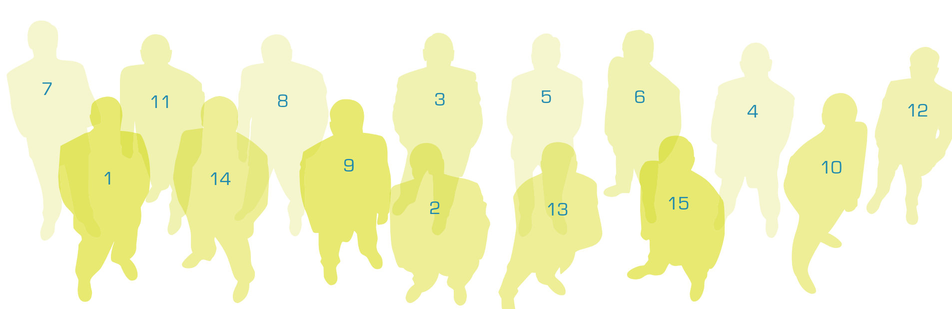
Bruce has worked in the grain industry for more than 25 years. He has held senior positions in both privately held and cooperative grain companies and has served on several boards. Bruce has provided consulting services to a broad range of clients in transportation, food and agriculture and government. He holds a Bachelor of Arts from the University of Manitoba. He currently co-chairs the Governance and Management Resources Committee.

15. Ken Motiuk

Ken has extensive experience in agri-business and owns and operates grain and livestock operations near Mundare, AB. He holds a Bachelor of Science in agricultural economics from the University of Alberta. Ken currently serves as a director of the Alberta Credit Union Deposit Guarantee Corporation, a member of the Alberta Economic Development Authority and a member of the Institute of Corporate Directors. Previously, he served as a governor of the Winnipeg Commodity Exchange, a member of the Alberta Grain Commission and a director of Agricore United.

* Replaced Dwayne Anderson

** Replaced Art Macklin



The board's mandate

The board of directors is accountable to farmers for establishing and achieving the CWB's stated objectives. It does this by setting overall strategic direction and reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The board establishes performance measures against which long-term and annual plans can be evaluated. The board also ensures management has appropriate systems in place to manage risk, maintain the integrity of financial controls and oversee information services. In addition to the annual business plan, the marketing and government relations plans are board-approved vehicles that enable the directors to evaluate management's progress against set business objectives. For purposes of establishing objectives, the board places a high priority on listening to farmers and ensuring that the views of farmers are brought forward to the entire board.

Leading by example

The 2006-07 crop year was a challenging one for the CWB. It was a year in which the board effectively transitioned to an interim CEO, engaged in several legal challenges related to its mandate and role as a shared governance corporation, sought judicial clarification on the marketing of barley, and intervened in Great Northern Grain's level-of-service case against CN Rail. Despite this challenging environment, the board continued to provide strong strategic leadership and remained firmly committed to ensuring that the CWB continues to serve the best interests of western Canadian farmers. Specifically, it listened to farmers, leading to the development of significant enhancements to producer options and the agreement of the board to seek additional substantial ways to provide pricing and delivery flexibility.

Commitment to good governance

The board has taken a proactive approach to its governance philosophy and framework. Although not legally subject to recent legislative reforms, it has assumed best practice guidelines for its own governance standards. With the exception of the president and CEO, all of the directors on the board are independent of management. The board has a comprehensive governance policy and process framework to demonstrate the CWB's commitment to good governance, including:

- an approved code of conduct and conflict of interest guidelines
- a list of significant policies developed and approved by the board that guide corporate conduct

- terms of reference for the board of directors that establish the mandate and responsibilities of the board with clear delegation to the CEO of the balance of decision-making
- role and responsibility descriptions for the key players in the CWB's governance framework, including the chair of the board, the CEO, each committee and individual directors
- comprehensive orientation for new directors and ongoing professional development
- the holding of regularly scheduled in-camera meetings
- executive succession planning
- use of board performance assessment tools
- internal controls that have been assessed and continue to be monitored to ensure integrity and accountability. As part of strategic planning, the board annually reviews and supplements an integrated risk-management summary that identifies and measures external risks and opportunities.

During the 2006-07 crop year, the board continued to provide strong governance and leadership. In particular: it undertook a review of its director compensation policy and confirmed the existing compensation limit; members of the Audit, Finance and Risk Committee participated in financial literacy training and development in accordance with best practice guidelines; a number of directors attended and successfully completed additional learning modules at the Director's College; individual directors continued to sit on external boards and committees to ensure the CWB's perspective is considered in third-party and stakeholder policy formulation; and numerous accountability meetings were hosted across the Prairies to ensure accurate and transparent communication with farmers.

Committee structure

To assist it in fulfilling its governance role and responsibilities, the board of directors has established four standing committees. In 2006-07, there were also ad hoc committees on trade and the CEO search.

Audit, Finance and Risk Committee

Mandate – This committee's primary responsibilities include the review of financial reporting, accounting systems, risk management and internal controls. It facilitates the conduct of an annual audit, assesses performance measures, reviews annual financial statements and accounting practices and reviews financial/business risk policies, plans and proposals.

Members – Larry Hill (chair), William Cheuk, Bruce Johnson, Ian McCreary, Ken Motiuk, Bill Nicholson and Henry Vos.

Governance and Management Resources Committee

Mandate – This committee focuses on governance to enhance board and organizational effectiveness. It also assists the board in fulfilling its obligations related to human resource and compensation matters.

Members – Bruce Johnson (co-chair), Bill Nicholson (co-chair), William Cheuk, Glen Findlay, Rod Flaman, Ian McCreary and Henry Vos.

Strategic Issues Committee

Mandate – This committee ensures that strategic and policy issues are identified and that priorities, time frames and processes to address these issues are recommended to the board. It coordinates the board's input to the CWB's strategic planning process.

Members – Bill Toews (chair), James Chatenay, Glen Findlay, Rod Flaman, Kyle Korneychuk and Allen Oberg.

Farmer Relations Committee

Mandate – This committee reviews and recommends strategic plans for farmer relations, communications and government relations.

Members – Allen Oberg (chair), James Chatenay, Larry Hill, Kyle Korneychuk, Ken Motiuk and Bill Toews.

Ad Hoc Trade Committee

Mandate – This committee reviews and recommends strategies on trade-related issues that could affect the CWB's ability to fulfill its mandate.

Members – Larry Hill (chair), James Chatenay, Glen Findlay, Ian McCreary, Bill Nicholson, Allen Oberg and Henry Vos.

Ad Hoc CEO Search Committee

Mandate – This committee was established to lead the board's CEO executive search process. In addition to board membership, there are also four representatives of the federal government on the committee.

Members – Ken Ritter (chair), William Cheuk, Larry Hill, Allen Oberg and Henry Vos.

Compensation table and meetings attended, 2006-07 crop year

Board of directors

		Remuneration			Attendance		
Director	District	Retainer	Per diems	Total	Board meetings	Committee meetings	Industry/ miscellaneous meetings
Macklin, Arthur[1]	1	$ 8,333	$ 6,750	$ 15,083	5/5	5/5	3
Vos, Henry[2]	1	11,667	20,250	31,917	13/14	17/17	9
Chatenay, James	2	20,000	29,500	49,500	18/18	17/17	22
Hill, Larry	3	20,000	38,075	58,075	18/18	25/25	34
Ritter, Ken	4	60,000	41,525	101,525	18/18	29	35
Oberg, Allen	5	20,000	28,250	48,250	18/18	18/21	18
McCreary, Ian	6	20,000	25,750	45,750	18/18	19/19	24
Anderson, Dwayne[1]	7	8,333	5,500	13,833	5/5	6/6	1
Korneychuk, Kyle[2]	7	11,667	19,000	30,667	13/13	10/10	24
Flaman, Rod	8	20,000	32,500	52,500	18/18	18/18	29
Nicholson, William	9	20,000	22,900	42,900	18/18	18/18	23
Toews, William	10	20,000	31,625	51,625	18/18	14/14	65
Arason, Greg	A	N/A	N/A	N/A	11/11	15/15	N/A
Cheuk, William	A	20,000	22,500	42,500	17/18	23/26	6
DuPont, Bonnie[3]	A	6,667	2,000	8,667	3/3	3/3	0
Findlay, Glen	A	13,333	15,000	28,333	15/15	8/8	7
Johnson, Bruce	A	15,000	16,000	31,000	16/16	18/18	2
Keith, Ross[4]	A	5,000	2,000	7,000	2/2	4/4	0
Measner, Adrian[5]	A	N/A	N/A	N/A	4/4	7/8	N/A
Motiuk, Kenneth	A	17,500	27,750	45,250	18/18	21/21	11
Total:		**$ 317,500**	**$ 386,875**	**$ 704,375**			

Notes:

A = Appointed
[1]August to December 2006
[2]January to July 2007
[3]Served until October 25, 2006
[4]Served until October 26, 2006
[5]Served until December 19, 2006

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000 per committee chaired. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors. There is no limit for the board chair.

Directors do not participate in any corporate pension plan or any corporate benefit plan, with the exception of travel accident and travel medical insurance.

Director representation on external boards and committees 2006-07 crop year

The board of directors is invited to name representatives to serve on external boards and committees related to the Canadian grain industry. The following is a list of directors assigned during the 2006-07 crop year.

External board or committee	Position	Director
Agriculture and Agri-Food Canada Cereal Grains Value Chain Roundtable	CWB board representative	Rod Flaman
Canada Grains Council	Board member	Greg Arason
Canada Grains Council On-Farm Food Safety Committee	CWB board representative	Allen Oberg
Canadian Federation of Agriculture	CWB board representative	Larry Hill
Canadian International Grains Institute	Board member	Bill Toews
Malt Barley Industry Group	CWB board representative	Henry Vos
National Forum on Seeds	CWB board representative	Kyle Korneychuk
Western Grain Standards Committee	Member, wheat subcommittee Member, barley subcommittee	Rod Flaman William Nicholson
Western Grains Research Foundation	Member, barley advisory committee Member, wheat advisory committee Board member	James Chatenay Bill Toews Allen Oberg

CWB Leadership Team

This crop year marked a period of great uncertainty for the organization due to extraordinary political pressure. In December 2006, the federal government removed President and CEO Adrian Measner from office. He was replaced on an interim basis by Greg Arason, who had served as president and CEO prior to Mr. Measner's appointment.

The Leadership Team, comprising senior officers of the CWB, is responsible for overseeing the operations of the organization and driving the achievement of the CWB's strategic direction as set by the board of directors. The team provides crucial support to the board in establishing the CWB's vision, mission and strategic initiatives. It is also accountable for the successful implementation of the annual and long-term plans for the CWB.

In November 2006, one member of the leadership team resigned from the organization to pursue another career opportunity. This position was filled from the CWB's succession plan.

Leadership Team compensation

Salaries and benefits provided below are for eight positions for the 2006-07 crop year, seven positions for the 2005-06 crop year, and 16 positions for the 2004-05 crop year. The figures reflect actual salaries paid and the cost of benefits.

The leadership team's compensation is set according to established policies that are approved by the board of directors.

	2006-07 Actual	2005-06 Actual	2004-05 Actual
Salaries	$ 1,670,277	$ 1,254,490	$ 2,608,635
Benefits	516,670	470,137	1,015,783
Total	**$ 2,186,947**	**$ 1,724,627**	**$ 3,624,418**

Summary compensation table, 2006-07

Salary disclosure for current employees for the top five salaries within the organization is being provided as part of the CWB's commitment to be open and accountable to farmers. The following table outlines annual compensation for the president and CEO and chief operating officer, as well as the three other highest-paid senior officers of the company for the 2006-07 crop year.

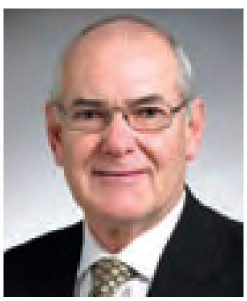
Greg Arason – President and CEO (contract agreement)	$360,000
Ward Weisensel – Chief Operating Officer	$239,865
Brita Chell – Chief Financial Officer	$185,850
Deanna Allen – VP, Farmer Relations and Public Affairs	$181,600
Graham Paul – Chief Information Officer	$170,970

Notes:

Reflects annual salaries as of July 31, 2007.

No additional payments were made to base pay during this period. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10 per cent of total annual salary.

Leadership Team



Greg Arason
President and CEO
from December 2006[1]

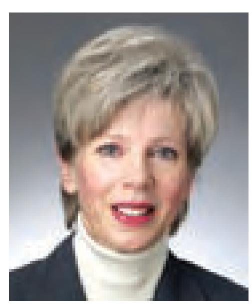
Ward Weisensel
Chief Operating Officer

Brita Chell
Chief Financial Officer

Graham Paul
Chief Information Officer

Deanna Allen
Vice-President, Farmer Relations and Public Affairs

Diane Wiesenthal
Vice-President, Human Resources
from December 2006[2]



Deborah Harri*
Corporate Secretary

Jim McLandress*
General Counsel

*Positions were officially added to the Leadership Team in January 2007.

[1] Adrian Measner, President and CEO to December 2006.

[2] Laurel Repski, Vice-President, Human Resources to November 2006.

Management discussion and analysis

the largest single-desk wheat and barley marketer in the world

Responsibility

The following discussion and analysis (MD&A) is the responsibility of management as of November 21, 2007. The board of directors carries out its responsibility for the review of this disclosure, principally through its Audit, Finance and Risk (AFR) Committee. The AFR Committee reviews the disclosure and recommends its approval by the board of directors.

Contents

Our business

Controlled by western Canadian farmers, we are the largest single-desk wheat and barley marketer in the world. As one of Canada's biggest exporters, we sell grain to more than 70 countries and return all sales revenue, less the costs of operations, to Prairie farmers.

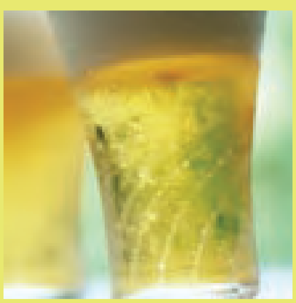
PRODUCTS

Wheat

Western Canadian wheat is marketed to customers in more than 70 countries worldwide and enjoys an international reputation for consistency, reliability of supply and quality. Flour made from wheat is the main ingredient in many staple foods, including pan breads, flat breads, steam breads, some noodles and other products such as crackers.

Durum

We market quality durum wheat grown by western Canadian farmers to more than 40 countries around the world. Semolina is the most common product from durum milling. Semolina is primarily used in pasta and couscous, which is a staple dish in North Africa.



Designated barley

About 65 per cent of Western Canada's barley acres are seeded to malting varieties. Roughly 25 to 30 per cent meet the strict quality control standards set for malting barley selection. The majority of the quality barley is used to make malt for beer, both domestically and internationally. Smaller quantities are used for whiskey distilling, confectionery and in various food and baked products.

Feed barley

Most feed barley from Western Canada is formulated into feed for the domestic hog, cattle and poultry industries. It is the central ingredient used by western Canadian feedlots to produce quality Canadian beef. Normally about 95 per cent of feed barley is consumed domestically. Barley grown for domestic livestock feed or industrial uses such as ethanol does not have to be sold through the CWB. Feed barley may be sown specifically for animal consumption or consist of unselected malting varieties.

Operational environment

The vast majority of grain grown in Canada comes from farmers living and working on the Prairies. We market approximately 18 to 24 million tonnes of western Canadian wheat, durum and barley on behalf of western Canadian farmers each year. Annual revenue from those sales is between $3 billion and $5 billion, with all sales revenue, less marketing costs, returned directly to farmers.

Global competition

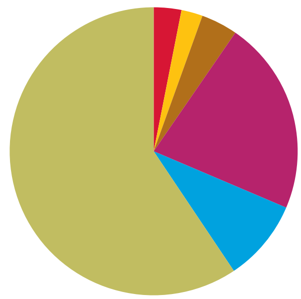
The global market for wheat, durum and barley is highly competitive. For more than 70 years, we have sustained and built our market presence through branding, reputation and customer service. As a result, we have become the largest single-desk wheat and barley marketer in the world. However, all competitors are seeking ways to sustain and expand their share of the global market, particularly in premium markets.

Each year, we market between 12 and 16 million tonnes of milling wheat to customers in Canada and around the world. Our major international customers vary from year to year and include China, Japan, Sri Lanka and Indonesia. The U.S. has also traditionally been a key market for Canadian milling wheat.

Together, Canada, Argentina, Australia, the European Union (EU) and the U.S. account for approximately 73 per cent of the total wheat traded worldwide, while producing slightly more than 40 per cent of the world supply. The disparity has the potential to exert pressure on Canada's market share – especially as traditionally "minor" exporting countries (such as Russia, Kazakhstan and Ukraine) increase their presence as wheat exporters (see Figure 1). Additional competitors with cost-of-production advantages, such as lower land and input prices, also continue to emerge.

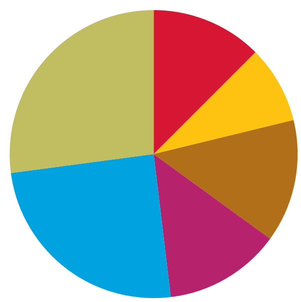
Figure 1: Market shares of production and exports by principal wheat-exporting countries

(% of world totals 2002-06)



Major wheat producers

3.1 Australia
2.4 Argentina
4.1 Canada
21.8 EU-27
9.2 U.S.
59.4 Others



World wheat trade* market share of major exporters (July/June)

12.5 Australia
8.7 Argentina
13.8 Canada
13.1 EU-27
24.8 U.S.
27.1 Others

* Includes wheat flour and durum; includes FSU intra-trade.

A similar condition exists in the durum market. The EU, Canada and the U.S. control approximately 80 per cent of the export market. Meanwhile, Canada holds a 52 per cent share of the world durum market. However, these countries together produce less than 45 per cent of the world's durum supply, with Canada producing only 12 per cent.

Global buyers value Canadian durum for its consistency, quality and ease of supply, which is ensured by our superior marketing and grain-handling systems. Italian pasta makers are among the top buyers of Canadian durum, a group that also includes customers in other European nations, North Africa (Algeria, Morocco, Tunisia), South America (Venezuela, Chile, Peru) and the U.S. (see Figure 2). Canada's own domestic pasta industry purchases roughly 300 000 tonnes of durum a year and is usually among the top five buyers.

For more than 70 years, we have sustained and built our market presence through branding, reputation and customer service.

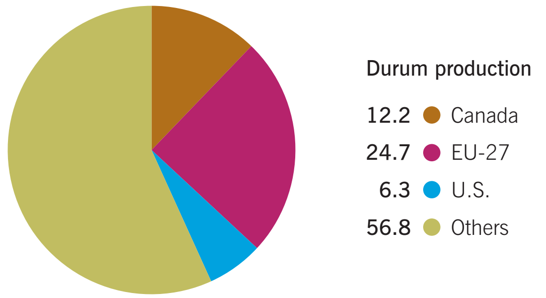
In the feed and malting barley export markets, the main suppliers are Australia, Canada, the EU and the U.S., which together control approximately 59 per cent of exports (see Figure 3). In most years, Australia dominates the barley market, capturing about 25 per cent of exports. Two-row malting varieties from Western Canada are used in the domestic brewing industry and are also sold to major malt and malting barley customers in the U.S., Asia, Central and South America and South Africa. Six-row malting varieties from Western Canada are predominantly marketed to the malting and brewing industry in Canada and the U.S., with smaller quantities sold to Mexico.

Corporate concentration

A handful of vertically and horizontally integrated multinationals effectively control the global grain trade. Four companies – Cargill, Louis Dreyfus, Archer Daniels Midland (ADM) and Bunge – control about 73 per cent of the global market for grain. Several Canadian-based companies are closely linked to these companies and control many parts of the Canadian supply chain, including grain handling, feed and fertilizer production, feedlots, transportation, food processing and financial trading. While the CWB is the largest single-desk marketer of wheat and barley in the world, its annual revenues represent a small fraction of those of the huge multinationals with which it competes.

Figure 2: Market shares of production and exports by principal durum-exporting countries

(% of world totals 2002-06)



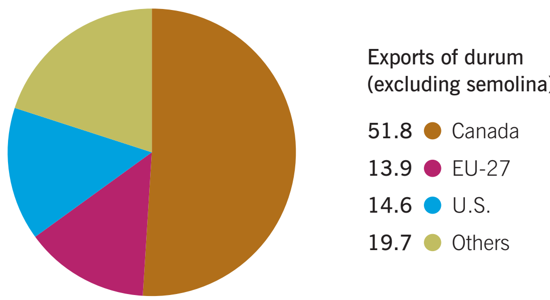
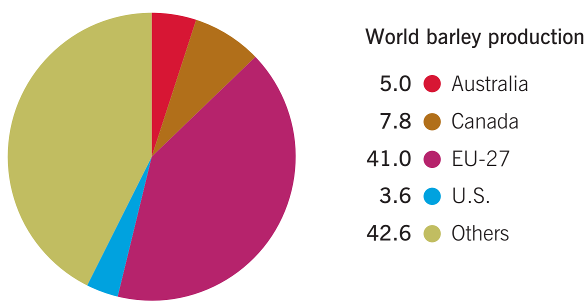
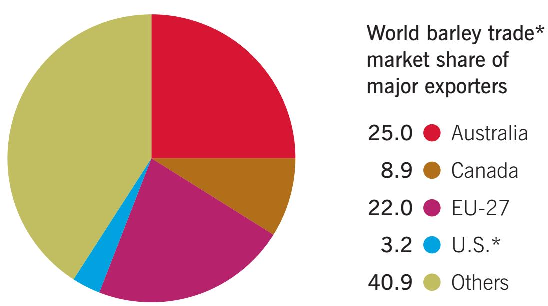


Figure 3: Market shares of production and exports by principal barley-exporting countries

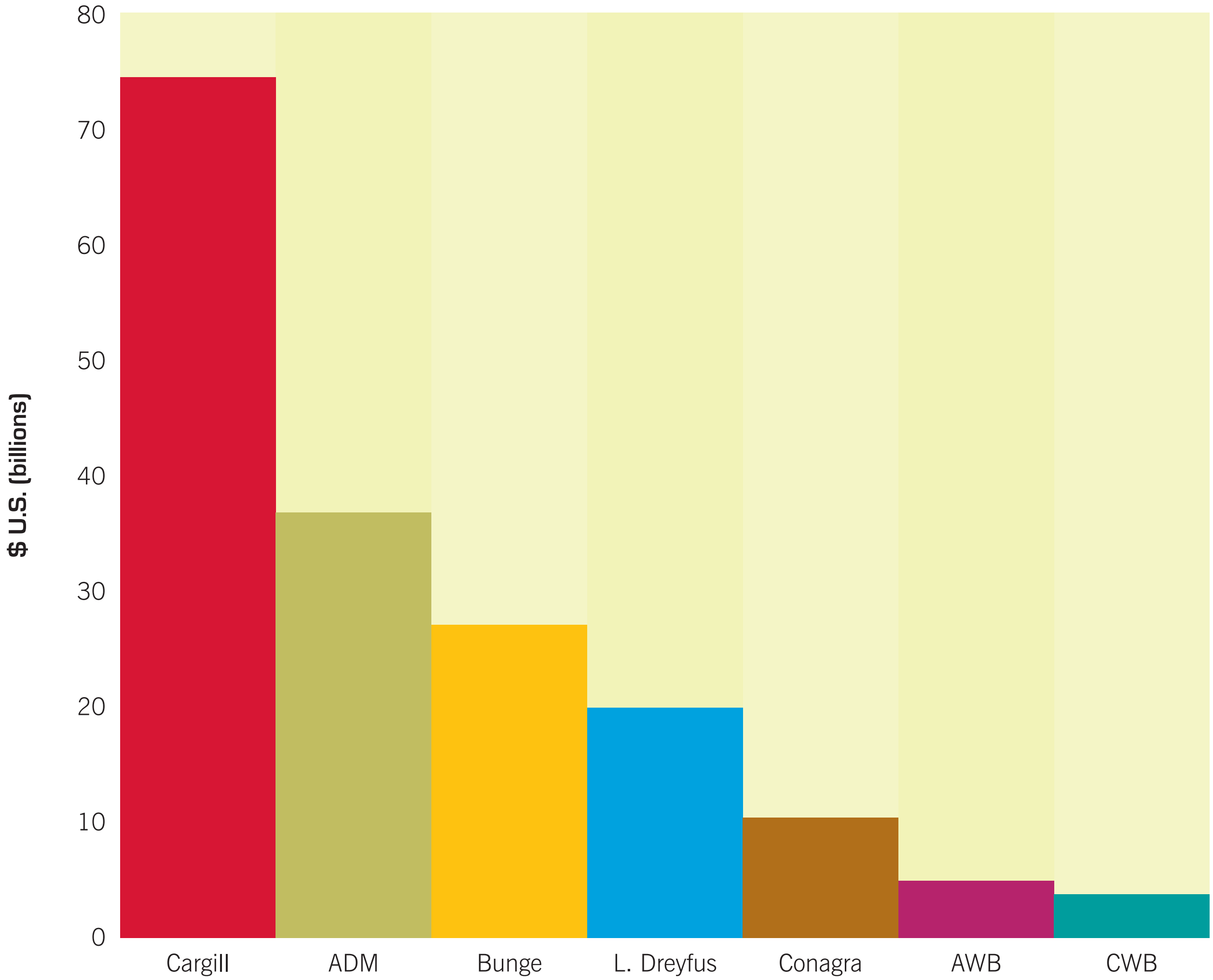
(% of world totals 2002-06)





* Excludes products

CWB competitors – Annual company revenue*



* Sourced from 2006 annual reports and public financial data. Data for year-end within 2006. Louis Dreyfus figure represents an annual average.

Subsidies

Farmers don't all compete on the same playing field. The international grain marketplace continues to be distorted by the effects of subsidies paid to grain producers. High levels of domestic support and various tools designed to stimulate exports combine to insulate farmers from true global supply and demand factors, resulting in distorted production and prices. Western Canadian wheat and barley farmers receive less subsidy support than farmers in other major exporting countries, despite competing in the same international markets.

Business structure

We are a shared governance corporation created by *The Canadian Wheat Board Act (The Act)*. We are not a Crown corporation, nor do we have any shareholders. The board of directors consists of 15 members: 10 are farmers elected by their peers; four are leaders from the business community and are appointed by the federal government; and the chief executive officer is recommended by the board of directors and appointed by the federal government. According to the board of directors' terms of reference, all directors are required to act in the best interests of the Corporation, in order to maximize returns to western Canadian producers.

Three pillars underpin the operations and structure of the CWB – the single desk, price pooling and government guarantees.

The single desk

When the CWB was established by Act of Parliament in 1935, deliveries to the CWB were voluntary, and it handled only wheat. In 1943, *The Act* was amended, empowering the CWB to market all Canadian grains and making delivery to the CWB compulsory. Subsequent amendments removed some grains from the CWB's "single desk"; we are now the single marketing agent for wheat and barley grown in Western Canada. Our mandate covers both the export and human consumption markets. Wheat and barley grown for domestic livestock feed or industrial uses (like ethanol) need not be sold through the CWB.

The single desk adds value for western Canadian farmers by enabling them to capitalize on Canada's reputation for grain quality, consistency, food safety, customer service and reliability. Western Canada's 75,000 wheat and barley farmers market as one through the CWB. Working together, instead of competing against one another for each sale, enables farmers to command a higher return for their grain and to have clout on issues that impact their bottom lines.

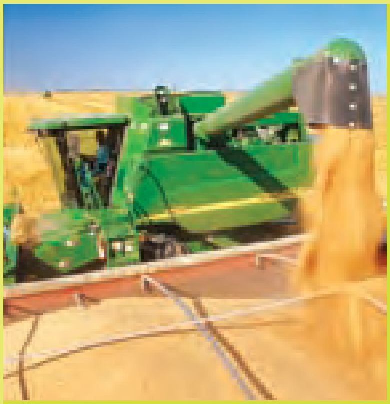
Under the single-desk model, farmers are empowered to compete in a global grain trade that is largely controlled by a handful of multinational corporations, and in a domestic grain-handling and transportation system dominated by two large grain companies and two national railways.

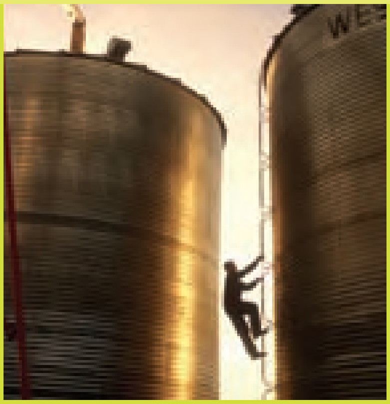
Price pooling

Price pooling means that all sales revenue earned during the crop year (August 1 to July 31) is deposited into one of the pool accounts: wheat, durum wheat, designated barley, feed barley A or feed barley B. The pooling system returns all revenues, less marketing costs, to farmers through these pool accounts. This ensures that all farmers delivering the same grade of wheat or barley receive the same returns at the end of the crop year, regardless of when their grain is sold during the crop year. It acts as a risk-management tool that allows farmers to share market risks by giving each farmer his or her fair share of the highs and lows of the marketplace.

Government guarantees

The CWB currently has financial guarantees on initial payments, borrowings and credit sales through the federal government. Guaranteed initial payments provide a minimum price floor, giving farmers protection from the extreme volatility of grain markets. Guaranteed borrowings are used to finance payments to farmers before sales revenue is received, helping our farmers meet their operating costs. Credit guarantees allow us to compete in a marketplace with multinational companies who have access to similar or even more generous credit programs offered by their respective governments.





Producer direct sale (PDS)

Farmers have the ability to sell directly to buyers through the PDS program in order to take advantage of niche- and premium-market opportunities. This program ensures that all western Canadian farmers retain the benefits of single-desk selling and earn their share of the single-desk premiums, while enjoying additional marketing opportunities.

These options provide farmers with the ability to manage their own pricing risks without affecting pool accounts.

Beyond price pooling: Producer Payment Options (PPOs)

When farmers requested the opportunity to exercise greater individual control over pricing their wheat, durum and barley, as well as how and when they get paid, we introduced PPOs. These options provide farmers with the ability to manage their own pricing risks without affecting pool accounts. PPOs mimic the open-market environment, while keeping the security and benefits of the single desk intact. Program costs for PPOs are designed to be covered entirely by the farmers who use them.

The main payment options now available to farmers through the CWB (in addition to the traditional pooling system) are as follows:

Fixed Price Contract (FPC): Through the FPC, farmers are able to lock in a fixed and final price for their grain, based on a market value.

Basis Price Contract (BPC): The BPC enables farmers to lock in the pooled basis and futures at different times during the program.

Daily Price Contract (DPC): The DPC is also a fixed price contract, which allows farmers to lock in a price for their wheat that reflects U.S. market spot prices on the day they choose to sell their grain.

Early Payment Option (EPO): An EPO contract enables farmers to establish a floor price based on the PRO. The farmer can lock in at 80, 90 or 100 per cent of the PRO, each with a corresponding discount. This option also allows farmers to participate in price gains if pool returns exceed the EPO price.

Pre-delivery Top-up (PDT)

Western Canadian farmers are able to access cash advances from the federal government through a variety of programs we administer on its behalf. The PDT program provides farmers with the opportunity for additional cash flow early in the crop year by providing an additional pre-delivery payment.

Wheat Storage Program (WSP)

The WSP offers western Canadian farmers a contract premium and storage payment to store their high-quality, high-protein, No. 1 CWRS wheat on-farm. It ensures a consistent stock of high-quality, high-protein wheat to satisfy the needs of the CWB's premium customers. The WSP is offered in specified areas when warranted by crop quality in a given year.

People

We have a diverse and highly skilled workforce that is crucial to our success. The organization's headquarters are in Winnipeg and satellite offices are located in Vancouver; Ottawa; Beijing, China; and Tokyo, Japan. We also operate regional offices in Saskatoon, SK and Airdrie, AB.

The majority of the organization's 460 employees are based in Winnipeg. Seventeen farm business representatives cover large districts across Western Canada and are responsible for serving the business needs of farmers and maintaining contact with the individual grain-handling facilities within their districts. They meet with farmers both individually and in groups to provide regular updates on the CWB's programs. They also work with farmers on issues concerning delivery, contracts and payments.

Our vision and strategies

The CWB is a marketing agency that belongs to Prairie farmers. It enables them to have a significant presence in the international marketplace. It does not insulate them from the realities of this marketplace, but it gives them the means to bring innovative solutions to the challenges they face.

Our strategy is to grow our competitive advantage in order to add value for farmers. We do this by leveraging the single desk, branding western Canadian wheat and barley, providing service excellence for both farmers and end-use customers, developing new markets and managing costs effectively. External studies using CWB sales data have confirmed that this strategy provides farmers with higher returns than they would receive in an open market. In addition, all marketing revenues, less associated costs, are returned to farmers. This allows us to have a single focus: earn as much as possible for farmers through the marketing of their wheat, durum and barley.

Key performance drivers

We have established a set of corporate performance measures against which the organization measures its ongoing progress towards its goals. The measures were established through an extensive examination of our key business drivers. Through this exercise, the organization identified seven areas of value creation:

Active farmer support – As the major stakeholders of the organization, farmer support is critical to us. To be successful, we must ensure we understand and meet the needs of farmers better than any other organization.

Strengthened mandate – Winning public, domestic and international political support is critical to operating successfully and growing as a single desk.

Customer satisfaction – Understanding and serving customer needs is vital and ensures we will continue to be an effective grain marketer and generate maximum value for western Canadian farmers.

Maximizing returns – The organization must continually focus on earning the highest possible returns for farmers through the single desk.

Operational effectiveness – Providing high service levels to farmers and customers, while aggressively managing costs, is important to ensuring we serve farmers' interests in the best possible manner.

Market development – To ensure the continuation and development of ongoing high-value markets for western Canadian farmers' grain, we must actively develop new products and services, bring existing products and services to new markets and grow sales of current products to existing customers.

Motivated/skilled workforce – To achieve our goals, we must ensure the organization maintains a well informed, highly skilled and motivated workforce that is focused on delivering value to farmers and customers.

The CWB has identified several key measures for each of these areas of value creation. Each year, the measures are reviewed and refined and annual targets are set in accordance with the organization's strategic objectives. Progress against these targets is measured throughout the year to ensure that the CWB continues to advance its goals and achieve results that are in line with organizational objectives.

How the financial statements capture the business

The Canadian Wheat Board Act requires that we establish a separate pool account each crop year (defined as August 1 to July 31) for each of the crops we handle. Currently, we operate five pool accounts each year: one each for wheat, durum and designated barley and two for feed barley. These pool accounts capture the revenues and expenses for tonnes contracted and delivered by farmers, and sales made to customers for each specific crop. After all deliveries contracted for the crop year have been received and all activities related to the sale of grain have been completed, the net earnings for each pool are distributed to producers. We provide a separate statement of operations for each pool account to report on these activities, as well as a combined pool statement of operations.

The net earnings in each pool account are distributed back to the farmers who delivered grain during the pool period, based on sales results by grade. As a result, we do not have any retained earnings or permanent capital. The statement of distribution provides the details of how the net earnings are distributed. This statement reflects initial, adjustment, interim and final pool payments to producers as approved by the federal government. It also includes any special transfers to the Contingency Fund and the portion of the government-approved payments related to the PPO programs.

The PPO programs were set up to give farmers more flexibility in pricing their grain and were designed to operate outside of the pool accounts. Therefore, the PPOs do not require that net program results be returned to the users of the program. The CWB bears the risk of the programs and retains the benefits of these programs.

A contingency fund was established and the net surplus or deficit of the PPO program (the difference between the program sales values and direct program expenses, including the payment to farmers based on contracted values) is transferred to this fund. It is capped at $60 million and is controlled by legislation.

Since all earnings from the pools, (except those of the PPO programs) are distributed to farmers, our operations are financed by borrowings. These borrowings are made in various capital markets and are guaranteed by the federal government.

The CWB: Adding value for farmers

Adding value for farmers goes beyond how we market grain. We are advocates on issues that impact farmers' bottom lines, partners in research and development, and allies on transportation issues.

We are committed to staying at the forefront of issues that affect farmers' profits. We continue to advocate for fair and equitable access to international markets and an end to trade-distorting subsidies. We've ensured that Canadian negotiators at WTO talks are fully aware of the needs of western Canadian farmers in any forthcoming WTO agreement on agriculture, and we've attended international trade talks ourselves to deliver farmers' messages first-hand. We have supported the federal government's efforts to establish bilateral agreements with key customer countries, and focused attention on parts of the globe where further agreements are required. In previous years, we have lobbied against the premature introduction of genetically modified wheat and for the expansion of the federal cash advance program. In recent months, we have lobbied the federal government for a speedier process for farmer payments. In order to protect farmers' commercial interests, we also sought a judicial review of the legality of removing barley from the single desk through regulation. The Federal Court ruled July 31, 2007 that the way barley is marketed cannot be changed without parliamentary approval.

At the CWB, we believe in the value of research and development. Whether the outcome is improving farmers' income and operational success, growing sales in our high-value markets or developing relationships with new customers, research and development is key to maintaining our competitive edge. That is why we are committed to investing in research that yields new varieties of disease-resistant wheat and barley, as well as those with specific end-use qualities that customers demand. Our strategic partnerships with centres like CIGI or the Canadian Malting Barley Technical Centre (CMBTC) help ensure we maintain and build on our reputation for unparalleled customer service. We are also a driving force in the development of new technology, such as variety identification equipment, which promises to accommodate the introduction of new varieties while maintaining Canada's quality assurance system.

Transportation is a fundamental issue for farmers. Moving grain grown on the Prairies to port position can be costly and complicated. Limited rail capacity means it can be difficult to secure enough rail cars to move farmers' grain. By marketing as a group through the CWB, farmers have the clout to demand adequate rail car service. When the railways fail to provide adequate service, we have been able to challenge them – as we did in April when we intervened in a major level-of-service case launched by GNG, a grain terminal in northern Alberta, against CN Rail. At stake: the ability of smaller and single-point shippers to move their grain to ports and markets. The Canadian Transportation Agency (CTA) ruled in favour of the GNG on July 6. We have lobbied for changes to *The Canadian Transportation Act* that help keep costs in check. We also administer a producer car program that allows farmers to load grain in their own communities.

By marketing as a group through the CWB, farmers have the clout to demand adequate rail car service.

Current year results

Factors that shaped the 2006-07 business conditions

1. World production

Wheat

World wheat production in 2006-07 was lower than in 2005-06, but still higher than the historical average. The International Grains Council (IGC) estimates world wheat production for 2006-07 at 590 million tonnes, 30 million tonnes less than 2005-06. Compounding the fact that world wheat production was lower than the previous year, consumption was the highest on record, which tightened world ending stocks. World wheat ending stocks for 2006-07 were the lowest since 1981-82. The five major exporter stocks decreased by over 20 million tonnes to 38 million tonnes. Canada's 2006-07 ending stocks were 6.8 million tonnes, which was less than in 2005-06, but still above the record low of 5 million tonnes set in 1988-89. Prices increased steadily throughout the year, with rapid appreciation occurring during June and July of 2007.

Durum

World durum production in 2006-07 totalled 34 million tonnes – a decrease of 3.2 million tonnes from 2005-06. Durum production in North America was the lowest since 2001. Canadian production of durum dropped 2.6 million tonnes from 2005-06 to 3.3 million tonnes. Ending stocks of the major durum exporters dropped by 54 per cent to 2.3 million tonnes in 2006-07. The drop in world supplies helped maintain strong prices through the year.

Barley

The IGC estimates 2006-07 world barley production at 138.4 million tonnes, which is slightly lower than the 139 million tonnes produced in 2005-06. Canada's 2006-07 barley production was below the five-year average and the lowest production since drought reduced the 2002 crop. Barley prices remained strong throughout the year due to the tight world stock situation.

2. Large, high-quality crop for Canada

Canada's wheat production in 2006-07 was 25 million tonnes, slightly above the five-year average. Farmers were faced with a wet spring and in some areas of northeastern Saskatchewan they were unable to plant their crops. However, the growing season was hot, which lowered disease pressure and allowed for an early harvest. The quality of the western Canadian wheat crop was consistent and high-quality, with more than 85 per cent of the crop falling in the top two grades. Durum quality was also above long-term averages with more than 80 per cent of the crop falling into the top two grades.

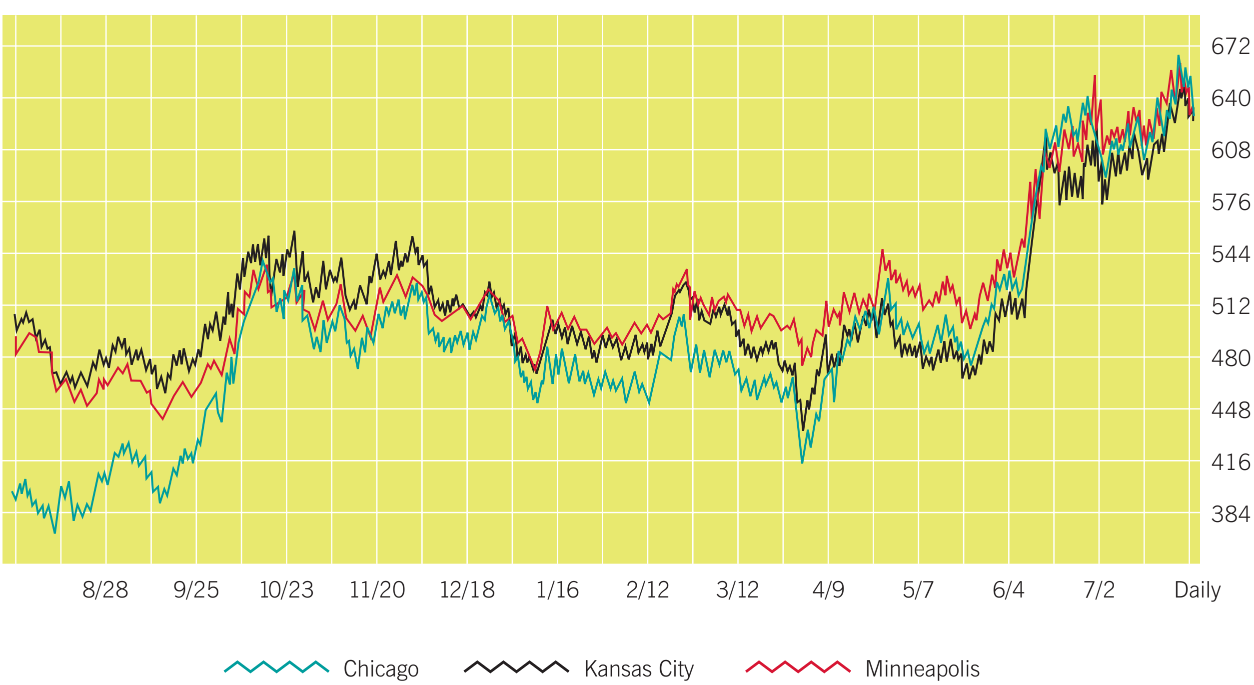
3. Commodity markets

Commodity markets traded sideways to lower for the first nine months of the 2006-07 crop year, but staged a large counter-seasonal rally during the last three months of the year. At the beginning of 2006-07 corn prices were the strongest of grains and oilseeds markets. Strong corn prices supported wheat values until corn peaked in February 2007. Strengthening wheat fundamentals resulted in an appreciation of wheat prices during June and July. World wheat production potential for the upcoming crop year declined rapidly as a frost occurred in the U.S., rains delayed the European harvest and Eastern Europe suffered from drought. These factors caused futures market prices to increase significantly through the last quarter of the 2006-07 marketing year.

Chicago wheat futures saw the largest price gain of U.S. wheat futures during the year. By the end of the 2006-07 Chicago wheat futures had surpassed Kansas City wheat and peaked at the same level as Minneapolis wheat. During the 2006-07 crop year Chicago wheat traded at a low of $3.73 per bushel at the beginning of August 2006 and a high of $6.41 per bushel at the end of July 2007. Minneapolis wheat futures traded at a low of $4.30 per bushel in mid-September 2006 and a high of $6.41 per bushel at the end of July 2007. Finally, Kansas City wheat futures traded at a low of $4.33 per bushel at the beginning of April 2007 and a high of $6.29 per bushel at the end of July 2007. The price of corn reached record levels at the end of February 2007, peaking at $4.49 per bushel. The graph below shows the price of Chicago, Kansas City and Minneapolis wheat throughout the 2006-07 crop year.

The durum wheat market also rose in value throughout 2006-07. The lowest durum production in the past five years, coupled with strong world demand for durum, pushed the price of durum up throughout the 2006-07 crop year. World ending stocks of durum tightened significantly.

U.S. 2006-07 wheat futures (nearby Chicago, Kansas and Minneapolis)



4. Strong Canadian dollar and Euro

The U.S. dollar continued its depreciation in 2006-07 against most major currencies, including the Canadian dollar. Strong commodity prices, a cooling U.S. economy, a strong Canadian economy and rising Canadian interest rates pushed the Canadian dollar to 30-year highs against the U.S. dollar as we moved into the second quarter of 2007. Merger and acquisition activity also ensured demand for the Canadian dollar remained high.

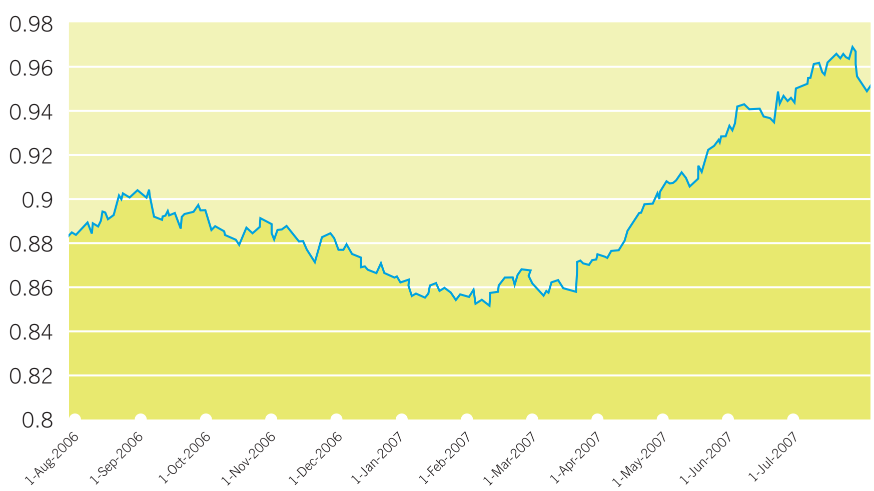
Because most grain sold by the CWB is priced directly in U.S. dollars, the soaring Canadian dollar continued to negatively affect returns. This continued a trend farmers have had to contend with since the beginning of 2003.

The graph below illustrates the Canadian dollar value versus the U.S. dollar over the 2006-07 crop year.

Likewise, a strong European economy and rising European interest rates pushed the Euro to record highs in 2006-07. The rising value of the Euro versus the U.S. dollar has had an indirect impact on pool returns by making European exports priced in Euros more expensive on the export market as compared to those of other origins, such as the United States. The graph below shows the Euro value versus the U.S. dollar over the 2006-07 crop year.

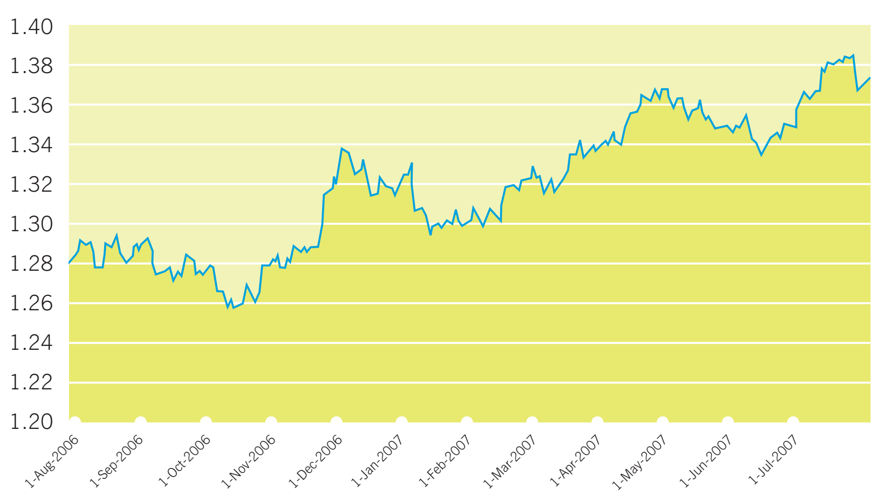
Bank of Canada USD/CAD noon rate

Source: Bank of Canada



EUR/USD closing rate

Source: Reuters



5. High ocean freight rates

Ocean freight rates increased significantly over the year, reaching record levels. At the beginning of the 2006-07 crop year the freight rate index was 2,916 and by the end of the crop year the index was 7,253. A couple of factors led to this increase. One factor was the strong Chinese economy, which with the 2008 Olympic Games quickly approaching, resulted in increased demand for iron ore and other commodities. Another factor was that for a period of time in 2007, vessels were congested in Australian ports waiting to load coal, which resulted in fewer vessels available to haul other commodities. Strong demand by the grains and oilseeds markets also added to the high demand for ocean freight.

MEASURING SUCCESS

In October 2007, the CWB's board reviewed the corporate performance measures (CPM) results for 2006-07. The organization measures and monitors a set of key indicators on an annual basis. These include: percentage of grain marketed; sales price comparison; contribution from other revenue sources; and net demurrage/despatch. Each target is based upon consultations with staff, an analysis of historical trends, consideration of future trends; and input from senior management. It also undergoes a review by the board of directors. The individual 2006-07 targets and the Corporation's performance for the above measures are summarized below.

Measure	Target for 2006-07	Result for 2006-07
Percentage of grain marketed	Wheat – 100% Durum – 100% Designated barley – 100% Feed barley – 100%	Wheat – 100% Durum – 100% Designated barley – 100% Feed barley – 100%
Sales price comparison (Net per-tonne price spread realized by the CWB compared to competitors' values for wheat, durum and barley sales.)	Wheat – $4.10 Durum – $5.07 Designated barley – $7.62	Wheat – $6.00 Durum – $7.77 Designated barley – $13.45
Contribution from other revenue sources (Includes items such as net interest earnings from rescheduled receivables, discretionary commodity and foreign-exchange transactions, transportation earnings from tendering and railway terminal agreements.)	Total – $64.9 million	Total – ($48.7 million)*
Net demurrage/despatch	$4.5 million net despatch	$4.1 million net despatch

* In 2006-07, contributions from other revenue sources resulted in a net reduction of $48.7 million. This negative amount includes the results from commodity trading activity that occurred within the wheat pool pricing model.

The Wheat Pool Pricing Model establishes the pace for pricing the wheat pool. This pace is denoted as the target pricing pace. Pricing within the model is a combination of actual cash sales activity and derivative trades. Pricing more or less than the daily "target" amount is regarded as discretionary trading activity. Daily sales and derivative transactions are benchmarked to the current futures market prices at the end of each day. In a rising market, as was the case in the summer and fall of 2007, results will be negative if the actual amount of wheat priced exceeded the amount to be priced established by the target pricing pace. Tonnage priced at the earlier lower price levels will produce negative results when those positions are closed out at market prices above the level at which they were initiated.

Since the end of May 2007, wheat fundamentals have reflected a tighter world wheat market with strong consumer demand for wheat. Since that time, world wheat prices have risen to the highest levels in history. Nearby wheat futures prices have risen from approximately $5 per bushel at the end of May to approximately $7 at the end of August. In September, futures prices reached values in excess of $ 9.25 per bushel in all of the U.S. futures markets.

THE WHEAT POOL

		2006-07		2005-06		Incr (Decr)
Receipts (tonnes)		**15 516 550**		**11 971 249**		**3 545 301**
Revenue (000s)	**$**	**3,540,904**	$	2,237,944	$	1 302 960
Revenue (per tonne)	**$**	**228.20**	$	186.94	$	41.26
Direct costs		**26.30**		22.05		4.25
Net revenue from operations		**201.90**		164.89		37.01
Other income		**9.42**		8.05		1.37
Net interest earnings		**1.44**		2.14		(0.70)
Administrative expenses		**(3.14)**		(3.73)		(0.59)
Grain industry organizations		**(0.09)**		(0.11)		(0.02)
Earnings for distribution	**$**	**209.53**	$	171.24	$	38.29

The strategy

The CWB manages marketing risk and price volatility by pricing wheat throughout the year, while matching logistical capacity with producer delivery requirements and customer buying patterns. The CWB employs an integrated approach to sales and risk management for the wheat pool, resulting in pricing encompassing the entire period from seeding to the following harvest. New crop shipments to customers increase as harvested grain becomes available and near completion as the following harvest starts to move through the handling system. This approach also allows for the flexibility to take advantage of market opportunities that arise over the course of the year and provides continuity of supply to Western Canada's core milling wheat customers. The customer mix was structured to maximize revenue both in the short and medium term, subject to logistical opportunities, market conditions and Western Canada's wheat supply.

Western Canada's non-durum wheat production in 2006-07 was 22.4 million tonnes, slightly above the five-year average. The quality of the wheat crop was above average, with more than 85 per cent of the crop falling in the top two grades. Protein levels were also up from the previous year although below the longer-term averages. With the high grade profile, higher protein and overall high quality, the strategy focused on maximizing sales in markets where those quality attributes commanded a premium.

The higher quality of the 2006 wheat crop allowed us to increase our shipments and market share to a number of customers, particularly in Europe and the U.S. where sales had been limited in recent years as a result of the lower grade profile and protein content of wheat produced in Western Canada. At the same time, largely as a result of the tight world wheat supply, the price spread between higher and lower quality wheat narrowed significantly over the marketing year. While our longer term core customers maintained their focus on quality, there were increased opportunities to market lower grades and lower protein wheat to a number of markets at very good price levels.

Producer receipts

Producer receipts of all non-durum wheat totalled 15.52 million tonnes, an increase from 11.97 million tonnes the previous year. This increase can be attributed to the higher production and an improved grade pattern for the 2006 crop relative to the previous year. Deliveries were accepted into the wheat pool until September 4, 2007.

Delivery opportunities for wheat varied according to contract series, grade and class. A delivery contract is a binding agreement between a farmer and the CWB. It specifies the type, grade and quantity of grain the farmer wants to deliver. The farmer has three opportunities to sign a wheat delivery contract: Series A by October 31; Series B by January 31; and Series C by May 31. The CWB announces an acceptance level after it has assessed the amount of grain offered under all contracts and the market demand for that grain.

All Series A wheat was accepted at 100 per cent, with the exception of Nos. 1 and 2 CWRS wheat, which were accepted at 80 per cent. The last 20 per cent was rolled over into Series B contracts. Series B and Series C wheat were accepted at 100 per cent for all contracts.

2006-07 Delivery acceptance

	Acceptance	% Accepted
Series A	Acceptance for all wheat with the following exceptions:	100%
	Nos. 1 and 2 Canada Western Red Spring (CWRS)	80%
Series B	Call acceptance for all wheat:	100%
Series C	Call acceptance for all wheat:	100%

Canada Western Red Winter (CWRW) wheat was the first product called, followed by CWRS, Canada Prairie Spring Red (CPSR) wheat and then the other wheat classes. These calls reflected significant sales of CWRW, CPSR and lower grades of CWRS in the fall period. These contract programs saw terminations mid-year, in an effort to encourage deliveries of those classes into the system to meet sales commitments. Because of the stronger sales of the above classes and limited system capacity through this period, strong CWRS sales did not begin until December/January. This sales pattern resulted in delayed calls of higher grades of CWRS contracts until mid-November. Deliveries of Canada Western Feed (CW Feed) were secured through seven Guaranteed Delivery Contracts (GDCs), which match farmer deliveries to specific sales.

2006-07 Delivery calls

Class called	Call period	Call volume
Series A Nos. 1 and 2 CWRS	March	80%
Series A No. 3 CWRS	November	100%
Series A CPSR	October	100%
Series A CPSW	January	100%
Series A CWES*	February	100%
Series A CWRW	October	100%
Series A CWSWS**	March	100%
Series B – all classes	May	100%
Series C – all classes	June	100%

* Canada Western Extra Strong wheat
** Canada Western Soft White Spring wheat

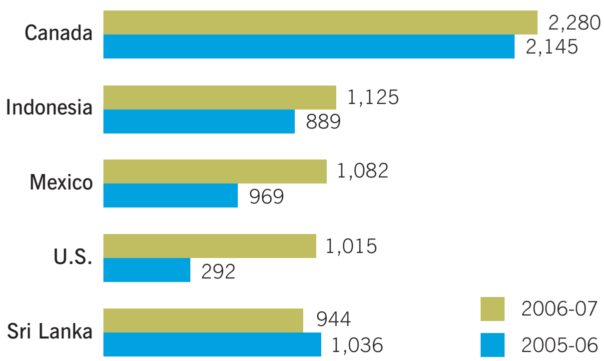
The revenue

The domestic market continued to be our single largest wheat market in 2006-07, accounting for 2.3 million tonnes of shipments. A total of 12.9 million tonnes of wheat were shipped to offshore markets in 2006-07, compared to 10.1 million tonnes in 2005-06. Our second-largest wheat customer was Indonesia, with shipments of over 1.12 million tonnes of wheat compared to just under 1 million tonnes in 2005-06.

Mexico and the U.S. were our next largest markets with shipments totalling 1.08 million tonnes and 1.02 million tonnes respectively. The high-quality CWRS crop supported a significant increase in wheat shipments to U.S. customers during 2006-07, up from 292 000 tonnes the previous year. Sri Lanka at 944 000 tonnes made it into the top five volume export customers.

Largest-volume wheat customers

(2006-07 and 2005-06 sales in 000s tonnes)



Total revenue in the wheat pool was $3.5 billion on 15.5 million tonnes of receipts. This represented an average gross revenue of $228.20 per tonne, up $41.26 from the average of $186.94 per tonne the previous year. As in the previous year, a strengthening Canadian dollar versus the U.S. dollar over the course of the year reduced the Canadian dollar value of sales.

The final pool return for No. 1 CWRS with 13.5 per cent protein (net of all costs) was $212.89 per tonne in store Vancouver/St. Lawrence, compared to $195.14 per tonne a year ago. The protein spread between 11.5 per cent and 13.5 per cent was $7.24 per tonne, compared to $15.50 per tonne the previous year, due to abundant supplies of high-grade, high-protein North American milling wheat. The final pool returns for No. 3 CWRS and 2 CPSR were $196.32 and $185.90 per tonne respectively, compared to $152.79 and $137.01 per tonne respectively, in 2005-06.

Direct costs increased $4.25 per tonne. Freight expenses were the main contributor to this amount as a result of increased sales into the U.S. market following the lifting of the U.S. tariff on CWRS wheat. Ocean freight rates also increased significantly over the course of the year as a result of heavy demand for freight by China and vessel delays in Australia. In the country system, the overall high quality of the crop resulted in lower inventory adjustments (fewer net demotions), contributing to the increase in direct costs.

The net result is that net revenue from operations was $201.90 per tonne, up $37.01 from the previous year.

Other income of $9.42 per tonne relates to the recovery of charges deducted by the CWB's agents. Recovery of charges increased $1.38 per tonne as there was greater movement into the U.S. where the Corporation is responsible for freight charges and greater tonnage in the Thunder Bay and U.S. catchment zones attracting freight adjustment costs.

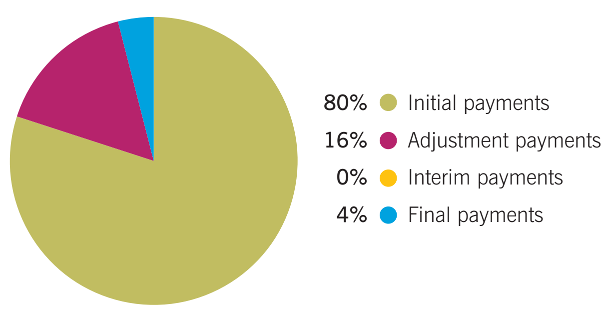
Distribution of earnings

The average sales proceeds available for distribution increased 22 per cent or $38.29, to $209.53 per tonne. This represents $3.3 billion. Of the $3.3 billion, $2.4 billion was returned to pool participants, with 96 per cent approved by July 27, 2007 in the form of initial and adjustment payments. The wheat pool had no interim payment.

Just under $705 million of sales returns were paid from the wheat pool to the PPO programs, representing the return on the specific grades and classes of wheat delivered under the FPCs and BPCs. The payment options in turn paid farmers at the respective contract price.

Earnings distributed to farmers

Wheat 2006-07



THE DURUM POOL

		2006-07		2005-06		Incr (Decr)
Receipts (tonnes)		**3 982 710**		**4 308 906**		**(326 196)**
Revenue (000s)	**$**	**1,019,368**	$	864,199		155,169
Revenue (per tonne)	**$**	**255.95**	$	200.56	$	55.39
Direct costs		**38.28**		33.76		4.52
Net revenue from operations		**217.67**		166.80		50.87
Other income		**6.23**		5.02		1.21
Net interest earnings		**0.93**		1.31		(0.38)
Administrative expenses		**(3.14)**		(3.73)		(0.59)
Grain industry organizations		**(0.09)**		(0.11)		(0.02)
Earnings for distribution	**$**	**221.60**	$	169.29	$	52.31

The strategy

The area planted to durum was down and yields in Western Canada were below average in 2006 due to drier than normal growing conditions. Durum production fell to 3.3 million tonnes in 2006-07 compared to 5.9 million tonnes the year before. As with wheat, the durum crop had a very high grade pattern with over 80 per cent falling into the top two grades. The high grade pattern and high protein levels of the crop were important factors in our overall strategy for marketing the crop.

Canadian durum exports always represent a very large proportion of total world durum trade and the approach that is taken to moving Canadian durum into the world market can have a significant impact on overall price structure and farmer returns. In several years where world supplies were high and demand weak, our strategy has been to market as much durum as possible without causing a collapse in the price structure. This was a prudent strategy given our dominance in world durum trade but has resulted in higher carry-out of inventory in Canada. In 2006-07 with the world supply demand balance tight and the balanced quality of our durum supply, there were opportunities to increase the export volume significantly while working to move the price structure higher.

Our approach to marketing the durum crop involves ranking customer sales opportunities based on return and quality requirements, assessing their volume and timing of demand and then allocating available supplies and logistical capacity against those sales opportunities to maximize the return to farm. The job of the marketing and logistics staff is to work with farmers and industry to carry out the strategy. While the 2006 crop grade pattern was high, there was also a large carry-in of predominantly lower grade and protein durum which gave us a good product mix to match against demand. The tighter world supply demand balance allowed us to push up the price for lower grades to those customers that needed good quality durum but not necessarily No. 1 Canada Western Amber Durum (CWAD). At the same time, the supply of higher grade and higher protein was sufficient to facilitate targeting increased sales into the higher-quality market segment.

The result was record durum shipments during the 2006-07 crop year, opportunities for farmers to deliver all their durum if they wished and increased durum prices over the previous pool year.

Producer receipts

Producer receipts of durum wheat totalled 3.98 million tonnes, down from 4.31 million tonnes the previous year. This decrease can be attributed to the drop in durum production from the previous year. Deliveries were accepted into the durum pool up until September 4, 2007.

Durum acceptance varied by contract series and market potential. A delivery contract is a binding agreement between a farmer and the CWB. It specifies the type, grade and quantity of grain the farmer wants to deliver. The farmer has two opportunities to sign up a durum delivery contract: Series A by October 31; and Series B by April 30.

The CWB announces an acceptance level after it has assessed the amount of grain offered under all contracts and the market demand for that grain.

Series A Nos. 1 and 2 CWAD was accepted at 80 per cent. The last 20 per cent was rolled over into Series B contracts. Series A No. 3 CWAD was accepted at 100 per cent. All Series B durum was accepted at 100 per cent.

2006-07 Delivery acceptance

	Acceptance	% Accepted
Series A	Nos. 1 and 2 Canada Western Amber Durum (CWAD):	80%
	No. 3 Canada Western Amber Durum (CWAD):	100%
Series B	Call acceptance for all durum:	100%

Calls on CWAD contracts were evenly spaced throughout the year, reflecting a consistent sales pace. There were no terminations before March. The strong sales at the end of the year required a GDC on Nos. 1, 2 and 3 CWAD to source additional supplies of higher grade durum. Nos. 4 and 5 CWAD were sourced through a series of seven GDCs, which match farmer deliveries to specific sales.

2006-07 Delivery calls

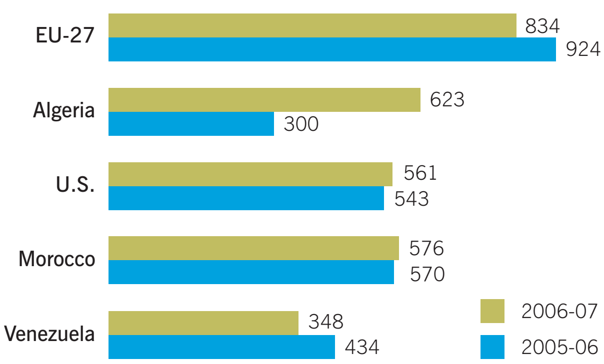
Class called	Call period	Call volume
Series A Nos. 1 and 2 CWAD	February	80%
Series A No. 3 CWAD	January	100%
Series B – all classes	May	100%

The revenue

Export markets accounted for 3.73 million tonnes of durum shipments, compared to 3.98 million tonnes in the 2005-06 pool. Pool year shipments to Algeria were strong at 623 000 tonnes. The EU-27 was the single largest CWB customer for durum, with pool shipments of 834 000 tonnes. Strong demand from U.S. customers for high-quality Canadian durum saw shipments to that market reach 561 000 tonnes. Shipments to Morocco, where our customers also want high-quality Canadian durum, hit 576 000 tonnes. Rounding out the top five markets by volume was Venezuela at 348 000 tonnes. Although shipments to Canadian domestic processors from the 2006-07 pool were down at 253 000 tonnes, 2006-07 crop year shipments to domestic processors actually increased from 2005-06 (295 000 tonnes) to 316 000 tonnes demonstrating continued growth.

Largest-volume durum customers

(2006-07 and 2005-06 sales in 000s tonnes)



Gross revenues in the durum pool amounted to $1.02 billion on 3.98 million tonnes of receipts for an average of $255.95 per tonne, up from the average of $200.56 per tonne in 2005-06.

The stronger Canadian dollar versus the U.S. dollar (compared to 2005-06) meant that the average price per tonne was pressured lower again this pool year. Final pool returns for No. 1 CWAD with 13 per cent protein were $225.13 per tonne in store Vancouver/St. Lawrence, up substantially from the 2005-06 return of $193.33 per tonne. The final pool return for No. 3 CWAD was $203.85 per tonne versus $152.72 per tonne in 2005-06.

Direct costs increased $4.52 per tonne over the prior year. Freight and terminal handling were the major contributors to the increase as a greater number of tonnes were moved through the eastern ports and seaway. The other important factor was other grain purchases. A greater volume of producer receipts from 2005-06 was accepted and accounted in 2006-07 as compared to the previous year.

The net result is that net revenue from operations was $217.67 per tonne, up $50.87 over the prior year.

Other income increased $1.21 per tonne. Recovery of charges from freight contributed to this increase as there were more sales from country position. As well, customers had more difficulty ensuring timely arrival of vessels for loading within the shipping periods and hence incurred charges for late loading.

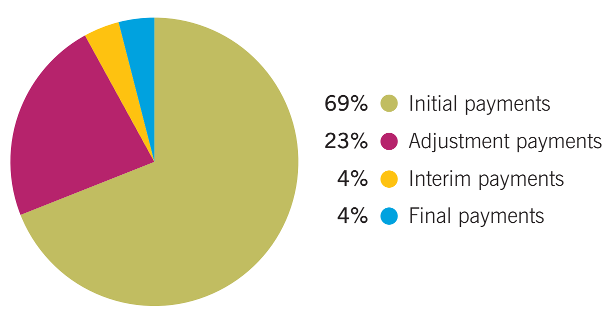
Distribution of earnings

The average sales proceeds available for distribution increased 31 per cent or $52.31 per tonne, to $221.60, totalling $883 million. Of the $883 million, $882.4 million was returned to pool participants, with 92 per cent approved by June 14, 2007 in the form of initial and adjustment payments. Combined interim and final payments representing the balance were made prior to the end of December.

For producer receipts delivered under the PPO programs, $164 million of sales returns were paid from the durum pool to the PPO programs, representing the return on the specific grades and classes of durum delivered under the FPCs and BPCs. The payment options in turn paid farmers at the respective contract price.

Earnings distributed to farmers

Durum 2006-07



The stronger Canadian dollar versus the U.S. dollar (compared to 2005-06) meant that the average price per tonne was pressured lower again this pool year.

THE DESIGNATED BARLEY POOL

		2006-07		2005-06		Incr (Decr)
Receipts (tonnes)		**1 851 337**		**1 464 682**		**386 655**
Revenue (000s)	**$**	**354,641**	$	248,361	$	106,280
Revenue (per tonne)	**$**	**191.56**	$	169.57	$	21.99
Direct costs		**19.78**		24.82		(5.04)
Net revenue from operations		**171.78**		144.75		27.03
Other income		**24.73**		21.05		3.68
Net interest earnings		**1.17**		0.91		0.26
Administrative expenses		**(3.14)**		(3.73)		(0.59)
Grain industry organizations		**(0.13)**		(0.16)		(0.03)
Earnings for distribution	**$**	**194.41**	$	162.82	$	31.59

The strategy

End-users of malting barley have increasingly moved to a business model where they forward-price a significant volume of malt. In the past, most sales for export malt were priced in late September to mid-October. One effect of this past market practice was that most malt export sales made by the Canadian malting industry were not negotiated until after European barley crops were harvested and the availability of malting barley was known, and the outlook for Australian barley production was also relatively clear. As a result of the move to earlier malt export sales, and a desire by farmers to deliver malting barley early in the crop year, a larger portion of the designated barley pool is priced prior to harvest than was the case historically. The strategy for these early malting barley sales is to sell at prices that offer good returns relative to expectations for a normal crop in the approaching production season. Additional sales made later, after production quantity and quality are known, may be at significantly different market prices.

Warm, dry conditions in Canada during harvesting resulted in above-average malting barley selection rates, increasing the volume of barley that met malting standards well above the levels recorded in the previous two years. Given the quality problems that occurred with the European barley crop, the market's expectation was that there would be an opportunity for Australia and Canada to increase market share short-term in the Chinese market. The CWB expected to trade a sizeable volume of malting barley to China in January 2008 and forward, taking advantage of high international malting barley prices. However, Chinese demand dropped sharply due to high international malting barley prices, and Chinese maltsters maximized the use of Chinese barley for malting. Attracting deliveries against existing sales also became a problem late in the year with a rising feed market relative to the pooled malting barley value, and in anticipation of a change in market structure post August 1, 2007.

Producer receipts

Total receipts in the designated barley pool were 1.85 million tonnes, compared to 1.46 million tonnes in 2005-06, with the primary reason for the increase in deliveries attributable to a significant improvement in overall malting barley quality. However, strong domestic barley market prices driven by the tight feed grain supply situation in Western Canada created an incentive for some producers to deliver barley that met malting standards into feed channels, limiting pool size. Anticipation of an open market effective August 1, 2007 was another factor that influenced the malting barley sales program, as many producers decided to wait to see what the ramifications of an open market might be. All of these factors led to a designated barley pool size that was smaller than originally forecast, resulting in a heavier weighting of the earlier sales.

The pace of deliveries was more heavily weighted towards the first half of the crop year. Marketing opportunities were relatively limited during the latter half of the year in part due to the reluctance of some buyers to pay historically high prices. Deliveries were accepted into the designated barley pool until September 4, 2007.

The revenue

Malting barley sales to the domestic market amounted to 975 000 tonnes, compared to 749 000 tonnes in 2005-06, as malting plants ran near capacity thanks primarily to an improvement in malting barley quality. China was the single largest export market for malting barley, although sales declined from 404 000 tonnes in 2005-06 to 395 000 tonnes. Given the sharp increase in global malting barley values during the year, Chinese maltsters utilized a much higher than normal proportion of domestic barley, thereby reducing reliance on imports from Australia and Canada. The export program was limited later in the year due, in part, to a sharp increase in international malting barley values, which in turn forced end-users to consider options such as reducing production, altering product quality, or using other adjuncts. Also, while the hot, dry finish to the 2006 growing season reduced wheat and barley production, exceptional harvest weather resulted in limited volumes of feed-quality wheat. This translated into a very strong domestic feed market later in the 2006-07 marketing year.

Sales volume to the U.S. increased sharply from 67 000 tonnes to 282 000 tonnes, given the dramatic improvement in Canadian malting barley quality over 2005-06 as well as strong import demand for six-row malting barley in particular.

The federal government's decision to remove barley from the CWB single desk in a way that was contrary to the provisions of *The Act* created uncertainty for customers as to whether the barley they had contracted would in fact be delivered. Most malting barley customers sell their malt at approximately the same time as they contract for a barley purchase from the CWB. The CWB is able to forward-sell under the single desk, even without specific farmer sign-up in advance, because it can be certain that a large volume of malting barley will be delivered to the CWB. If the single desk were to be removed, the malting barley deliveries that the CWB had counted on might be delivered elsewhere. This created risk for customers who had sold their malt forward, particularly if market prices increased in the interim. This kind of risk can be dealt with in the longer run with other types of farmer contracts, but the short notice regarding potential regulatory change created significant anxiety among CWB customers.

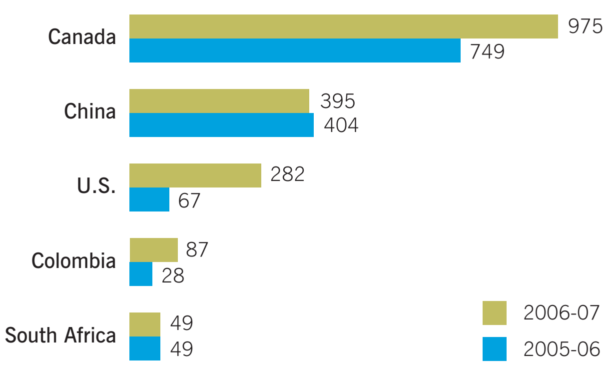
Gross returns in the designated barley pool were $354.6 million on 1.85 million tonnes of receipts, translating into average gross revenue of $191.56 per tonne versus $169.57 per tonne in 2005-06. The restricted availability of global malting barley supplies, due to quality problems in Europe and drought in Australia, pushed returns higher.

Warm, dry conditions in Canada during harvesting resulted in above-average malting barley selection rates.

The final pool return for Special Select two-row barley in store Vancouver/St. Lawrence was $202.02 per tonne, compared to $168.45 per tonne a year earlier. The final pool return for Special Select six-row barley was $188.12 per tonne, compared to $160.87 per tonne in 2005-06. The spread between No. 1 CW Feed and Special Select two-row barley narrowed from $52 per tonne in 2005-06 to $25.51 per tonne.

Largest-volume designated barley customers

(2006-07 and 2005-06 sales in 000s tonnes)



Direct costs decreased $5.04 per tonne. Inventory storage costs contributed to the decrease, reflecting a more fluid movement of grain through the system and average lower inventory levels in the system. As well, significantly fewer late 2005-06 producer receipts into the 2006-07 pool resulted in a decrease in other grain purchases.

The net result is that net revenue from operations was $171.78 per tonne, a $27.03 increase over the prior year.

Other income increased $3.68 per tonne. Recovery of freight charges increased due to a greater proportion of sales that were sold basis a country position and freight collected by grain companies being subsequently recovered by the pool account. In addition, a greater proportion of the pool size was from the Thunder Bay and U.S. catchment zones, which attract an additional cost to move the grain that is collected from the grain companies.

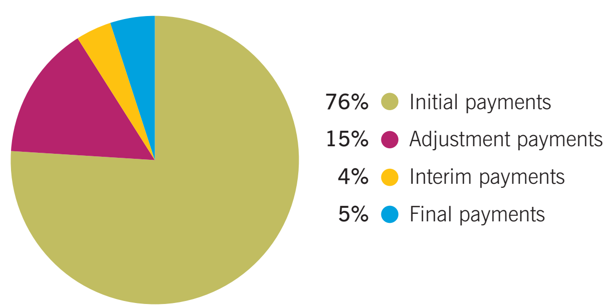
Distribution of earnings

The average sales proceeds available for distribution increased 19 per cent or $31.59 per tonne, to $194.41, totalling $360 million. Of the $360 million, $356 million was returned to pool participants, with 91 per cent approved by July 27, 2007 in the form of initial and adjustment payments. Combined interim and final payments representing the balance were made prior to the end of December.

Just under $3.8 million of sales returns were paid from the designated barley pool to the PPO programs, representing the return on the specific grades and classes of durum delivered under the FPCs and BPCs. The payment options in turn paid farmers at the respective contract price.

Earnings distributed to farmers

Designated barley 2006-07



THE FEED BARLEY POOL A

	2006-07	2005-06	Incr (Decr)
Receipts (tonnes)	**147 513**	**915 783**	**(768 270)**
Revenue (000s)	**$ 30,013**	$ 127,151	$ (97,138)
Revenue (per tonne)	**$ 203.46**	$ 138.84	$ 64.62
Direct costs	**16.38**	9.08	7.30
Net revenue from operations	**187.08**	129.76	57.32
Other income	**0.86**	0.32	0.54
Net interest earnings	**8.14**	2.46	5.68
Administrative expenses	**(2.89)**	(3.52)	(0.63)
Grain industry organizations	**(0.09)**	(0.09)	–
Earnings for distribution	**$ 193.10**	$ 128.93	$ 64.17

The strategy

Despite a strong domestic feed barley market, farmer interest in marketing feed barley through the CWB increased during the second half of the feed barley A pooling period, given strong international feed barley fundamentals. Production problems in key exporting regions due to drought, most notably Australia, the U.S. and parts of Western Canada, reduced export competition.

Western Canadian wheat quality was well above average, limiting the volume of feed wheat produced. Western Canadian barley production fell by 20 per cent to 9.3 million tonnes, as farmers reduced planted area and hot, dry weather later in the growing season reduced yield prospects. As a result, domestic feed grain supplies were tight. Furthermore, U.S. corn ending stocks declined to low levels as production declined to the lowest level since 2003-04 and domestic demand expanded dramatically due to the expansion of the U.S. ethanol market. The U.S. corn situation served to underpin North American feed grain prices through the fall of 2006 and into 2007.

The CWB's feed barley marketing strategy was to focus on marketing opportunities in the Japanese market.

Producer receipts

Total feed barley receipts for pool A were 147 513 tonnes. As has been the case for some time, feed barley was originated using GDCs, in order to efficiently match the execution of sales commitments with origination. Deliveries were accepted into pool A up until February 7, 2007.

The revenue

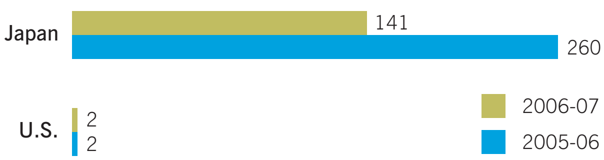
Gross revenue in feed barley pool A was $30 million on 147 513 tonnes of receipts, representing an average of $203.46 per tonne, versus $138.84 per tonne in the previous year. The final pool return for No. 1 CW Feed barley in store Vancouver/St. Lawrence was $187.42 per tonne, compared to $130.20 per tonne in 2005-06.

Feed barley marketing activities were focused on the Japanese market, as returns in other importing regions were less attractive and export competition was relatively limited. Feed barley sales to Japan amounted to 141 000 tonnes.

Western Canadian wheat quality was well above average, limiting the volume of feed wheat produced.

Largest-volume feed barley A customers

(2006-07 and 2005-06 sales in 000s tonnes)



Direct costs increased $7.30 per tonne over the previous year. Although the pool was smaller than in the previous year, a greater proportion of tonnes sold attracted fobbing costs, resulting in the higher rate per tonne. Increases in other direct expenses reflect accrual differences. These are offset by a proportionate allocation of interest earnings prior to any net interest transfer to the Contingency Fund. Increases were offset by a decrease in other grain purchases due to fewer 2005-06 late producer receipts entering the 2006-07 pool and a terminal audit settlement in our favour.

The net result is that net revenue from operations was $187.08 per tonne, up $57.32 over the prior year.

Other income increased $0.54 per tonne. Barley shipped at more favourable rates, resulting in reduced actual freight costs.

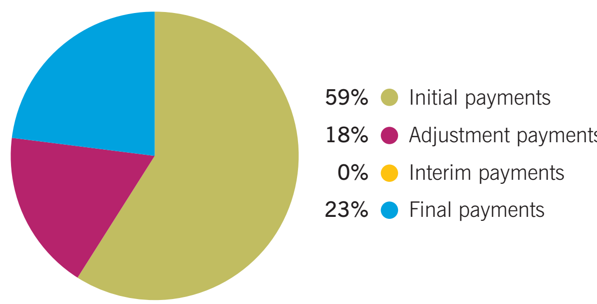
Distribution of earnings

The average sales proceeds available for distribution increased 50 per cent or $64.17 per tonne, to $193.10, totalling $28.5 million. Of the $28.5 million, $25.3 million was returned to pool participants, with 77 per cent approved by December 21, 2006 in the form of initial and adjustment payments.

Just under $2.3 million of sales returns were paid from the feed barley A pool to the PPO programs, representing the return on the specific grades and classes of durum delivered under the FPCs and BPCs. The payment options in turn paid farmers at the respective contract price.

Earnings distributed to farmers

Feed barley pool A 2006-07



THE FEED BARLEY POOL B

		2006-07		2005-06		Incr (Decr)
Receipts (tonnes)		**19 809**		**127 464**		**(107 655)**
Revenue (000s)	**$**	**3,658**	$	20,682	$	(17,024)
Revenue (per tonne)	**$**	**184.64**	$	162.26	$	22.38
Direct costs		**27.01**		32.57		(5.56)
Net revenue from operations		**157.63**		129.69		27.94
Other income		**50.17**		0.98		49.19
Net interest earnings		**55.61**		10.60		45.01
Administrative expenses		**(3.14)**		(3.73)		(0.59)
Grain industry organizations		**(0.09)**		(0.11)		(0.02)
Earnings for distribution	**$**	**260.18**	$	137.43	$	122.75

The strategy

For most of the duration of the barley B pool, farmer interest in marketing feed barley supplies through the CWB was limited, as returns in the domestic market were more attractive relative to the offshore market. However, during the summer months, global feed barley values strengthened due to supply constraints in key exporting regions, including Australia and Europe.

Although pool volume was limited, the CWB's feed barley marketing strategy was to take advantage of niche marketing opportunities as they arose.

Producer receipts

Total feed barley receipts for pool B were 19 809 tonnes, as farmer interest in marketing feed barley to the offshore market was limited. Deliveries were accepted into pool B up until September 4, 2007.

The revenue

Gross revenue in feed barley pool B was $3.7 million on 19 809 tonnes of receipts, representing an average of $184.64 per tonne, versus $162.26 per tonne in the previous year. The final pool return for No. 1 CW Feed barley in store Vancouver/St. Lawrence was $210.14 per tonne, compared to $131.68 per tonne in 2005-06.

Feed barley marketing activities were focused on the Japanese market, as returns in other importing regions were less attractive. Feed barley sales to Japan amounted to 10 290 tonnes.

Largest-volume feed barley B customers

(2006-07 and 2005-06 sales in 000s tonnes)

Direct costs decreased $5.56 per tonne. Terminal handling expenses decreased as a result of an increase in tonnes sold on an in-store basis compared to the previous year. As well, other grain purchases were lower due to fewer late producer receipts delivered into the 2006-07 crop pool. Offsetting these decreases were increases in storage costs as a result of longer storage periods at terminal position, and other direct expenses which reflect accrual differences. The accrual differences were offset by a proportionate allocation of interest earnings prior to any net interest transfer to the Contingency Fund.

The result is that net revenue from operations was $3.1 million, down $13.4 million from the prior year.

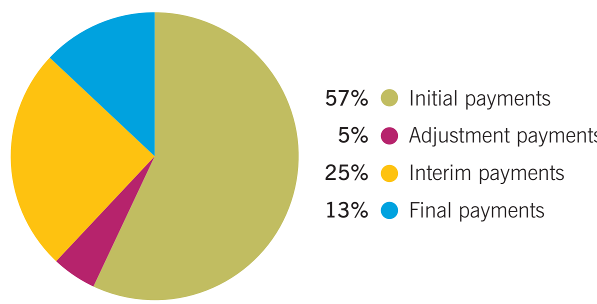
Other income increased $49.19 per tonne. During the year, a prior year claim was settled in our favour. Consistent with the interest earnings allocation policy, this amount will be transferred to the Contingency Fund.

Distribution of earnings

The average sales proceeds available for distribution increased 89 per cent or $122.75 per tonne to $260.18, totalling $5.2 million. Of the $5.2 million, $4.2 million was returned to pool participants, with 62 per cent approved by June 25, 2007 in the form of initial and adjustment payments. Combined interim and final payments representing the balance were made prior to the end of December.

Earnings distributed to farmers

Feed barley pool B 2006-07



Feed barley marketing activities were focused on the Japanese market, as returns in other importing regions were less attractive.

INDIRECT INCOME AND EXPENSES

Net interest earnings

(dollar amounts in 000s)	2006-07	2005-06
Interest on credit sales		
Revenue on credit sales receivable	**$ 94,718**	$ 152,041
Expense on borrowings used to finance credit sales receivables	**74,727**	119,975
Net interest on credit sales	**19,991**	32,066
Interest revenue (expense) on pool account balances	**1,043**	(1,267)
Other interest		
Revenue	**12,171**	7,558
Expense	**2,656**	2,219
Net other interest revenue	**9,515**	5,339
Total net interest earnings	**$ 30,549**	$ 36,138

Net interest earnings of $30.5 million were largely due to the net interest earned on amounts owed to the CWB on credit grain sales made under the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). When the CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers until the credit is repaid to the CWB. The CWB is able to borrow at interest rates lower than those rates received by the CWB from the credit customer. As a result, the CWB earns an interest "spread."

Net interest revenue has decreased in 2006-07, primarily as a result of a significant decline in outstanding balances. This included Russia prepaying its entire debt of $929 million, which represents the Canadian equivalent of $827 million in U.S. funds, in August 2006; and sizable repayments from Poland during the year. The impact was partially offset by an improved interest spread on the receivables.

The interest on the pool account balances has increased as a result of the net equity position of the pools being more favourable in the current crop year.

Other interest revenue from customers, which includes receipt of sales proceeds on non-credit sales, will fluctuate year-over-year, as the number of days outstanding on these arrangements will typically range between one and 10. The increase is driven by higher interest charges on regular sales plus higher average monthly balances on cash margin accounts, as a result of greater FPC sign-up and higher commodities values. Expenses, primarily from financing costs such as treasury fees and bank charges, make up the main portion of other interest expenses.

Administrative expenses

Administrative expenses increased $0.2 million or 0.3 per cent from the previous year to $72.1 million.

Human resources increased $1.9 million, reflecting the new variable pay program approved by the board of directors as well as merit increases and higher benefit costs. Professional fee increases were the result of legal challenges that the Corporation engaged in, as well as consulting costs for mandated or regulated initiatives such as access to information and new accounting standards. Outsource costs increased as there was greater demand from the supply chain transformation (SCT) project and a greater percentage of system development work that occurred during the year that was expensed. Decreases in travel and training reflect the focus of the Corporation on other corporate activities such as the SCT project. Finally, when the SCT project was initiated, it replaced certain system development projects that were in progress, resulting in a $2.4 million write down in the previous year. No additional write down was required in 2006-07.

Grain industry organizations

The CWB continued to provide support for organizations that benefit, both directly and indirectly, western Canadian grain farmers. During 2006-07, the CWB contributed $2 million to the operations of CIGI and the CMBTC. The CIGI and CMBTC play an integral role in the Corporation's marketing and product development strategies, by providing technical information and educational programs to customers.

Producer Payment Options (PPOs)

FINANCIAL RESULTS

Fixed Price Contract (FPC)
Basis Price Contract (BPC)
Daily Price Contract (DPC)

With very attractive values, the volume of tonnes delivered under the FPC/BPC/DPC programs was 3 421 406 tonnes compared to the prior year of 693 360 tonnes, an increase of over 390 per cent. See the chart below for details on the number of contracts, producers, and tonnes delivered.

Deliveries made under these programs are outside the pool accounts, with all pool returns (initial, interim and final payments) that otherwise would have been paid to farmers, being paid instead to these programs. This amounted to $704.6 million for wheat, $0.2 million for durum, $3.8 million for designated barley and $2.3 million for feed barley pool A. When other revenues (pricing damages) and program expenses (including net hedging results, interest and administration expenses) are accounted for, the programs generated a net loss of $39.9 million.

This loss is primarily attributable to wheat. One factor for the loss was tonnes moving to the new crop year given the attractive values for 2007-08. The other factor was that basis levels decreased throughout the year. This is not hedgeable using commodity markets. The 2005-06 crop year was a good quality crop and the expectation for the 2006-07 crop was similar. However, the quality of the 2006-07 crop turned out higher than expected and basis levels narrowed in. This change in basis levels occurred after much of the 2006-07 program was priced by producers, whereas the final pool return paid to the program would have captured the decrease and created losses in the program.

The DPC was a new contract introduced in 2005-06. It offers producers an opportunity to capture daily cash prices based on the U.S. market. A total of 501 366 tonnes was delivered to the program in 2006-07. Pool returns paid to this program were $104.3 million. After accounting for net hedging gains and pricing damages (offset by contracted values, interest and administrative expense), the program had a net deficit of $7.2 million.

(dollar amounts in 000s)	**2006-07**				2005-06			
Program statistics	**No. of contracts**	**No. of producers**	**Tonnes delivered**	**Net surplus (deficit)**	**No. of contracts**	**No. of producers**	**Tonnes delivered**	**Net surplus (deficit)**
Wheat	20,481	12,581	2 887 629	$ (33,395)	3,444	2,755	615 249	$ (5,912)
Wheat DPC	1,908	1,606	501 366	$ (7,231)	457	407	73 904	$ (935)
Durum	11	9	754	$ 21	16	15	2 658	$ (33)
Designated barley	112	98	19 813	$ 121	8	8	1 206	$ 19
Feed barley A	86	78	11 844	$ 556	10	10	343	$ 2
Feed barley B	No activity			$ –	No activity			$ –
Total			**3 421 406**	**$ (39,928)**			693 360	$ (6,859)

Early Payment Options (EPO)

Tonnes delivered to EPO were down in 2006-07 at 1 548 931 tonnes, compared to 2 658 147 tonnes in 2005-06. See the chart below for details on the number of contracts, producers, and tonnes delivered.

The EPO discount, charged to farmers for risk, time value of money and program administration costs, was $2.9 million (2005-06 – $3 million). After accounting for pricing damages charged for non-delivery, net interest expense and net hedging results, a net surplus of $1.3 million was generated.

Pre-delivery Top-up (PDT)

Wheat and durum growers who have taken a fall cash advance can apply for an additional $30 per tonne for their grain, to be paid prior to delivery. Participants are responsible for the costs of the program, including risk management, administration costs and time value of money. Repayments are received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. PDT payments of $6.8 million were issued to 387 farmers (compared to $5.9 million distributed to 323 farmers in 2005-06).

(dollar amounts in 000s)	**2006-07**					2005-06				
Program statistics	**No. of contracts**	**No. of producers**	**Tonnes delivered**		**Net surplus (deficit)**	**No. of contracts**	**No. of producers**	**Tonnes delivered**		**Net surplus (deficit)**
Wheat	6,029	4,668	806 287	$	487	7,106	6,044	1 080 124	$	(111)
Durum	1,072	768	199 272	$	244	1,986	1,683	402 084	$	149
Designated barley	2,231	1,943	400 621	$	378	1,727	1,421	295 244	$	121
Feed barley A	981	883	127 054	$	162	4,850	3,807	780 894	$	135
Feed barley B	165	153	15 697	$	32	903	832	99 801	$	(162)
Total			**1 548 931**	**$**	**1,303**			2 658 147	$	132

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk of being unable to meet corporate obligations. The CWB operates diversified debt issuance programs to meet daily cash requirements and also holds highly rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, it maintains lines of credit with financial institutions to provide supplementary access to funds.

Cash flow – Sources and uses

Since all pool account earnings are distributed to farmers, operations are almost entirely financed by debt. During the year, cash from operations may also be available. The primary uses of funds are cash distributions to farmers, operational expenses and capital spending.

Cash provided by operations was $4.49 billion, up from the previous year. Investing activities contributed $1.37 billion, primarily due to credits receivable, regular scheduled repayments and prepayments. This also impacted financing activities as borrowing requirements declined.

The CWB issues adjustment and interim payments during the year. After all the accounting has been concluded, a final payment is issued to producers who delivered into the pool accounts. Total distributions to producers totalled $3.8 billion. Because the Corporation is typically in a net borrowing position, there is a zero net cash position at the end of the year.

The CWB believes that cash generated from operations supplemented by debt issued will be sufficient to meet our anticipated capital expenditures and other cash requirements in 2007-08.

Balance sheet

The Balance sheet of the Corporation was significantly affected by the prepayment of credit receivables over the course of the year. Over $1.3 billion of repayments and prepayments occurred. Offsetting this decrease is an increase in inventory and deferred and prepaid expenses, reflecting higher commodity prices. A new Balance sheet line called investments has been added to assets. Previously, investments were netted against borrowings.

During 2006-07, the Corporation received approval from the federal minister of finance to invest a portion of the Russian credit receivable prepaid in highly rated investments. This has contributed to the increase in investments. The large net decrease in assets had a direct effect on the borrowings, reducing them substantially.

Over the next five years, credit receivable repayments will result in significantly lower credits receivable and corresponding borrowing levels. They will also have the effect of lowering net interest earnings. The CWB estimates that net interest earnings will progressively decline to $3 million by 2011-12.

Debt instruments

Under *The Act* and with the approval of the federal minister of finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the minister of finance from the time of issuance to the date of maturity. Therefore, the credit ratings of these debt issues reflect the top credit quality of the federal government. Long-term and short-term ratings of the debt are currently as follows: Moody's Investors Service Senior Unsecured Ratings (Aaa/P-1), Standard & Poor's Ratings Group Issue Credit Ratings (AAA/A-1+) and Dominion Bond Rating Service Debt Ratings (AAA//R-1(high)).

The CWB borrows money to finance grain inventories, accounts receivable from credit sales and administrative and operating expenses and to administer the federal government's advance payment programs. It borrows in a variety of currencies, but mitigates currency risk by converting debt issued into either Canadian or U.S. dollars to match the assets being financed.

Multiple debt programs are managed to minimize borrowing costs and liquidity risk. Total debt outstanding ranged from $3 billion to $4 billion (Canadian dollar equivalent) in 2006-07. Debt programs include:

- Domestic commercial paper program (the "Wheat Board Note" program);
- U.S. commercial paper program;
- Euro commercial paper program;
- Euro medium-term note program; and
- Domestic medium-term note program.

Although the notes issued under the Euro medium-term note program have an original term to maturity of up to 15 years and are therefore considered a long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity, due to embedded call features.

Net borrowings decreased from $4.3 billion at the 2005-06 year-end to $3.1 billion at the close of 2006-07. The decline is primarily due to the repayment of accounts receivable from credit sales.

Off-balance sheet arrangements

The CWB enters into off-balance sheet derivative instruments in the normal course of business. Derivative financial instruments are used to manage exposure to commodity price, interest-rate and foreign-exchange rate fluctuations. Only the Corporation's hedging activities are represented as off-balance sheet items.

The CWB uses derivative instruments on futures exchanges to manage the risk of adverse movements in the price of grain. It uses interest-rate swaps to manage the interest rates on its debt portfolio and to manage overall borrowing costs. It primarily uses foreign-exchange contracts to hedge currency exposure arising from grain sales and funding operations. These hedging activities are further discussed on page 61 under the "Market risk" heading of the financial risk management section of the MD&A.

Contingency Fund

The Act provides for the establishment of a contingency fund. The Contingency Fund can be populated through a variety of mechanisms, including the results of operations of the PPO programs or other sources of revenue received in the course of operations.

It is used to cover deficits or retain surpluses that may occur as a result of the operation of the PPO programs. It is also the repository for excess interest earnings from the barley pool. The amount that is transferred to the Contingency Fund is based on a formula, approved by the board of directors, that ensures that a fair amount of interest earnings is allocated to the barley pool and which mitigates the distorting effects of certain costs in years when pool volume is unusually low.

The Act requires that all revenue generated, less the cost of operations, be distributed through the pool accounts. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $60 million.

On June 7, 2007, the federal government made amendments to the CWB Regulations that would have resulted in an open market for barley effective August 1, 2007. This created uncertainty in the marketplace. The Corporation challenged the amendment and it was ruled illegal in the Federal Court on July 31, 2007. During this time period, opportunities presented themselves to trade barley on a non-pool basis, which the Corporation acted on. As a result, there were 5 906 tonnes of barley traded. Due to the limited number of transaction and hence commercial sensitivities, the profits from these transactions have been transferred directly to the Contingency Fund pursuant to Section 39.1 of *The Act*.

During the year, a $38.6 million net deficit was transferred to the Contingency Fund as a result of the PPO programs. Interest earnings on feed barley totalling $1.9 million were transferred to the Fund. Finally, the profits on the non-pool barley transactions totalling $0.08 million were transferred as well.

Financial risk management

The CWB seeks to minimize risks related to its financial operations. It actively manages exposures to financial risk and ensures adherence to approved corporate policies and risk-management guidelines.

Governance framework

Ongoing responsibilities for managing risk are articulated through board-approved policies, other related corporate policies, and government and regulatory agency requirements. Board and management supervision, accountability and a strong control culture are in place to manage financial risks.

The board of directors approves the risk tolerance of the Corporation and ensures a proper risk management framework is in place to effectively identify, assess and manage financial risk.

The Financial Risk Management Committee oversees the financial risk management operations. This committee establishes and recommends to the board of directors the financial risk management policies and procedures ensuring the policies are consistent with the goals and objectives of the Corporation and are in compliance with government and regulatory requirements. The Financial Risk Management Committee is chaired by the chief executive officer and includes the chief financial officer, chief operating officer and other senior management representatives involved in managing corporate risk.

Corporate Audit Services is responsible for ensuring that the financial risk-management operations are periodically audited.

Market risk

Market risk is the exposure to movements in the level or volatility of market prices that may adversely affect the Corporation's financial condition. The market risks we are exposed to include commodity, foreign-exchange and interest-rate risk.

Commodity-price risk is the exposure to reduced revenue due to adverse changes in commodity prices. Exchange-traded futures and option contracts are used to mitigate commodity-price risk inherent in the core business of the wheat pool.

The CWB's commodity risk-management program involves an integrated approach that combines sales activity with exchange-traded derivatives to manage risk of an adverse movement in the price of grain between the time the crop is produced and the time the crop is ultimately sold to customers. Exchange-traded derivatives are used to complement the selling activity to provide flexible pricing alternatives to customers, such as basis contracts, and to engage in discretionary pricing activity when appropriate.

Our operational risk-management philosophy encourages an environment of effective operational risk discipline.

The CWB also manages the commodity-price risk related to the various PPOs offered to Prairie farmers that provide pricing choices and cash flow alternatives.

Foreign-exchange risk is the exposure to changes in foreign-exchange rates that may adversely affect Canadian dollar returns. Sales are priced either directly or indirectly in U.S. dollars, resulting in exposure to foreign-exchange risk.

To manage foreign-exchange risk, the CWB hedges foreign-currency revenue values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. An integrated approach is used, together with sales activity. In addition, foreign-exchange risk is managed as it relates to the various PPOs.

Interest-rate risk is the exposure to changes in market interest rates that may adversely affect net interest earnings. Interest-rate risk arises from the mismatch in term and interest rate re-pricing dates on interest-earning assets and interest-paying liabilities. This risk is managed by the CWB. The spread between the interest-earning assets and interest-paying liabilities represents net interest earnings, which are paid to farmers annually.

Credit risk

Credit risk is the risk of potential loss, should a counterparty fail to meet its contractual obligations. The Corporation is exposed to credit risk on non-guaranteed credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage market risks. The CWB enters into master agreements with all counterparties to minimize credit, legal and settlement risk. It transacts only with highly rated counterparties who meet the requirements of our financial risk-management policies. These policies meet or exceed the minister of finance's credit policy guidelines.

The commodity futures and option contracts involve minimal credit risk, as the contracts are exchange-traded. The CWB manages our credit risk on futures and option contracts by dealing through exchanges, which require daily mark-to-market and settlement.

Accounts receivable from credit sales

The CWB sells grain under two government-guaranteed export credit programs: the CGSP and the ACF. Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see the Credit Grain Sales Program Financial Statement note 3.

Investments

The CWB uses short-term investments for the purpose of cash management and liquidity risk management. It also maintains short-term and long-term investment portfolios that consist of the proceeds from a prepayment of a credit receivable. Investments in these portfolios are made to offset debt originally issued to finance the credit receivable, thereby reducing interest-rate risk and generating net interest earnings. The investment portfolios will continue until a significant portion of the debt is either called or matured.

All investments adhere to requirements of *The Act*, the CWB's annual borrowing authority granted by the minister of finance and applicable government guidelines. The CWB manages investment-related credit risk by transacting only with highly rated counterparties.

Operational risk

Operational risk is the risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. The CWB's operational risk-management philosophy encourages an environment of effective operational risk discipline. Operational risk-management activities include segregation of duties, cross-training and professional development, disaster recovery planning, the use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

Outlook

The 2007-08 growing season was similar in many ways to that of 2006-07. The crop, after experiencing a wet spring that delayed seeding in the northern growing regions, was mostly hot and dry. Record temperatures in July lowered crop yields across the region, with the greatest impact occurring in the southern growing region. Harvest began in the southern regions in early August and did not finish until the middle of October in the north. Although the 2007-08 harvest was not as early as in the previous year, crop quality remained above average.

Market conditions for the 2007-08 crop are expected to be the best in many years, as record or near-record prices for wheat, durum and barley are expected. These prices have been caused by a shortfall in production for wheat, durum and barley, combined with very strong demand. Tempering the positive market factors has been an exceptionally strong Canadian dollar and record-high ocean bulk freight rates. The combination of increased freight rates and grain prices has resulted in extremely high values for customers, which is expected to temper overall demand for wheat, durum and barley.

Wheat markets rose to record levels at the start of the 2007-08 marketing year and are expected to remain strong until the 2008 winter wheat harvest begins in the northern hemisphere. Extremely tight ending-stocks projections for the 2007-08 marketing year are expected to keep prices at historically high levels. Production shortfalls in key producing areas of Russia, Ukraine, Canada, Europe and Australia have led to limited supplies in exporting countries. The U.S. has sold over three-quarters of its wheat crop by the end of the first quarter of its marketing year.

The threat of export taxes and restrictions in Argentina, Russia and Ukraine has also buoyed prices. Grain stocks of the major wheat exporters are forecast to be the lowest in over 35 years at the end of the 2007-08 marketing year.

The durum market fundamentals are even more positive than those for milling wheat. Reduced stocks going into the marketing year combined with production difficulties in importing and exporting areas have led to extremely tight ending stocks projections for 2007-08. Demand will be rationed significantly as prices have raced to record levels. Drought in Morocco and Greece, combined with poor harvest weather in the Mediterranean basin, is expected to result in strong import demand for durum wheat. Production in Canada and the U.S. was lower than expected due to hot, dry conditions during the growing season. The restricted supplies are expected to keep prices at record levels until the arrival of new crop supplies.

International barley markets have also risen to near-record levels in response to very tight supplies. The drought in the Black Sea region, combined with poorer-than-expected yields in Western Europe, has limited export supplies. Poor harvest weather in Europe has limited malting barley supplies for the second consecutive year. The hot, dry conditions in North America during July also reduced supplies of barley in Canada and the United States. The main factor in world barley markets, however, has been the second consecutive year of drought in Australia, which has severely limited supplies of barley for export and created an extremely tight ending-stocks situation. This should support prices for both feed and malting barley until the arrival of the 2008 harvest.

While a number of external factors create the possibility of significant change for the CWB, the board of directors has also decided to embrace widespread change internally.

FORWARD-LOOKING STATEMENTS

Certain forward-looking information contained in this annual report is subject to risk and uncertainty because of the reliance on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed. They include, but are not limited to: weather; changes in government policy and regulations; world agriculture commodity prices and markets; shifts in currency values and credit; the nature of the transportation environment, especially for rail within North America and by ocean vessel internationally; and changes in competitive forces and global political/economic conditions, including continuing WTO negotiations with regard to the minister of finance's guarantee on the CWB debt and on the government's commitment to guarantee initial payments to farmers.

As well, the federal government has appealed the Federal Court ruling of July 31, 2007 that any changes to the way barley is marketed must be made according to the process set out in *The Act*. The appeal is scheduled to be heard February 26, 2008 in Winnipeg. Given that most designated barley is typically marketed well before its eventual delivery to a customer, the appeal creates the potential for another significant period of disruption similar to that described on page 51.

Meanwhile, the federal government has indicated it will not change the CWB's mandate to market wheat prior to the 2008-09 crop year, but remains committed to the removal of the CWB's single-desk mandate for wheat, durum wheat and barley.

While a number of external factors create the possibility of significant change for the CWB, the board of directors has also decided to embrace widespread change internally. At its summer 2007 planning session, the board agreed that the CWB must renew its relationship with farmers by accelerating a process begun several years ago to offer an increasingly wide assortment of pricing, payment and delivery options – without sacrificing market premiums generated through the power of the single desk. The board has since approved the development of options to be implemented in the short term, as well as a plan to seek farmer input on several others.

Financial results

Management's responsibility for financial reporting

The financial statements of the Canadian Wheat Board included in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the board of directors. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2006-07 pool accounts, Producer Payment Options and the financial status of the Corporation at July 31, 2007.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by corporate audit services that conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit, Finance and Risk Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Greg Arason
President and Chief Executive Officer

Brita Chell
Chief Financial Officer

Winnipeg, Manitoba
November 9, 2007

Auditors' report

To the Board of Directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which include the balance sheet as at July 31, 2007 and the combined statement of pool operations and statement of distribution to producers for the crop year then ended, the statements of operations and statements of distribution to producers for wheat, durum and designated barley for the crop year ended July 31, 2007, and for barley for the six-month period ended January 31, 2007 and for the six-month period ended July 31, 2007, the statements of operations for wheat, durum and designated barley producer payment options for the crop year ended July 31, 2007, and for barley for the six-month period ended January 31, 2007 and for the six-month period ended July 31, 2007, the statement of cash flow for the crop year ended July 31, 2007, and the statement of administrative expenses for the crop year ended July 31, 2007. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2007 and the results of its operations and the cash flow for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 9, 2007

Balance sheet

AS AT JULY 31 (dollar amounts in 000s)	2007	2006
ASSETS		
Accounts receivable		
Credit programs (Note 3)	$ 1,359,811	$ 2,748,530
Non-credit sales	55,325	10,732
Advance payment programs (Note 4)	417,079	448,069
Prepayment of inventory program	67,507	30,906
Other	69,420	55,380
	1,969,142	**3,293,617**
Inventory of grain (Note 5)	843,346	716,161
Deferred and prepaid expenses (Note 6)	192,549	107,601
Investments (Note 7)	1,094,993	973,723
Capital assets (Note 8)	82,064	71,699
Total assets	**$ 4,182,094**	**$ 5,162,801**
LIABILITIES		
Borrowings (Note 9)	$ 3,130,241	$ 4,306,040
Accounts payable and accrued expenses (Note 10)	225,314	79,673
Liability to agents (Note 11)	462,897	381,421
Liability to producers – Outstanding cheques	25,599	21,665
Liability to producers – Undistributed earnings (Note 12)	324,032	324,636
Provision for producer payment expenses (Note 13)	1,608	2,266
Special Account (Note 14)	3,177	2,788
Contingency Fund (Note 15)	9,226	44,312
Total liabilities	**$ 4,182,094**	**$ 5,162,801**

Approved by the board of directors:

Ken Ritter
Chair, board of directors

Greg Arason
President and Chief Executive Officer

Combined pool accounts

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007	2006
STATEMENT OF POOL OPERATIONS*		
Receipts (tonnes)	**21 517 919**	**18 788 084**
Revenue	**$ 4,948,584**	**$ 3,498,338**
Direct costs		
Freight	297,267	204,358
Terminal handling	151,450	141,261
Inventory storage	71,401	66,167
Country inventory financing	10,176	6,618
Inventory adjustments (Note 16)	(3,068)	(20,658)
Other grain purchases (Note 17)	44,334	35,823
Other direct expenses (Note 18)	28,663	24,717
Total direct costs	**600,223**	**458,286**
Net revenue from operations	**4,348,361**	**3,040,052**
Other income (Note 19)	218,069	149,274
Net interest earnings	30,550	36,138
Administrative expenses (Note 20)	(67,580)	(69,844)
Grain industry organizations	(2,022)	(2,131)
Earnings for distribution	**$ 4,527,378**	**$ 3,153,489**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	2007	2006
Earnings distributed to pool participants		
Receipts (tonnes)	**18 096 513**	**18 094 724**
Initial payments on delivery	$ 2,928,311	$ 2,418,548
Adjustment payments	666,780	335,716
Interim payment	51,540	155,652
Final payment	168,031	125,509
Total earnings distributed to pool participants	3,814,662	3,035,425
Transferred to Contingency Fund		
Undistributed earnings (Note 15)	1,878	789
Non-pool Producer Payment Options program		
Receipts (tonnes)	**3 421 406**	**693 360**
Sales returns paid to payment program	710,838	117,275
Total distribution	**$ 4,527,378**	**$ 3,153,489**

Wheat pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007		2006	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**15 516 550**		**11 971 249**	
Revenue	**$ 3,540,904**	**$ 228.20**	**$ 2,237,944**	**$ 186.94**
Direct costs				
Freight	196,322	12.65	108,496	9.06
Terminal handling	116,474	7.51	102,106	8.53
Inventory storage	44,316	2.86	38,452	3.21
Country inventory financing	7,980	0.51	4,649	0.39
Inventory adjustments (Note 16)	(2,875)	(0.19)	(18,740)	(1.57)
Other grain purchases (Note 17)	23,964	1.54	11,488	0.96
Other direct expenses (Note 18)	22,005	1.42	17,570	1.47
Total direct costs	**408,186**	**26.30**	**264,021**	**22.05**
Net revenue from operations	**3,132,718**	**201.90**	**1,973,923**	**164.89**
Other income (Note 19)	146,310	9.42	96,404	8.05
Net interest earnings	22,382	1.44	25,578	2.14
Administrative expenses (Note 20)	(48,759)	(3.14)	(44,625)	(3.73)
Grain industry organizations	(1,399)	(0.09)	(1,319)	(0.11)
Earnings for distribution	**$ 3,251,252**	**$ 209.53**	**$ 2,049,961**	**$ 171.24**

* Excludes operation of Producer Payment Options program

	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**12 127 555**		**11 282 096**	
Initial payments on delivery	$ 2,031,897	$ 167.54	$ 1,577,033	$ 139.78
Adjustment payments	407,169	33.57	171,981	15.24
Interim payment	–	–	90,256	8.00
Final payment	107,594	8.87	94,094	8.34
Total earnings distributed to pool participants	2,546,660	209.98	1,933,364	171.36
Non-pool Producer Payment Options program				
Receipts (tonnes)	**3 388 995**		**689 153**	
Sales returns paid to payment program	704,592	207.91	116,597	169.19
Total distribution	**$ 3,251,252**	**$ 209.53**	**$ 2,049,961**	**$ 171.24**

Durum pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007		2006	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**3 982 710**		**4 308 906**	
Revenue	**$ 1,019,368**	**$ 255.95**	**$ 864,199**	**$ 200.56**
Direct costs				
Freight	82,982	20.84	81,824	18.99
Terminal handling	27,915	7.01	28,811	6.69
Inventory storage	14,910	3.74	14,896	3.46
Country inventory financing	1,627	0.41	1,365	0.32
Inventory adjustments (Note 16)	(741)	(0.19)	(1,980)	(0.47)
Other grain purchases (Note 17)	19,063	4.79	14,717	3.42
Other direct expenses (Note 18)	6,707	1.68	5,816	1.35
Total direct costs	**152,463**	**38.28**	**145,449**	**33.76**
Net revenue from operations	**866,905**	**217.67**	**718,750**	**166.80**
Other income (Note 19)	24,841	6.23	21,620	5.02
Net interest earnings	3,705	0.93	5,622	1.31
Administrative expenses (Note 20)	(12,515)	(3.14)	(16,062)	(3.73)
Grain industry organizations	(359)	(0.09)	(475)	(0.11)
Earnings for distribution	**$ 882,577**	**$ 221.60**	**$ 729,455**	**$ 169.29**

* Excludes operation of Producer Payment Options program

	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**3 981 956**		**4 306 248**	
Initial payments on delivery	$ 609,962	$ 153.18	$ 559,368	$ 129.90
Adjustment payments	200,379	50.32	113,643	26.39
Interim payment	35,838	9.00	43,062	10.00
Final payment	36,234	9.10	12,948	3.01
Total earnings distributed to pool participants	882,413	221.60	729,021	169.30
Non-pool Producer Payment Options program				
Receipts (tonnes)	**754**		**2 658**	
Sales returns paid to payment program	164	217.83	434	163.38
Total distribution	**$ 882,577**	**$ 221.60**	**$ 729,455**	**$ 169.29**

Designated barley pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007		2006	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**1 851 337**		**1 464 682**	
Revenue	**$ 354,641**	**$ 191.56**	**$ 248,361**	**$ 169.57**
Direct costs				
Freight	17,987	9.72	13,823	9.44
Terminal handling	5,072	2.74	4,723	3.22
Inventory storage	11,671	6.30	11,640	7.95
Country inventory financing	542	0.29	518	0.35
Inventory adjustments (Note 16)	871	0.47	(189)	(0.13)
Other grain purchases (Note 17)	1,375	0.74	6,208	4.24
Other direct expenses (Note 18)	(896)	(0.48)	(373)	(0.25)
Total direct costs	**36,622**	**19.78**	**36,350**	**24.82**
Net revenue from operations	**318,019**	**171.78**	**212,011**	**144.75**
Other income (Note 19)	45,797	24.73	30,834	21.05
Net interest earnings	2,160	1.17	1,331	0.91
Administrative expenses (Note 20)	(5,818)	(3.14)	(5,460)	(3.73)
Grain industry organizations	(248)	(0.13)	(241)	(0.16)
Earnings for distribution	**$ 359,910**	**$ 194.41**	**$ 238,475**	**$ 162.82**

* Excludes operation of Producer Payment Options program

	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**1 831 524**		**1 463 476**	
Initial payments on delivery	$ 269,103	$ 146.93	$ 193,088	$ 131.94
Adjustment payments	54,371	29.69	34,998	23.91
Interim payment	14,652	8.00	7,317	5.00
Final payment	17,989	9.82	2,873	1.96
Total earnings distributed to pool participants	356,115	194.44	238,276	162.81
Non-pool Producer Payment Options program				
Receipts (tonnes)	**19 813**		**1 206**	
Sales returns paid to payment program	3,795	191.55	199	165.18
Total distribution	**$ 359,910**	**$ 194.41**	**$ 238,475**	**$ 162.82**

Barley pool A

FOR THE SIX MONTHS ENDED JANUARY 31 (dollar amounts in 000s)	2007		2006	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**147 513**		**915 783**	
Revenue	**$ 30,013**	**$ 203.46**	**$ 127,152**	**$ 138.84**
Direct costs				
Freight	(20)	(0.14)	47	0.05
Terminal handling	1,863	12.63	4,118	4.50
Inventory storage	364	2.47	936	1.02
Country inventory financing	24	0.16	55	0.06
Inventory adjustments (Note 16)	(329)	(2.23)	235	0.26
Other grain purchases (Note 17)	(99)	(0.67)	2,300	2.51
Other direct expenses (Note 18)	613	4.16	623	0.68
Total direct costs	**2,416**	**16.38**	**8,314**	**9.08**
Net revenue from operations	**27,597**	**187.08**	**118,838**	**129.76**
Other income (Note 19)	127	0.86	291	0.32
Net interest earnings	1,201	8.14	2,256	2.46
Administrative expenses (Note 20)	(426)	(2.89)	(3,222)	(3.52)
Grain industry organizations	(14)	(0.09)	(82)	(0.09)
Earnings for distribution	**$ 28,485**	**$ 193.10**	**$ 118,081**	**$ 128.93**

* Excludes operation of Producer Payment Options program

	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**135 669**		**915 440**	
Initial payments on delivery	$ 14,983	$ 110.44	$ 79,946	$ 87.33
Adjustment payments	4,647	34.25	15,094	16.48
Interim payment	–	–	9,154	10.00
Final payment	5,686	41.91	13,842	15.12
Total earnings distributed to pool participants	25,316	186.60	118,036	128.93
Transferred to Contingency Fund				
Undistributed earnings (Note 15)	882	6.50	–	–
Non-pool Producer Payment Options program				
Receipts (tonnes)	**11 844**		**343**	
Sales returns paid to payment program	2,287	193.09	45	129.87
Total distribution	**$ 28,485**	**$ 193.10**	**$ 118,081**	**$ 128.93**

Barley pool B

FOR THE SIX MONTHS ENDED JULY 31 (dollar amounts in 000s)	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**19 809**		**127 464**	
Revenue	**$ 3,658**	**$ 184.64**	**$ 20,682**	**$ 162.26**
Direct costs				
Freight	(4)	(0.23)	168	1.31
Terminal handling	126	6.39	1,503	11.79
Inventory storage	140	7.06	243	1.91
Country inventory financing	3	0.15	31	0.24
Inventory adjustments (Note 16)	6	0.28	16	0.13
Other grain purchases (Note 17)	31	1.55	1,111	8.72
Other direct expenses (Note 18)	234	11.81	1,080	8.47
Total direct costs	**536**	**27.01**	**4,152**	**32.57**
Net revenue from operations	**3,122**	**157.63**	**16,530**	**129.69**
Other income (Note 19)	994	50.17	125	0.98
Net interest earnings	1,102	55.61	1,351	10.60
Administrative expenses (Note 20)	(62)	(3.14)	(475)	(3.73)
Grain industry organizations	(2)	(0.09)	(14)	(0.11)
Earnings for distribution	**$ 5,154**	**$ 260.18**	**$ 17,517**	**$ 137.43**

* Excludes operation of Producer Payment Options program

	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**19 809**		**127 464**	
Initial payments on delivery	$ 2,366	$ 119.46	$ 9,113	$ 71.49
Adjustment payments	214	10.80	–	–
Interim payment	1,050	53.00	5,863	46.00
Final payment	528	26.64	1,752	13.75
Total earnings distributed to pool participants	4,158	209.90	16,728	131.24
Transferred to Contingency Fund				
Undistributed earnings (Note 15)	996	50.28	789	6.19
Total distribution	**$ 5,154**	**$ 260.18**	**$ 17,517**	**$ 137.43**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007	2006
WHEAT PROGRAMS		
FIXED / BASIS / DAILY PRICE CONTRACT		
Receipts (tonnes)	**3 388 995**	**689 153**
Revenue		
Sales returns paid to program	$ 704,592	$ 116,597
Pricing damages	2,509	917
	707,101	117,514
Expense		
Contracted amounts paid to producers	737,575	123,234
Net hedging activity	3,367	170
Net interest	3,201	228
Administrative expense (Note 20)	3,584	729
	747,727	124,361
Net deficit on program operations	**$ (40,626)**	**$ (6,847)**
EARLY PAYMENT OPTION		
Receipts (tonnes)	**806 287**	**1 080 124**
Revenue		
Program discount	$ 1,624	$ 1,544
Pricing damages	2	73
	1,626	1,617
Expense		
Pool returns less than contracted price	309	647
Net hedging activity	373	579
Net interest	159	102
Administrative expense (Note 20)	298	400
	1,139	1,728
Net surplus (deficit) on program operations	**$ 487**	**$ (111)**
TOTAL WHEAT PROGRAMS (Note 15)	**$ (40,139)**	**$ (6,958)**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)		**2007**		2006
DURUM PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**754**		**2 658**
Revenue				
Sales returns paid to program	$	164	$	434
Pricing damages		1		2
		165		436
Expense				
Contracted amounts paid to producers		143		429
Net hedging activity		–		37
Net interest		1		–
Administrative expense (Note 20)		1		3
		145		469
Net surplus (deficit) on program operations	**$**	**20**	**$**	**(33)**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**199 272**		**402 084**
Revenue				
Program discount	$	347	$	532
Pricing damages		1		48
		348		580
Expense				
Pool returns less than contracted price		–		29
Net hedging activity		19		228
Net interest		11		25
Administrative expense (Note 20)		74		149
		104		431
Net surplus on program operations	**$**	**244**	**$**	**149**
TOTAL DURUM PROGRAMS (Note 15)	**$**	**264**	**$**	**116**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)		2007		2006
DESIGNATED BARLEY PROGRAMS				
FIXED / BASIS PRICE CONTRACTS				
Receipts (tonnes)		**19 813**		**1 206**
Revenue				
Sales returns paid to program	$	3,795	$	199
Net hedging activity		19		17
Pricing damages		35		7
		3,849		223
Expense				
Contracted amounts paid to producers		3,689		201
Net interest		18		2
Administrative expense (Note 20)		21		1
		3,728		204
Net surplus on program operations	**$**	**121**	**$**	**19**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**400 621**		**295 244**
Revenue				
Program discount	$	630	$	317
Pricing damages		7		13
		637		330
Expense				
Pool returns less than contracted price		67		66
Net hedging activity		29		9
Net interest		15		25
Administrative expense (Note 20)		148		109
		259		209
Net surplus on program operations	**$**	**378**	**$**	**121**
TOTAL DESIGNATED BARLEY PROGRAMS (Note 15)	**$**	**499**	**$**	**140**

Statement of Producer Payment Options program operations

FOR THE SIX MONTHS ENDED JANUARY 31 (dollar amounts in 000s)	2007	2006
BARLEY POOL A PROGRAMS		
FIXED PRICE CONTRACT		
Receipts (tonnes)	**11 844**	**343**
Revenue		
Sales returns paid to program	$ 2,287	$ 45
Pricing damages	2	–
	2,289	45
Expense		
Contracted amounts paid to producers	1,713	43
Net hedging activity	6	–
Net interest	2	–
Administrative expense (Note 20)	13	–
	1,734	43
Net surplus on program operations	**$ 555**	**$ 2**
EARLY PAYMENT OPTION		
Receipts (tonnes)	**127 054**	**780 894**
Revenue		
Program discount	$ 241	$ 497
Pricing damages	4	10
	245	507
Expense		
Net hedging activity	7	27
Net interest	29	55
Administrative expense (Note 20)	47	289
	83	371
Net surplus on program operations	**$ 162**	**$ 136**
TOTAL BARLEY POOL A PROGRAMS (Note 15)	**$ 717**	**$ 138**

Statement of Producer Payment Options program operations

FOR THE SIX MONTHS ENDED JULY 31 (dollar amounts in 000s)	2007	2006
BARLEY POOL B PROGRAMS		
FIXED PRICE CONTRACT		
Receipts (tonnes)	–	–
Revenue		
Net hedging activity	$ –	$ 1
	–	1
Expense		
	–	–
Net surplus on program operations	**$ –**	**$ 1**
EARLY PAYMENT OPTION		
Receipts (tonnes)	**15 697**	**99 801**
Revenue		
Program discount	$ 100	$ 66
Net hedging activity	–	1
Liquidated damages	2	6
	102	73
Expense		
Pool returns less than contracted price	–	187
Net hedging activity	58	–
Net interest	6	12
Administrative expense (Note 20)	6	37
	70	236
Net surplus (deficit) on program operations	**$ 32**	**$ (163)**
TOTAL BARLEY POOL B PROGRAMS (Note 15)	**$ 32**	**$ (162)**

Statement of cash flow

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007	2006
Increases (decreases) of cash during the year		
Cash flow from operating activities		
Pool earnings for distribution	$ 4,527,379	$ 3,153,489
Producer Payment Options program operations	(5,970)	836
Pre-delivery Top-up program	91	35
Interest earned on non-program Contingency Fund balance	1,570	1,601
Add non-cash items		
Depreciation on CWB hopper cars	3,925	2,654
Depreciation on other capital assets	8,593	9,104
Write down of system development and computer equipment asset	–	2,436
Cash flow from operating activities before changes in working capital	4,535,588	3,170,155
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	(64,244)	(109,931)
Inventory of grain	(127,185)	44,002
Deferred and prepaid expenses	(84,947)	(67,414)
Accounts payable and accrued expenses	145,642	(9,729)
Liability to agents	81,476	(127,174)
Liability to producers for outstanding cheques	3,934	962
Provision for producer payment expenses	(658)	526
Special Account	390	(1,092)
	4,489,996	2,900,305
Cash flow from financing activities		
Increase in investments	(121,270)	(114,204)
Decrease in borrowings	(1,175,799)	(704,007)
	(1,297,069)	(818,211)
Cash flow from investing and other activities		
Accounts receivable – Credit programs	1,388,719	1,178,414
Purchase of capital assets	(23,602)	(39,485)
Proceeds from sale of capital assets	718	1,252
	1,365,835	1,140,181
Cash distributions		
Prior year undistributed earnings	(324,636)	(386,651)
Current year distributions prior to July 31	(3,447,062)	(2,648,320)
Non-pool Producer Payment Option program payments	(787,064)	(187,304)
	(4,558,762)	(3,222,275)
Net increase in cash and cash equivalents	–	–
Net cash position at beginning of year	–	–
Net cash position at end of year	$ –	$ –

Statement of administrative expenses

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007	2006
Human resources	$ 39,189	$ 37,326
Office services	3,623	3,497
Professional fees	14,909	12,192
Computer services	1,537	1,634
Facilities	1,780	1,905
Travel	1,875	2,600
Advertising and promotion	1,417	1,639
Other	1,023	1,028
Training	453	819
Depreciation	8,593	9,104
Write down of system development and computer equipment asset	–	2,436
Recoveries	(2,254)	(2,252)
Total administrative expenses (Note 20)	**$ 72,145**	**$ 71,928**

Notes to financial statements

(dollar amounts in 000s)

1. ACT OF INCORPORATION AND MANDATE

The Canadian Wheat Board (the Corporation) was established by *The Canadian Wheat Board Act (The Act)*, a statute of the Parliament of Canada.

On June 11, 1998, Bill C-4, *An Act to Amend the Canadian Wheat Board Act* continued the Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing, in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation is headed by a board of directors, comprising 10 producer-elected and five government-appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected board members and to Parliament through the Minister for the Canadian Wheat Board.

The Corporation is exempt from income taxes pursuant to Section 149(1)(d) of the *Income Tax Act.*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which require the Corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingencies. These estimates and assumptions are based on management's best knowledge of current events and actions that the Corporation may undertake in the future. Actual results could differ from those estimates.

Results of operations

The financial statements at July 31 include the final operating results for all pool accounts and programs for the crop year ended July 31, where marketing operations have been completed thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

Revenue – Revenue from grain sales is recognized in the accounts at the time that shipment is made, at a value defined in the sales contract.

Inventory – Inventory of grain on hand at July 31 is valued at the amount that is ultimately expected to be received as sale proceeds less costs to be incurred to realize these sales values.

Allowances for losses on accounts receivable

Accounts receivable from credit programs – The federal government guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program (CGSP) and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility (ACF). The Corporation assumes the risk not covered by the federal government. For receivables resulting from credit sales made outside of the CGSP and the ACF, the Corporation enters into arrangements with commercial banks, which will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation or bills of lading representing grain ownership are retained until receipt of funds by the Corporation.

Accounts receivable from cash advance payment programs – The federal government guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act (AMPA)*, the Spring Credit Advance Program (SCAP), the Enhanced Spring Credit Advance Program (ESCAP), the Unharvested Threshed Grain Advance Program and the Advance Payment Program (APP).

With respect to receivables from credit programs, non-credit sales and advance payment programs, as a result of guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations. Other receivable accounts are monitored and allowance for losses is provided for where collection is deemed unlikely.

Capital assets and depreciation

Capital assets are recorded at cost and depreciated on a straight-line method over their expected useful life as follows:

Asset class	Term (years)
Computer equipment	2 to 6
Computer systems development	2 to 10
Automobiles	2 to 3
Building and office improvements	10
Office furniture and equipment	10
Hopper cars (post-August 2005)	15
Hopper cars (pre-August 2005)	30
Building	40
Leasehold improvements	Term of lease

Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance-sheet date. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than Canadian or U.S. dollars are hedged by cross-currency interest-rate swaps and currency swaps and are converted into Canadian or U.S. dollars at the rates provided therein. The Corporation hedges U.S. dollar assets and liabilities on a portfolio basis, primarily by matching U.S. dollar assets to U.S. dollar liabilities.

Sales contracts denominated in foreign currencies are hedged by foreign-exchange forward contracts. Forward-exchange contracts are translated into Canadian dollars at the rates provided therein. These amounts are recorded in revenue as an adjustment to the underlying sales transactions.

Other income and expenses are translated at the daily exchange rates in effect during the year.

The net foreign-exchange gains included in operations for the year ended July 31, 2007 are $5,885 (2006 – $26,423).

Derivative financial and commodity instruments

The Corporation uses various types of derivatives, such as swaps, forwards, futures and option contracts, in order to manage its exposure to currency, interest-rate and commodity price risks. These instruments are designated as hedges and are used for risk-management purposes. These derivative contracts are initiated within the guidelines of the Corporation's risk-management and hedging policies, which provide for discretionary trading within the policy's trading limits. The Corporation formally documents its risk-management objectives and strategies for undertaking the hedging transaction and the relationship between the hedged item and derivative. The Corporation assesses, both at inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Corporation recognizes derivative financial and commodity instruments as a hedge of the underlying exposure. Gains or losses on these contracts are recognized when the related underlying hedged transaction is recognized. Commodity contracts, while an economic hedge, do not qualify for hedge accounting. They are marked-to-market at the balance-sheet date, with the unrealized gains or losses disclosed as a component of deferred and prepaid expenses. When the gains or losses are realized, they are recorded in the same pool account or Producer Payment Options (PPO) program as the related sale or PPO program that is being hedged.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in the respective pool account or PPO program in the period in which the underlying hedged transaction is recognized. If the designated hedged item is no longer expected to occur prior to the termination of the related derivative instrument, realized and unrealized gains or losses are recognized in the pool account or PPO program in which the underlying hedged transaction was expected to be recognized. Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated.

Interest-rate contracts are used to manage interest-rate risk associated with the Corporation's funding and asset/liability management strategies. The amounts to be paid or received under single-currency and cross-currency interest-rate swap contracts are recognized in the period in which they occur, as a component of net interest earnings.

Foreign-exchange contracts are used to hedge currency exposure arising from grain sales, PPOs and funding operations. The amounts to be paid or received under forward and option contracts are recognized in the same pool account or PPO program in which the related foreign currency transaction occurs, as a component of revenue. The amounts to be paid or received from currency contracts used to hedge currency risk from funding operations are recognized in the period in which they occur, as a component of net interest earnings.

Commodity contracts are used to manage price risk arising from grain sales and PPOs. The amounts to be paid or received under futures and option contracts are recognized as a component of revenue, in the same pool account or PPO program as the related sale or PPO program that is being hedged.

Net interest earnings

Net interest earnings include interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities and interest earned on each pool account during the pool period and until final distribution of earnings to producers.

Employee future benefits

Employees of the Corporation are entitled to specified benefits provided upon retirement or termination.

Pension plan – Effective July 1, 2003, the Corporation began administrating its own pension plan for its employees. Previously, employees participated in the *Public Service Superannuation Act (PSSA)* pension plan, administered by the federal government. Currently, the Corporation has completed negotiations with the federal government for the transfer of pension assets from the *PSSA* for employees who choose to transfer past service to the new plan. As at July 31, 2007, the majority of pension assets have been transferred to the Corporation's pension plan. Hence the Corporation is disclosing the fair value of pension assets and reconciliation with the accrued benefit obligation and expense as required under GAAP for the first time.

The Corporation sponsors three Defined-benefit pension plans and one Defined-contribution plan and provides other post-employment benefits. The defined-benefit components provide pensions based on years of service and average earnings prior to retirement. The defined-contribution component provides pensions based on contributions made and investment earnings. Employer contributions to the CWB Pension Plan are expensed during the year in which the services are rendered.

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The accrued benefit obligation is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and other actuarial factors.
- For the purposes of calculating the expected return on plan assets, those assets are valued at fair value.
- The transitional obligation and actuarial gains (losses) are being amortized over the Average Remaining Service Period (ARSP), which has been actuarially determined to be 11 years (2006 – 11 years) for Defined-benefit pension plans and 13 years (2006 – 13 years) for other post-employment benefits.
- Amortization of actuarial gains (losses) will be recognized in the period in which, as of the beginning of the period, the net actuarial gains (losses) are more than 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets.

Future accounting and reporting changes

In January 2005, the Canadian Institute of Chartered Accounts (CICA) issued three new accounting standards: Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income. The new standards are to be applied prospectively and are effective for the Corporation's fiscal year beginning on August 1, 2007.

The new standards will require the Corporation to classify each of its financial assets as held-to-maturity, loans and receivables, held-for-trading, or available-for-sale. Financial liabilities will be classified as other or held-for-trading. Subsequent measurement is to be determined by the classification of each financial asset and financial liability.

Financial assets classified as held-to-maturity will be restricted to financial assets with a fixed term to maturity that the Corporation intends and is able to hold to maturity. Financial assets classified as held-to-maturity or loans and receivables will be accounted for at amortized cost using the effective interest method. Financial assets classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial assets classified as available-for-sale will be accounted for at fair value with unrealized gains and losses being reported in a new category in comprehensive income for future distribution called cumulative other comprehensive income.

Financial liabilities classified as other will be accounted for at amortized cost using the effective interest method. Financial liabilities classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income.

A new category of comprehensive income for future distribution will be added to the Corporation's balance sheet. Comprehensive income for future distribution will comprise the Corporation's earnings/loss for future distribution and cumulative other comprehensive income. Cumulative other comprehensive income includes foreign exchange contracts that were in hedging relationships at July 31, 2007 and will not be on August 1, 2007.

Derivative financial instruments will be classified as held-for-trading. All derivatives, including embedded derivatives, will be measured at fair value with realized and unrealized gains and losses reported in income.

The following table summarizes the Corporation's expected classification of financial instruments on August 1, 2007:

	Financial instrument type	**Classification**
Financial assets	Temporary investments	Loans and receivables
	Accounts receivable Loans receivable	Loans and receivables
	Investments	Held-for-trading
Financial liabilities	Accounts payable and accrued liabilities Short-term debt	Other financial liabilities
	Long-term debt (structured notes)	Held-for-trading
Derivatives	Currency swaps Single currency interest rate swaps Cross currency interest rate swaps Commodity futures contracts Sales contracts Purchase contracts	Held-for-trading

A transition adjustment attributable to the following will be recognized in the Corporation's opening balance of comprehensive income for future distribution as at August 1, 2007: (i) the fair value of financial assets classified as held-for-trade that were not previously recorded, and (ii) deferred gains and losses on hedging relationships that will not continue to be accounted for under hedge accounting.

These changes will be applied prospectively and the prior period will not be restated. The Corporation is currently reviewing the guidance to determine the potential impact on its financial statements.

3. ACCOUNTS RECEIVABLE FROM CREDIT SALES PROGRAMS

	Credit Grain Sales Program	Agri-food Credit Facility	**2007 Total**	2006 Total
Due from foreign customers				
Current	$ –	$ 58,562	**$ 58,562**	$ 81,092
Rescheduled	1,284,813	–	**1,284,813**	2,643,547
	1,284,813	58,562	**1,343,375**	2,724,639
Due from federal government	16,436	–	**16,436**	23,891
	$ 1,301,249	$ 58,562	**$ 1,359,811**	$ 2,748,530
Credit risk				
Guaranteed by federal government	$ 1,301,249	$ 57,391	**$ 1,358,640**	$ 2,746,908
Assumed by CWB	–	1,171	**1,171**	1,622
	$ 1,301,249	$ 58,562	**$ 1,359,811**	$ 2,748,530

Accounts receivable balances are classified under the following applicable credit programs:

Credit Grain Sales Program

Accounts receivable under this program arise from sales to Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru and Poland. Of the $1,284,813 principal and accrued interest due from foreign customers at July 31, 2007, $701,495 represents the Canadian equivalent of $657,469, repayable in U.S. funds. Of the $2,643,547 principal and accrued interest due from customers at July 31, 2006, $1,839,794 represents the Canadian equivalent of $1,625,834, repayable in U.S. funds.

In the past year, Russia prepaid all of its remaining rescheduled debt. On August 21, 2006, $928,836 was received which represents the Canadian equivalent of $826,882 repayable in U.S. funds.

Subsequent to the July 31 year-end, Peru prepaid all of its remaining rescheduled debt. On October 1, 2007, $5,051 was paid which represents the Canadian equivalent of $4,733 repayable in U.S. funds.

Through a forum known as the Paris Club, the federal government and other creditors have periodically agreed to extend repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the federal government at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru and Poland. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

Under the terms of the rescheduled agreement for Iraq, the federal government will pay 80 per cent of the total debt rescheduled. The last payment of $125,147 is due to the Corporation on December 31, 2008, which represents the Canadian equivalent of $117,311 repayable in U.S. funds. The balance of the debt is due from Iraq.

In addition to debt rescheduling by means of extending repayment terms, the federal government has agreed to reduce the debt owed to the Corporation by Poland. Under these debt reduction arrangements, approximately 85 per cent of the interest amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the federal government. A total of $16,437 was due from the federal government as at July 31, 2007 under these debt reduction agreements. Of this amount, $7,284 represents the Canadian equivalent of $6,828 that will be repayable in U.S. funds.

There is no allowance for credit losses, as the federal government guarantees repayment of the principal and interest of all credit receivables under this program.

Agri-food Credit Facility

Accounts receivable under this facility arise from sales to customers in Brazil, Indonesia, Mexico and Peru. The July 31, 2007 balance of $58,562 (principal and accrued interest) due under the ACF represents the Canadian equivalent of $54,895 repayable in U.S. funds. The July 31, 2006 balance of $81,092 (principal and accrued interest) represents the Canadian equivalent of $71,661 repayable in U.S. funds.

There is no allowance for credit losses, as the federal government guarantees repayment of 98 per cent of the principal and interest of outstanding credit receivables under this program, and management considers the balance collectable in its entirety.

Fair value

All accounts receivable resulting from sales made under credit programs as at July 31, 2007 have contractual interest-rate repricing dates under 365 days. As a result of the short terms to the repricing dates of these financial instruments, fair value approximates the carrying values.

Maturities

These accounts receivable mature as follows:

	2007	2006
Amounts due:		
within 1 year	**$ 496,279**	$ 1,440,683
from 1–2 years	**630,397**	430,248
from 2–3 years	**7,331**	653,314
from 3–4 years	**12,407**	7,377
from 4–5 years	**17,187**	12,709
over 5 years	**196,210**	204,199
	$ 1,359,811	$ 2,748,530

4. ACCOUNTS RECEIVABLE FROM ADVANCE PAYMENT PROGRAMS

	Agricultural Marketing Programs Act	*Prairie Grain Advance Payments Act*	Spring Credit Advance Program	Enhanced Spring Credit Advance Program	Advanced Payment Program (pre-harvest)	Unharvested Grain Advance Program	**2007 Total**	2006 Total
Due from producers	$ 41,076	$ –	$ 203	$ 64,388	$ 298,664	$ –	**$ 404,331**	$ 431,842
Due from (to) federal government	507	(2)	(151)	4,272	3,084	(7)	**7,703**	3,587
Due from (to) agents of the CWB	3,656	–	24	5,844	(4 ,479)	–	**5,045**	12,640
	$ 45,239	$ (2)	$ 76	$ 74,504	$ 297,269	$ (7)	**$ 417,079**	$ 448,069

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the federal government. The Government guarantees the repayment of advances made to producers; therefore the Corporation is not exposed to credit risk. The Corporation recovers its costs of administering the programs from the Government and from producers using the program.

The federal government introduced a revision to the format of the advance programs on April 1, 2007. The new agreement under the *AMPA* is referred to as the APP and contains pre- and post-harvest issuances. The program enables producers to receive up to $400 with interest paid by the federal government on the first $100 issued. The pre-harvest APP is the agreement under which advances in the year ending July 31, 2007 were issued.

The federal government introduced the ESCAP in June 2006 to increase the assistance available to producers with spring seeding costs. The program enables producers to receive up to $100 with interest paid by the federal government. Any balances outstanding under the program reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*. The ESCAP replaced the previous SCAP and any issued 2006-07 advances under SCAP were rolled into ESCAP.

The federal government introduced the Unharvested Threshed Grain Advance Program in the 2002-03 crop year. The program provided cash flow to farmers who were unable to harvest their grain due to early snowfall. The program enabled producers to receive up to $25 with interest paid by the federal government. Any balances outstanding under the program reduced the interest-free and maximum entitlements available to producers in the fall under the *AMPA*.

The federal government introduced the SCAP in the spring of 2000 to assist producers with spring seeding costs. The program enabled producers to receive up to $50 with interest paid by the federal government. Any balances outstanding under the program reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*.

The federal government introduced the *AMPA* in 1997 to provide producers with cash flow by advancing money for grain stored on the farm. This program replaced a previous federal government program under the *Prairie Grain Advance Payments Act (PGAPA)*. The federal government pays interest on advances of up to $50 and the producer pays interest on any amounts in excess of $50.

Cash advances issued during the year by the Corporation under these programs totalled $700,884, including $166,146 issued under the *AMPA*, $237,372 issued under the ESCAP and $297,366 issued under the APP.

Collections from producers and grain companies subsequent to reimbursement by the federal government, plus interest on default accounts collected from producers, are remitted to the federal government as these amounts are received.

Due to the timing of producer deliveries and subsequent remittance by the agent to the Corporation, a component of advance receivables is due from agents.

5. INVENTORY OF GRAIN

Inventory of grain on hand at July 31 is valued at the amount that is ultimately expected to be received as sale proceeds, less costs to be incurred to realize these sales values.

	2007		2006	
	Tonnes	**Amount**	Tonnes	Amount
Wheat	2 803 462	**$ 703,136**	2 414 178	$ 466,844
Durum	547 487	**135,921**	1 180 223	206,588
Designated barley	13 893	**2,590**	165 414	27,718
Barley	7 255	**1,699**	112 428	15,011
	3 372 097	**$ 843,346**	3 872 243	$ 716,161

6. DEFERRED AND PREPAID EXPENSES

	2007	2006
Net results of hedging activities applicable to subsequent pool accounts	**$ 118,183**	$ 18,606
Prepaid cost of moving inventory to eastern export position	**14,213**	25,557
Deposits on commodity margin accounts	**46,756**	51,822
Deferred pension asset	**10,847**	9,122
Other	**2,550**	2,494
	$ 192,549	$ 107,601

7. INVESTMENTS

The Corporation uses short-term investments for cash management and liquidity risk management and maintains short-term and long-term investment portfolios that are the result of a credit receivable prepayment. Investments in the portfolio are made to offset a portion of debt originally issued to finance the credit receivable. The investment portfolio will continue until a significant portion of the debt is either called or matured. All investments adhere to requirements of *The Act*, the CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines.

Short-term investments consist of term deposits, banker's acceptances, certificates of deposit, bearer discount notes, commercial paper and treasury bills with remaining maturities of less than one year.

Long-term investments consist of notes issued in the medium-term note market with an original term to maturity between one and 15 years. The Corporation uses swap contracts to manage interest-rate risk and to convert the currency exposure to either the Canadian dollar or U.S dollars. These contracts ultimately create a floating rate investment similar to that of the Corporation's borrowings.

	Effective interest rate (%)	**2007**	2006
Short-term investments	4.50–5.34	**$ 948,301**	$ 973,723
Long-term investments	5.33–5.54	**146,692**	–
Total investments	4.50–5.54	**$ 1,094,993**	$ 973,723

Of the total investments at July 31, 2007, $823,293 represents the Canadian equivalent of $771,741 that will be repayable in U.S. funds. Of the total investments at July 31, 2006, $593,005 represents the Canadian equivalent of $524,041 repayable in U.S. funds.

These investments mature as follows:

	2007	2006
Amounts due:		
within 1 year	**$ 948,301**	$ 973,723
from 1–2 years	**–**	–
from 2–3 years	**–**	–
from 3–4 years	**–**	–
from 4–5 years	**–**	–
over 5 years	**146,692**	–
	$ 1,094,993	$ 973,723

All investments are accounted for at cost. Long-term investments either have contractual interest-rate repricing dates of 365 days or less or have associated swaps that reprice 365 days or less and, as a result, the carrying values of these investments approximate their fair values.

8. CAPITAL ASSETS

		2007			2006	
	Cost	**Accum. deprec.**	**Net book value**	Cost	Accum. deprec.	Net book value
Computer systems development	**$ 91,546**	**$ 52,856**	**$ 38,690**	$ 74,353	$ 46,281	$ 28,072
Hopper cars	**105,515**	**75,643**	**29,872**	106,544	72,110	34,434
Computer equipment	**15,413**	**11,046**	**4,367**	18,643	14,162	4,481
Furniture and equipment	**4,834**	**3,232**	**1,602**	5,457	4,180	1,277
Land, building and improvements	**14,921**	**7,935**	**6,986**	10,815	7,945	2,870
Automobiles	**854**	**307**	**547**	748	183	565
Leasehold improvements	**109**	**109**	**–**	158	158	–
	$ 233,192	**$ 151,128**	**$ 82,064**	$ 216,718	$ 145,019	$ 71,699

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 238 cars have been wrecked and dismantled, leaving 1,762 in the fleet. The Corporation purchased an additional 1,663 cars, previously under lease, in 2005-06 at a cost of $25,828. Of these, six cars have been wrecked and dismantled, leaving 1,657 in the fleet. The Corporation is reimbursed for destroyed cars under operating agreements with the Canadian National Railway and the Canadian Pacific Railway.

9. BORROWINGS

The Corporation issues debt in world capital markets. The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada through an explicit guarantee included in *The Act.*

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, U.S. and Euro markets, bank loans and medium-term notes with remaining maturities of less than one year. The Corporation uses swaps in the same notional amounts and with the same terms as the underlying borrowings to convert the currency exposure to either the Canadian dollar or the U.S. dollar.

Long-term borrowings are notes issued in the domestic and Euro medium-term note market with an original term to maturity between one and 15 years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity, due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest-rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to that of the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest-rate fluctuations on the notes' principal and interest payments.

	Effective interest rate (%)	**2007**	2006
Short-term borrowings	3.50–5.50	**$ 1,780,235**	$ 2,686,161
Long-term borrowings	4.09–5.21	**1,329,863**	1,582,061
Accrued interest	–	**20,143**	37,818
Total borrowings	3.50–5.50	**$ 3,130,241**	$ 4,306,040

Of the total borrowings at July 31, 2007, $1,897,515 represents the Canadian equivalent of $1,778,698 repayable in U.S. funds. Of the total borrowings at July 31, 2006, $2,565,653 represents the Canadian equivalent of $2,267,279, repayable in U.S. funds.

These borrowings mature as follows:

	2007	2006
Amounts due:		
within 1 year	**$ 1,800,378**	$ 2,723,979
from 1–2 years	**21,336**	39,606
from 2–3 years	**141,734**	22,632
from 3–4 years	**117,348**	173,861
from 4–5 years	**62,516**	124,476
over 5 years	**986,929**	1,221,486
	$ 3,130,241	$ 4,306,040

After giving effect to interest-rate swaps, all borrowings have contractual interest-rate repricing dates of 365 days or less and, as a result, the carrying values of these borrowings approximate their fair values.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2007	2006
Net hedging and foreign exchange applicable to current year	**$ 116,281**	$ (15,858)
Other accounts payable and accrued expenses	**96,444**	80,409
Deferred sales revenue	**12,589**	15,122
	$ 225,314	$ 79,673

11. LIABILITY TO AGENTS

	2007	2006
Grain purchased from producer	**$ 401,853**	$ 347,293
Deferred cash tickets	**61,044**	34,128
	$ 462,897	$ 381,421

Grain purchased from producers

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for grain on hand at country elevator points and in transit at July 31, for which delivery to and settlement by the Corporation is to be completed subsequent to the year-end date.

Deferred cash tickets

Grain companies, acting in the capacity of agents of the Corporation, deposit in trust with the Corporation an amount equal to the value of deferred cash tickets issued to producers for Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

12. LIABILITY TO PRODUCERS – UNDISTRIBUTED EARNINGS

Undistributed earnings represent the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $324,032 (2006 – $324,636), $112,522 (2006 – $75,953) was distributed to producers as an adjustment payment on August 8, 2007 and $50,159 (2006 – $138,350) will be distributed to producers in an interim payment pending government approval. The balance of $161,351 (2006 – $110,333) will be distributed to producers through final payments.

13. PROVISION FOR PRODUCER PAYMENT EXPENSES

The amount of $1,608 (2006 – $2,266) represents the balance of the reserve for producer payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor-in-Council.

14. SPECIAL ACCOUNT – NET BALANCE OF UNDISTRIBUTED PAYMENT ACCOUNTS

In accordance with the provision of Section 39 of *The Act*, the Governor-in-Council may authorize the Corporation to transfer to a Special Account the unclaimed balances remaining in payment accounts that have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, Section 39 further provides that these funds shall be used for purposes as the Governor-in-Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers.

The activity in the Special Account comprises:

		2007		2006
Beginning of year	$	2,788	$	3,880
Transfer from payment accounts		1,340		–
Expenditures		(939)		(1,090)
Payments to producers against old payment accounts		(12)		(2)
End of year	$	3,177	$	2,788
Ending balance comprising:				
Unexpended authorizations	$	137	$	488
Not designated for expenditure		3,040		2,300
	$	3,177	$	2,788

During the year ended July 31, 2007, the balance from payment accounts for 1996 wheat, 1997 wheat, 1998 wheat, 1998 durum and 1998 designated barley were transferred to the Special Account under Order-in-Council P.C. 2006-1271. Furthermore, the balance from payment accounts for 1999 wheat, 1999 durum and 1999 designated barley was transferred under Order-in-Council P.C. 2007-145.

Program activity during the 2006-07 crop year is detailed as follows:

	Unexpended at beginning of year	Authorized	Expended	Expired	Unexpended at end of year
Market development program	$ 162	$ –	$ (162)	$ –	$ –
Canadian International Grains Institute capital expenditures	90	–	(90)	–	–
University of Alberta Agri-Food Discovery Place	100	–	–	(100)	–
Scholarship program	12	388	(363)	–	37
Variety Identification Project (VIP)	124	–	(124)	–	–
Fusarium head blight research	–	300	(200)	–	100
	$ 488	$ 688	$ (939)	$ (100)	$ 137

15. CONTINGENCY FUND

The Act provides for the establishment of a contingency fund. The Contingency Fund can be populated through a variety of mechanisms, including the results of operations of the PPO program, or other sources of revenue received in the course of operations. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $60 million. The components of the Contingency Fund are described below:

Producer Payment Options program

The Corporation has implemented payment alternatives for producers. The Fixed Price Contract (FPC) and Basis Price Contract (BPC) provide producers with the opportunity to lock in a fixed price or basis for all or a portion of their grain by October 31, three months after the beginning of the crop year. The FPC and BPC provide, on delivery, the initial payment for the actual grade delivered. An additional payment representing the difference between the fixed price and the initial payment for the reference grade is made within 10 business days. (Additional payments on the BPCs are not made until the full contract value is priced.) The producer is not eligible for other payments from the pool account. In 2005-06, a Daily Price Contract (DPC) was introduced for wheat. It operates similarly to an FPC contract; however, the sign-up occurs before the beginning of the pricing period. The sign-up period for the 2006-07 DPC began on June 1, 2006 and ended on July 21, 2006 and the pricing point is U.S. elevator spot prices.

The Early Payment Option (EPO) provides producers with a greater portion of their expected final pool price at time of delivery, while still allowing them to remain eligible to participate in price gains if pool returns exceed EPO values.

The Pre-delivery Top-up (PDT) provides producers who have taken a fall cash advance to apply for an additional per-tonne payment for their grain prior to delivery. Repayment is received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. Producers who participate in the PDT are charged an administration fee, with any surpluses credited to the Contingency Fund. In 2006-07, the PDT program included discounts totalling $311, financing costs of $213 and a write-off of uncollectable accounts of $84.

The surplus or deficit arising from the operation of these programs is transferred to the Contingency Fund, so that net operating results will not affect the pool accounts.

Other

As provided for under *The Act*, excess interest earnings from the barley pool have been transferred to the Contingency Fund. The transfer amount is based on a specific formula approved by the board of directors. The formula ensures that a fair amount of interest earnings, on a per-tonne basis, is allocated to the barley pool and the distorting effect of certain costs in years when pool volume is unusually low is mitigated. Consistent with the treatment applied to the pools and PPO program, the surplus is not specifically funded and earns interest at the Corporation's weighted-average cost of borrowing.

During 2006-07, the Corporation transacted non-pool barley sales under the authority of Section 39.1 of *The Act*. Given the limited number of transactions and therefore the related market sensitivities, the profit of $78 was directly recorded to the Contingency Fund. A total of 5,906 tonnes were traded.

The Contingency Fund balance at July 31, 2007 is detailed as follows:

	Producer Payment Options program						**2007**	2006
	Wheat	Durum	Des. barley	Barley	PDT	Other	**Total**	Total
Opening surplus, beginning of year	$ 24,790	$ 533	$ 715	$ 1,734	$ 40	$ 16,500	**$ 44,312**	$ 48,612
Transferred from pool accounts	–	–	–	–	–	1,878	**1,878**	789
Surplus (deficit) from non-pool programs	(40,139)	264	499	749	14	78	**(38,535)**	(6,690)
Interest earned	805	17	26	20	2	701	**1,571**	1,601
Closing surplus, end of year	$ (14,544)	$ 814	$ 1,240	$ 2,503	$ 56	$ 19,157	**$ 9,226**	$ 44,312

16. INVENTORY ADJUSTMENTS

Inventory adjustments capture the related dollar impact, at the current initial price, of changes in grade and protein of the grain delivered by producers from the grain that is ultimately available for sale.

Overall promotion in the grain handling system is disclosed as an expense to the pool, because the Corporation compensates grain companies for the increase in current initial-price value created by positive blending activities. Generally, there is an overall benefit to the pool to the extent that the greater sales value returned to the pool from selling higher quality grain exceeds the increase in the initial value.

In the case of demotions, the opposite is true. The pools' overall sales value will be lower from having lower quality grain to sell, compared to that which was reported and upon which the Corporation must still make future adjustment, interim and final payments. This loss is mitigated because the grain companies are only reimbursed the value of the lower-quality grain, whereas they have paid the farmer the higher initial price of the higher-quality grain originally reported as delivered.

17. OTHER GRAIN PURCHASES

Other grain purchases are primarily made up of late receipts, inventory overages and inventory shortages. Late receipts arise from producers' deliveries subsequent to the previous pool period close. Overages and shortages occur when the Corporation's agents' inventory records differ from those of the Corporation. Acquired overages and late receipts are recorded as an expense to the pool, with the pool benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks.

18. OTHER DIRECT EXPENSES

Other direct expenses is primarily made up of program expenses, agents' commissions, fees for inspection and testing of grain, Corporation-owned hopper cars and demurrage.

19. OTHER INCOME

The most significant item in other income is the recovery of freight charges. The Corporation's agents deduct freight from producers at the time of grain purchase based on the point of delivery. If the agents do not incur these freight costs on the movement of the grain, the freight recoveries are returned to the Corporation for distribution to all pool participants.

Other income also includes Freight Adjustment Factor (FAF) recoveries. FAF is deducted from producers by the Corporation's agents and remitted to the Corporation. Producers pay the lesser of rail freight to Vancouver or rail freight to Thunder Bay plus FAF. The FAF deductions are to cover a portion of the costs of moving grain to the east coast that are in addition to the rail freight costs of going to Thunder Bay.

20. ADMINISTRATIVE EXPENSES

	2007	2006
Allocated as follows:		
Wheat pool	**$ 48,759**	$ 44,625
Durum pool	**12,515**	16,062
Designated barley pool	**5,818**	5,460
Barley pool A	**426**	3,222
Barley pool B	**62**	475
Total to pools	**67,580**	69,844
PPO programs	**4,192**	1,717
Producer payment accounts	**354**	367
Non-pool barley	**19**	–
Administrative expenses	**$ 72,145**	$ 71,928

Administrative expenses, less the expenses attributable to the distribution of final payments, costs related to the PPO program and cash buying, are allocated to each pool on the basis of relative tonnage.

21. COMMITMENTS

Operating leases

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to five years, expiring between October 2007 and January 2011. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2007 were $687 (2006 – $667).

Lease costs on premises and office equipment are charged to administrative expenses. Commitments under operating leases are as follows:

	Premises and office equipment
2007–2008	$ 425
2008–2009	128
2009–2010	50
2010–2011	14
After 2011	–

Capital leases

The Corporation has entered into capital leases for its vehicles. These capital leases are accounted for as an acquisition of an asset and an assumption of an obligation. The vehicles under the capital lease will be amortized on a straight-line basis over their economic lives. Estimated future payments on vehicles leased to June 2009 are:

	Vehicles
2007-08	$ 138
2008-09	23

Other

The Corporation has agreed to fund the operations of the Canadian International Grains Institute (CIGI) for a base amount of $1,967 annually, through to 2009.

22. DERIVATIVE FINANCIAL AND COMMODITY INSTRUMENTS

The Corporation enters into single and cross-currency interest-rate swap contracts to manage its funding costs and to implement asset/liability management strategies designed to reduce exposure resulting from currency and interest-rate fluctuations.

The Corporation also enters into foreign-exchange forward and currency-swap agreements with financial institutions to hedge currency exposure arising primarily from grain sales and funding operations.

These financial instruments qualify for hedge accounting and are not recognized in the balance sheet. As at July 31, 2007, the total notional amount of these financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2007			2006		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest-rate contracts						
Single-currency interest-rate swaps	**$ 452,349**	**$ 843**	**$ 8,219**	$ 929,168	$ (8,193)	$ 10,032
Cross-currency interest-rate swaps	**992,202**	**(58,900)**	**42,430**	698,158	(71,974)	31,361
	1,444,551	**(58,057)**	**50,649**	1,627,326	(80,167)	41,393
Foreign-exchange contracts						
Forwards	**1,497,441**	**31,087**	**48,893**	1,604,746	(4,893)	14,609
Currency swaps	**25,137**	**(80)**	**–**	178,938	1,359	1,359
	1,522,578	**31,007**	**48,893**	1,783,684	(3,534)	15,968
	$ 2,967,129	**$ (27,050)**	**$ 99,542**	$ 3,411,010	$ (83,701)	$ 57,361

As of the statement date, the foreign-exchange contracts that mature within one year, and between one year and five years, had notional values outstanding of $1,514,873 and $7,705 respectively. The interest-rate contracts with maturities of less than one year, between one and five years and beyond five years had notional amounts outstanding of $32,004, $342,934 and $1,069,613 respectively. The swap contracts rates ranged between 4.09 per cent and 5.21 per cent.

The net fair value of interest rate and foreign-exchange contracts refers to the estimated net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices, where available. These estimates of fair value are affected by the assumptions used and, as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit-risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk-management policies approved by the Corporation's board of directors. Master-netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2007 was $ 908,535 (2006 – $1,006,220) and the largest credit risk with any institution as at July 31, 2007 was $ 38,105 (2006 – $16,415).

The Corporation also enters into commodity contracts, including futures and options, for wheat and barley in the exchange markets, as a normal course of business. The contracts outstanding at July 31 are carried in the financial statements at fair value.

23. EMPLOYEE FUTURE BENEFITS

Description of benefit plans

The Corporation has a registered Defined-benefit pension plan, a supplemental Defined-benefit pension plan, a Defined-contribution pension plan and a Defined-benefit pension plan that provide other post-employment benefits to eligible employees. The Defined-benefit pension plans are based on years of service and average earnings prior to retirement. The supplemental Defined-benefit pension plan is available for employees with employment income greater than pensionable earnings. The defined-contribution component provides pensions based on contributions made and investment earnings. Other post-employment benefits include health care, life insurance, long-service allowance, unused sick leave accumulated prior to 1988 and unused vacation accumulated prior to 1996.

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the Corporation to its Defined-benefit pension and Defined-contribution plans, plus cash payments made directly to employee and beneficiaries and third-party service providers for the benefit plans, were $14,807 (2006 – $6,378).

Expenses

The Corporation's expenses for its Defined-benefit pension and other post-employment benefit plans, for the year ended July 31, 2007 was $6,975 (2006 – $7,942).

Financial position of the benefit plans

The Corporation measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at July 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes were prepared as at July 31, 2006. The next valuation will be as at July 31, 2007. The most recent actuarial valuation of the other post-employment benefit plan was prepared as of July 31, 2006 with the next required valuation as of July 31, 2009.

The following table presents information related to the Corporation's pension and other post-employment benefit plans including amounts recorded on the Balance sheet and statement of administrative expenses for the period. The information has been extrapolated from the July 31, 2006 actuarial valuations.

	2007 Pension benefits	2006 Pension benefits	**2007 Other benefits**	2006 Other benefits
Change in fair value of plan assets				
Balance at beginning of year	**$ 14,667**	$ 9,700	**$ –**	$ –
PSSA Transfer and other adjustments[a]	**33,420**	–	**–**	–
Contributions by Corporation	**14,156**	5,065	**1,096**	1,195
Contributions by employees	**1,182**	1,027	**–**	–
Expected return on plan assets	**3,758**	695	**–**	–
Actual return on plan assets	**(3,228)**	–	**–**	–
Benefits paid	**(1,367)**	(1,820)	**(1,096)**	(1,195)
Fair value, end of year	**$ 62,588**	$ 14,667	**$ –**	$ –
Change in accrued benefit obligation				
Balance at beginning of year	**$ –**	$ –	**$ 24,930**	$ 31,487
Actuarially determined obligation[a]	**49,290**	–	**–**	–
Current service cost	**4,220**	–	**653**	529
Interest cost on benefit obligation	**2,970**	–	**1,530**	1,422
Contribution by employees	**1,182**	–	**–**	–
Benefits paid	**(1,367)**	–	**(1,095)**	(1,262)
Plan amendment[b]	**–**	–	**2,778**	(4,285)
Actuarial gain on accrued benefit obligation	**(1,185)**	–	**–**	(2,961)
Benefit obligation, end of year	**$ 55,110**	$ –	**$ 28,796**	$ 24,930
Funded status				
Plan surplus (deficit)	**$ 7,479**	$ –	**$ (28,796)**	$ (24,930)
Unamortized net actuarial loss	**9,094**	–	**6,693**	7,020
Unamortized transition (asset) obligation	**(4,897)**	–	**5,122**	2,876
Amortization of deferred pension asset	**(829)**	–	**–**	–
Accrued benefit asset (obligation), end of year	**$ 10,847** [c]	$ –	**$ (16,981)** [d]	$ (15,034)

[a] Previously, the Corporation reported that although the negotiations for the transfer of assets from *PSSA* was complete, the transfer value was unknown. Hence, total plan assets and accrued benefit obligation were not determined in the prior year and were not available. During 2007, the majority of the assets have been transferred from *PSSA* and hence, the amounts are now included in the opening balance.

[b] In 2006-07, the accrued benefit obligation was increased by $2,778 as a result of a loss from a plan design change. The loss will be amortized over 13 years and netted against the transitional obligation as required by GAAP. (A 2005-06 plan design change resulted in a gain of $4,285.)

[c] Recorded in deferred and prepaid expenses

[d] Recorded in accounts payable and accrued expenses

Defined benefit costs

	2007 Pension benefits	2006 Pension benefits	2007 Other benefits	2006 Other benefits
Defined benefit costs				
Current service cost	**$ 4,220**	$ 5,065	**$ 653**	$ 529
Interest cost on benefit obligation	**2,970**	–	**1,530**	1,422
Actual return on plan assets	**(3,228)**	–	**–**	–
Actuarial gain on accrued benefit obligation	**(1,185)**	–	**–**	(2,961)
Costs arising in the period	**2,777**	5,065	**2,183**	(1,010)
Adjustments for difference between costs arising in the period and costs recognized in the period in respect of				
Return on plan assets	**(530)**	–	**–**	–
Actuarial gain (loss)	**1,420**	–	**327**	3,566
Transition asset (obligation)	**(564)**	–	**533**	320
Amortization of deferred pension asset	**829**	–	**–**	–
Total expense included in administrative expenses	**$ 3,932**	$ 5,065	**$ 3,043**	$ 2,876

Significant assumptions

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

	2007	2006
Expected return on plan assets	**7.00%**	–
Discount rate	**5.50%**	5.50%
Rate of compensation increase	**3.00%**	3.00%
Medical cost trend rate	**10.00%**	10.00%
Medical cost trend rate declines to	**5.00%**	5.00%
Medical cost trend rate declines over	**5 years**	5 years
Dental cost trend rate	**3.00%**	3.00%

Sensitivity analysis

Assumed medical/dental cost trend rate have a significant effect on the amounts reported. A one percentage-point change in assumed rates would have the following effects for 2007:

	Increase	Decrease
Accrued benefit obligation	$ 2,845	$ (2,288)
Current service and interest cost	$ 243	$ (191)

Plan assets

The percentage of plan assets based on market values at the most recent actuarial valuation are:

	2007	2006
Equity securities	**58%**	58%
Debt securities	**36%**	36%
Other	**6%**	6%
	100%	100%

Defined-contribution plan

The Corporation expensed $60 (2006 – $50) to the defined-contribution component of the Corporation's pension plan. Employees contributed $293 (2006 – $230) to the defined-contribution component of the Corporation's pension plan as at July 31, 2007. Benefits paid from the defined-contribution component were $267 (2006 – $60).

24. SUBSEQUENT EVENT

On June 7, 2007, the federal government made amendments to the CWB regulations that would have resulted in an open market for barley effective August 1, 2007. The Corporation successfully challenged the proposed regulation in the Federal Court of Canada and it was ruled illegal on July 31, 2007. The federal government appealed the decision to the Federal Court of Appeal. The appeal is scheduled to be heard February 26, 2008. The outcome is uncertain, and so an estimate of the financial effect cannot be made at this time.

25. COMPARATIVE FIGURES

Certain of the prior year's figures have been restated to conform to the current year's presentation. Specifically, on the Balance sheet, $66,990 of execution costs related to final ending inventory have been reclassified from accounts payable and accrued liabilities to inventory of grain. As well, $973,723 of temporary investments previously netted against borrowings have been reclassified to a new asset account called investments (see note 7). A corresponding reclassification was made on the Statement of Cash Flow for an Increase in investments of $114,204 previously in Decrease in borrowings. Restatements were also made on the Statement of Cash Flow related to payments to producers under the EPO program. Non-pool PPO payments were increased by $63,397 offset by a reduction of current year distributions prior to July 31 of $52,984 and a change to cash flow from PPO program operations of $10,413.

GLOSSARY OF FINANCIAL TERMS

Cross-currency interest-rate swap – a contractual agreement for specified parties to exchange principal, fixed and floating interest-rate payments in different currencies. Notional amounts upon which the interest-rate payments are based are not exchanged.

Currency swap – a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

Derivative financial instrument – a contract or security that obtains much of its value from price movements in a related or underlying security, future or other instrument or index.

Fair value – an estimate of the amount of consideration that would be agreed upon between two arm's-length parties to buy or sell a financial instrument at a point in time.

Foreign exchange forward – an agreement to buy and sell currency simultaneously purchased in the spot market and sold in the forward market, or vice versa.

Futures contract or futures – a future commitment to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. The futures contract is an obligation between the Corporation and the organized exchange upon which the contract is traded.

Hedge – a risk-management technique used to decrease the risk of adverse commodity price, interest-rate or foreign-exchange movements by establishing offsetting or risk-mitigating positions intended to reduce or minimize the Corporation's exposure.

Liquidity – having sufficient funds available to meet corporate obligations in a timely manner.

Marked to market – a procedure by which financial instruments are "marked" or recorded at their current market value, which may be higher or lower than their purchase price or book value.

Notional amounts – a reference amount upon which payments for derivative financial instruments are based.

Option – a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a specified point in time during a specified period.

Risk management – the application of financial analysis and diverse financial instruments to the control and, typically, the reduction of selected types of risk.

Single-currency interest-rate swap – a contractual agreement for specified parties to exchange fixed interest-rate payments for floating interest rate payments based on a notional value in a single currency. Notional amounts upon which the interest-rate payments are based are not exchanged.

Swap – a contractual agreement to exchange a stream of periodic payments with a counterparty.

Head Office
423 Main Street
P.O. Box 816, Stn. Main
Winnipeg, Manitoba
Canada R3C 2P5
Phone (204) 983-0239
Fax (204) 983-3841
Telex 07-57801
Web site: www.cwb.ca

Saskatoon, Saskatchewan
303-111 Research Drive
Saskatoon, Saskatchewan
Canada S7N 3R2
Phone (306) 975-6999
Fax (306) 975-6966

Airdrie, Alberta
309-800 Veterans Blvd. NW
P.O. Box 3340
Airdrie, Alberta
Canada T4B 2B6
Phone (403) 912-4180
Fax (403) 912-4181

Vancouver, British Columbia
650 Marine Building
355 Burrard Street
Vancouver, British Columbia
Canada V6C 2G8
Phone (604) 666-2992
Fax (604) 666-0293
Telex 04-508862

Beijing, China
Suite 708, Tower B
Beijing COFCO Plaza
8 Jianguomen Nei Street
Beijing, China 100005
Phone 011-86-10-6526-3908
Fax 011-86-10-6526-3907

Tokyo, Japan
3rd Floor, Toranomon No. 11 Mori Bldg.
6-4, Toranomon 2-Chome
Minato-Ku
Tokyo 105-0001, Japan
Phone 011-81-3-3519-2288
Fax 011-81-3-3519-2287

CWB