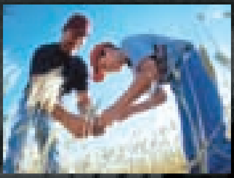

2007-08 ANNUAL REPORT

Exceptional

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

INNOVATIVE

Corporate profile

The Canadian Wheat Board 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 that comprises 10 farmer-elected members and five Government of Canada appointees. As a key international grain trader, the CWB competes successfully with other major players in the grain industry.

Financial highlights

	2007-08*	2006-07*	2005-06	2004-05	2003-04
Combined operating results ($millions)					
Revenue	$ 8,418.6	$ 4,945.9	$ 3,498.3	$ 3,739.3	$ 4,136.2
Payments to Pool Participants	5,240.3	3,497.8	3,035.4	3,240.7	3,881.8
Payments to PPO Participants	1,921.1	1,060.3	537.2	781.4	482.5
Receipts (000 tonnes)					
Wheat	**13 368.1**	15 516.6	11 971.2	13 296.3	12 376.0
Durum	**3 581.0**	3 982.7	4 308.9	3 824.0	3 079.7
Designated barley	**2 444.9**	1 851.3	1 464.7	1 752.5	2 138.4
Barley (pool A)	**37.5**	147.5	915.8	29.0	–
Barley (pool B)	**418.0**	19.8	127.5	468.7	–
Cash trading	**1 206.9**	5.9	–	–	–
Barley	**–**	–	–	–	844.0
Total	**21 056.4**	**21 523.8**	**18 788.1**	**19 370.5**	**18 438.1**

* Calculations for 2007-08 and 2006-07 include the impact of the new Canadian accounting standard Financial Instruments. See page 68.

A message from the chair of the board of directors and the president and CEO

November 2008

The word "exceptional" describes something that's out of the ordinary and much better than usual. The 2007-08 crop year was clearly both of these; that's why we chose it as the theme of this year's annual report.

Early in 2008, world grain markets rallied to record levels, with unprecedented volatility. At times prices moved more in a day than they previously had in a year. Global supply-and-demand issues created tremendous opportunities for western Canadian farmers, who are important suppliers of the world market.

Western Canadian farmers received $7.2 billion through the CWB in 2007-08, compared to $4.6 billion in 2006-07 and well over double what they received in 2005-06. That in itself is exceptional. So also is the fact that a considerable portion of these returns resulted from the CWB's system of marketing. In an exceptionally volatile market, our disciplined approach allowed us to price throughout the year and capture a portion of market highs; as a result, western Canadian farmers' pool returns were enhanced.

Producers' pooled earnings for high-quality spring wheat, after freight and handling, were almost double those of 2006-07. For durum wheat, the CWB was especially able to leverage its role as a single seller, with 52 per cent of the world market, to achieve strong values for farmers while meeting customer needs for consistent supply. Returns for high-quality durum were up 120 per cent from the previous year. CWB malting barley sales were the highest in eight years at 2.4 million tonnes, an increase of 22 per cent over the previous year.

At the CWB, we're committed to adding value to farmers in the marketing of their wheat and barley. This report bears witness to that commitment. In the pages that follow, you'll find descriptions of the conditions and decisions that influenced the year's results. You'll also find perspectives on the year from farmers in Alberta, Saskatchewan and Manitoba, as well as the reflections of our vice-president of marketing, Gord Flaten, on marketing western Canadian wheat, durum and barley in a year without precedent.

left: Ian White; right: Larry Hill

As much as it was out of the ordinary in terms of markets, 2007-08 was also exceptional in terms of some CWB initiatives, as well as some of the challenges we faced. In 2007-08, the CWB:

- offered an array of Producer Payment Options (PPOs) in the context of significant operational challenges posed by the extreme market volatility. Some farmers used PPOs to lock in wheat prices as high as $20 per bushel.
- launched an innovative network of weather stations across Western Canada, an online weather centre to enable farmers to manage information from the new CWB-WeatherBug® network, and an online tool to predict midge emergence (see page 14)
- introduced a series of new e-Services for farmers including online contract sign-up and pricing, online cash advance account information and online PPO lock-ins and buyouts
- invested in "black box" technology to fill the void left by the phasing out of Canada's grain identification system, Kernal Visual Distinguishability (KVD)
- launched a range of branding initiatives including a national campaign to promote Prairie-grown wheat to Canadian consumers
- initiated the first-ever domestic grain shipment through the Port of Churchill, and the highest volume of western Canadian wheat and durum to be shipped through the northern port in 30 years
- introduced a program offering farmers premiums for shipping wheat through Churchill and another program that pays farmers premiums to store their best wheat in reserve for top customers
- introduced FlexPro, a year-round wheat pricing contract
- introduced GrainFlo, an optional new delivery contract for western Canadian farmers
- introduced Cash*Plus*, a pricing program that offers farmers an upfront, market-based cash price for their malt barley
- engaged on behalf of farmers on a number of fronts in the battle for fairness in rail service

Months of uncertainty over the CWB's mandate to market barley ended just hours before the start of 2007-08 with a Federal Court ruling that the government cannot change the way barley is marketed without parliamentary approval. The government unsuccessfully appealed the ruling, then introduced legislation that would have removed barley from the CWB's single-desk marketing system; it did not pass before the end of the legislative session.

Some farmers, grain companies and customers entered into malt barley contracts in anticipation of an open market on August 1, 2008. Facilitating that business caused significant logistical challenges. These were met successfully.

The CWB's challenge to the Government of Canada's 2006 directive preventing the CWB from spending money to advocate retention of the single desk ended in a Federal Court ruling on June 19 that the CWB's board of directors, not the government, is responsible for overseeing the expenditures of the organization.

In both these legal challenges and in all of its dealings with the Government of Canada, the board of directors has continued to maintain that western Canadian farmers must be the ones to make decisions concerning the role and future of their marketing agency.

Last but not least, 2007-08 was a year in which we each took on new responsibilities – as president and CEO, and as chair of the CWB's board of directors. Our thanks are extended to our predecessors, in particular to former chair Ken Ritter, who ably guided the board for most of its first 10 years. Directors Ian McCreary and James Chatenay, like Ken, are also retiring from the board after three terms of valuable service to western Canadian farmers.

As the 2008-09 crop year continues to unfold, it's clear that the cycle of volatility that began in 2007-08 is not over yet. Increased world grain supplies and a sharply deteriorating global economy promise both lower demand and lower prices for western Canadian grain. While these should be partially offset by a weakened Canadian dollar and a drop in ocean freight rates, if 2007-08 is any indication, there will be many twists and turns before we know for certain. What we can be sure of as 2008-09 progresses is our commitment to increased transparency and accountability on the part of the CWB, to a level of care regarding expenditures that befits any organization in times of economic uncertainty, and to a focus on farmer service in everything we do.

Larry Hill
Chair, board of directors

Ian White
President and Chief Executive Officer

Exceptional





For western Canadian wheat and barley farmers, 2007-08 was a crop year like none other.

It was a year in which grain prices doubled and tripled, reaching new heights, a year of record volatility. It was a year of soaring input and transportation costs and, for many, a year of good crops and yields.

Tens of thousands of Prairie farmers harvested their 2007 crop and watched as its value spiked, fell and spiked again. Some locked in prices, some chose the CWB pools, and some did both. They planned and cultivated their 2008 crops, wondering how long the markets would hold. It was a wild ride.

These are the broad strokes. Within this picture, there are countless stories of individual farmers who worked their land and steered their businesses during these exceptional times. The pages that follow offer three such stories, from Saskatchewan, Alberta and Manitoba. You can also catch a glimpse of the CWB's new weather station network, and an interview with the CWB's vice-president of marketing. Each bears out our theme for 2007-08: exceptional.

2007-08

A year of plenty in the land of durum: Shaun Dyrland, Kyle, Saskatchewan

"It was such a good year that we built nine big new grain bins. They delivered them two a day and we filled them up as they delivered them. It was just that good."

That's nine 5,000-bushel bins in addition to the 50 or so already filled with durum, lentils, peas and canola on the Dyrlands' 9,500-acre farm, about two hours south of Saskatoon. It's some of the best land in the province, says Shaun, heavy clay. "We tend to be a little bit drier, but if we get the moisture, it's just fantastic land. And we live right on the banks of the river."

Shaun's cell phone interrupts. He excuses himself politely. The South Saskatchewan River stretches across the picture window that framed the 29-year-old bachelor a moment ago. A new 7,200-square-foot workshop can be seen down the slope, off slightly to the south. The bungalow Shaun shares with his father is perfectly situated for a view of the widening river and a prairie sunset.

GROWTH

"That was a company in Tisdale. They were offering me a price on large lentils. But I'd already gotten a better bid earlier today. They'll do that. They know what we have and they'll phone if they have different bids. But then we do our own diligence too and go out and look for prices."

Shaun, his brother and dad, now semi-retired, are incorporated as Viking Acres. His cousins and their father are incorporated as Dyrland Farms. Together, they farm under a joint venture called Norseman Farms. Ninety-five per cent of the operation is grain. The balance is in purebred Black Angus cattle. As Shaun understates it, "We're busy pretty much all the time."

"My uncle is the manager of Pioneer Co-op in Swift Current. He helps at harvest and Dad helps at seeding time. So in the spring, it's normally my brother and my cousin running the drills and I do the spraying and supply them with the seed and fertilizer they need. In the summer, I do all the spraying and then in the fall, we've got three combines, so three of us run combines. My brother drives truck. We're pushed to the limit of our labour right now."

In any given year, about half the land is seeded to durum. In 2008, it was a little more than half, "just because we thought it was going to be a good price and it just worked out." All on stubble, the durum yielded 35 to 36 bushels to the acre.

"It was a beautiful spring; the summer went perfectly. We missed out on all the hail storms; there was lots of hail all around us and we missed it, so that was lucky. We had good rain. You know, it was really good."

As for prices? As Norseman Farms was growing the 2008 crop, the previous year's harvest was selling at prices two and three times higher than Shaun had ever seen or heard of. While some neighbours with spring wheat had done well with the CWB's Producer Payment Options (PPOs), Norseman Farms chose the pool.

"It kind of insulates us. I know of folks in the States, that even when durum was at $16 a bushel down there, they'd sold all of it at $8. So that's all they got is $8, whereas with us, if we stay in the pool, if the price goes up, we get all of that advantage. I just think of those guys in the States, about how much the grain company has made on their grain, you know, when they've sold it as eight bucks and then the company sells it at $16."

And what if the prices had fallen through the crop year rather than climbed? "In my opinion, it's still worth it. The marketing guys at the wheat board, they know a lot more than I do. We went half of our farm in off-board crops, specialty crops basically, and there's a lot of risk. You can lose a fortune in a week; it's kind of scary. Sure, you might not get the ultimate price, but you're a lot more secure."

Shaun takes a sip of Coke as he considers a last question about his future and the farm's. Lately, he says, he's been thinking that a degree in business administration might be a good idea as the business aspects of farming become more and more important.

As for the farm itself, "myself, I'd like to see it grow. I think that's the future. It's too bad really because it's hard on the small communities that the farms are getting bigger, but to survive when equipment's so expensive, that's kind of how it has to be.

"And investors. Sometime, I'd like to bring in outside investors. Yeah. I think that will help the farm grow."

"It was such a good year that we built nine big new grain bins. They delivered them two a day and we filled them up as they delivered them. It was just that good."

LIVELIHO

Growing the crop – and the kids: Ken and Jackie Farion, Vegreville, Alberta

"To say it in one sentence, we've never felt so good growing a crop," says Ken Farion. His blue eyes twinkle. "Seeding it, wheat was $18. Spraying it, it was down to $16." He breaks into a grin and you can hear a big laugh coming. "Swathing it, it was down to about $8. And combining it," he announces comically, "it was down to about $6!" The table erupts.

"But seriously," he adds, "this last crop was very easy to plant. Like, on a rising market, you don't mind spending money. And we pre-bought all our fertilizers prior to January, so we had all '07 pricing on fertilizer and all '08 pricing on grain."

The memory of the 2007 crop, the one that was fetching record prices around the world as he prepared to plant in 2008, is already fading. But Ken, a 52-year-old veteran of many different growing seasons in the area, does recall it was a hard one to put in. "Like you know, things didn't pencil out but you did it on faith that, okay, things have to improve." True to form, he stuck to basics.

"We find over the long term, we don't make any more money chasing markets. So we stick to rotation, what's good for the land, and that even balances your input program; you don't have to buy tons of fertilizer one year, then none the next."

Of 4,700 acres, 1,700 to 1,800 go to wheat and up to 2,000 to canola. Another 300 to 500 acres are sown to peas and about 500 to 700 to barley. It's a one-man operation until harvest, when wife Jackie, 41, their four children and a couple of hired hands join in. Jackie jokes that at harvest, she is "senior combine operator." "All our kids," she says, "from the day they could see over a steering wheel, they've been steering something."

And they've had a strong sense of the family's livelihood from a young age.

"You know what 2002 was like," says Jackie. "There was no crop to be found. And one of the younger kids was saying, 'Can we have a winter vacation this year?' Well, our oldest turns around – she was still pretty young herself – and she says, 'It didn't rain. There isn't a crop. We still have bills to pay. We're not going anywhere.' She kind of laid down the law, but you know, they understood."

Ken adds that it's the kids – Shannon, now 18, Michael 17, Bobby, 14 and Kimmy, 13 – who deserve the credit for the fact that 90 per cent of their hard red spring wheat graded No. 1 in 2008.

"Again, they wanted to go on holidays. The wheat wasn't ready to spray. So I thought, well, if we're going to go, I got to spray the wheat because when we get back, it could be too late. So I sprayed the wheat on the green side. Very little No. 1 wheat in the neighbourhood, but it was dried down enough when the frost came. Everybody else who sprayed it when you should got a 2 or a 3 or frost; lots of guys are saying 4! You know, these decisions aren't all made scientifically!"

That good decision may have been a fluke but many of Ken and Jackie's choices are rooted in a basic commitment to fairness and a sense of community. True to his beliefs, Ken joined the National Farmers Union (NFU), serving as junior president for two terms. He attended the Canadian International Grains Institute (CIGI)'s farm leaders' course as well as CWB's combine-to-customer program to learn about Canada's entire grain marketing system and the importance of the CWB's role in it.

"The CWB is the only monopoly working in favour of the Prairie grain farmer," he says. "All revenues are returned to the producer. And I'm sure the countries and companies that import our grain like dealing with a marketer that's backed by government guarantees and offers government financing."

Early adoption of zero tillage on their farm created a new learning curve to crop production. Many farmers believed this non-traditional way of farming was doomed to failure. Seeing a need to change farmers' mindset, a group of conservation-minded people created the Parkland Conservation Farm to demonstrate zero tillage.

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They also created a curriculum on the importance of conservation and agriculture for elementary schools in central Alberta. Ken had the privilege of chairing the group.

Ken and Jackie's own farm was honoured by the Alberta Conservation Tillage Society with the Alberta Conservation Farm Family Award for outstanding achievement in soil conservation by an Alberta farm family.

"If you don't get involved in organizations and places, and defend the principles that are important to your livelihood, well then, you have a very sheltered, quiet life," he concludes.

While they've earned premiums of a dollar a bushel using the CWB's Fixed Price Contract (FPC) in the past, Ken and Jackie's pricing decisions reflect a strong belief in pooling. It might not give you the magic number you want to carry with you into the coffee shop, says Ken, but over a lifetime, it rewards you.

"The other thing we appreciate about the wheat board is equal delivery. I know here a couple of years ago, we had that really wet fall. Things froze green; they wouldn't dry. We just piled it on the field wet. We were hauling grain. They cut off everybody except one farmer. He got to haul his [off-board] grain for a week and pick his piles up and the rest of us sat and watched ours get warm.

"You know, we were all in trouble that year and they singled one guy out because he owed them a lot of money. That's not the kind of system I want to live in."

Overall, though, farming does provide a life that Ken and Jackie appreciate – one they're proud to see their kids value as well. Shannon is at Olds College now, says Jackie, "not knowing exactly what she wants to do but she wants it to be related to the farm somehow."

"Farming's been very rewarding for us," says Ken. "There's been highs and lows but we're happy we've gone the direction we have."

"We find over the long term, we don't make any more money chasing markets. So we stick to rotation, what's good for the land, and that even balances your input program."

Roller-coaster markets at a time of transition: Barry and Kim Sunaert, Deloraine, Manitoba

"There were opportunities to no end and some frustration that went with that."

Participating in the Producer Payment Option (PPO) program made the 2007-08 crop year "more of a roller coaster," says grain and cattle farmer Barry Sunaert. "There were opportunities to no end and some frustration that went with that. Yeah, it was a year like I never remember before with the grain markets."

Barry, 50, and his wife Kim, 48, typically put about one quarter of their wheat into PPOs. Barry follows the markets closely and discusses what he sees with "a couple of the guys that we usually talk farming with. They dabble in them too." Kim, who hauls grain and anhydrous, pays the bills and keeps the books, leaves the pricing decisions to her husband. "Unless the markets really go down or up after he's done something. Then I have a say!"

The Sunaerts farm 2,500 acres near the U.S. border in southwestern Manitoba. Barry's father "started it from scratch" and Barry has farmed here since he was 16. Kim's parents farmed just west of nearby Deloraine. When they retired, Barry and Kim bought a half section of their land and now they farm that as well.

"Initially, we were putting the Fixed Price Contracts on wheat to see if we could get a little better return," says Barry. "That was the years that the wheat prices weren't that good. In 2006-07, it probably helped us a little bit.

TRANSITIO

In 2007-08, it probably hurt us because we priced too early and the pool price ended up being better, much better, than what some of the PPOs were. And then I had one real good one too. The two I had from last year will average okay this year."

Barry and Kim grow oats, malt barley, hard red wheat, canola, and sometimes sunflowers and corn. They've never grown a better canola crop than in 2008. And the malt barley's been going great for the last three years. "We've actually got success with it every year since we started with Tradition," says Barry. "Maybe we're getting a little more fussy about the land we sow it on, too."

The Sunaerts sell their malt barley through Cash*Plus* and have been very happy with the results. "The Cash*Plus* was real good last year," says Barry. "We locked in a real good price for barley and just got our returns back and everything was good. And I just got confirmation that we got locked in for this coming year, so we did four carloads for this coming year."

Barry loads the barley into producer cars. It's BARI-Canada's preference, Barry says, and it's fine with him "because it's only seven miles away. Producer cars, they're pretty straightforward. It's simple once you've done it. We've loaded producer cars a lot."

When the Sunaerts look back on 2007-08, there'll be more to remember than good crops and crazy markets. It will also be the year that they decided to disperse their cattle herd. "Seventeen more sleeps and they're gone!" Barry says, smiling broadly. "It's just gotten to be too much work so we decided that we had to move the cattle on and we'll focus on the grain for another few years, and we'll see whether the boys get interested again or not."

That's the other change linked to this year. In the spring, after five years away, older son Tylor, a truck driver and mechanic, returned from Fort St. John, BC to check out farming. A dust allergy at harvest didn't help, says Kim, but it wasn't really a deal breaker. "The farming isn't the problem. It's the lack of younger people here. His friends have either moved away or married and had kids, and you know, it's just a different life. Up there he's got his buddies that he goes quadding with, snowmobiling with, and he makes a pretty good wage. It's good that he came and tried it. But he's kind of thinking now that he probably won't take it on."

Younger son Kelsey, meanwhile, is studying mechanical engineering in Winnipeg. "He may yet – " says Barry, looking unconvinced. "But he's loving school and he likes the city life."

With the cattle gone and their sons away as well, this is clearly a time of transition for the Sunaerts. For Barry, there'll be more time soon to concentrate on grain farming and grain markets, more time to help with volunteer groups in Deloraine and nearby Lake Metigoshe, called to action whenever there's need for a new or improved community facility. For Kim, the spring won't be quite as crazy – no more calving to interfere when her work as volunteer vocal coordinator for the Deloraine arts festival is most intense, or to distract her from her part-time job as an education assistant at Deloraine School.

There are fewer hockey games to travel to now that Kelsey's university studies are limiting his ice time, and more chances to spend a little time at their Lake Metigoshe cottage. There may even be an extended holiday now and again before, eventually, retirement.

"But it's gotten in our blood," says Barry. "I don't think I'm going to miss the cattle, because I have the grain to keep me busy, but when I have to quit grain farming, it's going to be tough."

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FUNDAMEN

Managing sales in volatile times: An interview with Marketing VP Gord Flaten

As the CWB's vice-president of marketing, Gord Flaten oversees sales, weather and market analysis, commodity risk management and the CWB's Tokyo and Beijing offices.

What was it like to run the CWB sales desk in 2007-08?

Almost everyone on the sales desks has been in the business for quite a while so there aren't very many occasions when there hasn't been some sort of precedent, where I can't ask them, "The last time you were in this situation with this customer, what happened? How did the customer respond?" But many times last year, the answer was "We've never been in this situation before, and the customer's never been in this situation either." We've never seen such volatility and we've never seen prices go so high. Sometimes, the most relevant factor became not where we were relative to the competition, as it usually is, but the effect this market was having on demand. Would customers stop buying because the prices were too high or the risk too great or because they couldn't get financing for a product that was costing this much? It was a true test of what economists call the elasticity of demand, and in some situations, the demand became more elastic than most people would have thought before this year.

Were you able to take advantage of the situation?

Yes. As an example, we were careful throughout the summer about how much durum we were selling forward. That caution really paid off as the market started to rise quickly in the fall. And our caution was driven by our market analysis. Even in the fall, the markets weren't always reflecting the fundamentals that we very strongly expected to see. We had a pretty good idea that the U.S., for example, was going to have trouble supplying all its traditional markets, and that there were going to be problems with their spring wheat market and with the Minneapolis grain exchange values before new crop arrived. Nobody knew how incredibly high things would go, but we had a very strong opinion that the market at that time wasn't reflecting all those fundamentals.

You commented earlier that this situation was unprecedented for customers.

Yes, we needed to be very mindful of that. We needed to respect the stressful situations they were in because we need those customers in the long term. We were very careful to respect their ongoing needs and be fair to all customers, while ensuring we could take advantage of the opportunities the market was presenting. This meant, for instance, providing customers with advice on what to do when the Minneapolis exchange couldn't reflect accurate values for what could actually be purchased at that time. We helped customers exchange their basis contracts and introduced some of them to the synthetic market, which some had never heard of and most had never had to use. When grain exchange values were moving up the limit every day, the synthetic market was used to predict how high they would go. Values from the synthetic market were used to complete some transactions.

What role did Cash*Plus* play in barley sales?

In developing Cash*Plus*, we looked at the needs of both farmers and malting barley customers and how well our pooling system was addressing those needs. There were some problems, one example being issues with how well the annual malting barley pool priced that product relative to the daily cash prices offered on the domestic feed market. We concluded that we needed a new way of doing business with farmers and malting barley customers that would meet several objectives. We wanted a daily cash price that would respond quickly to market conditions and reflect them back to farmers. We wanted to provide more security of supply for buyers at a price at which the business would be executed. We wanted to have pre-seeding contracts where farmers would commit to growing malting barley and both sides would know the price and other elements of the contract. We wanted flexibility for buyers and farmers to negotiate other contract terms – for example, special quality terms.

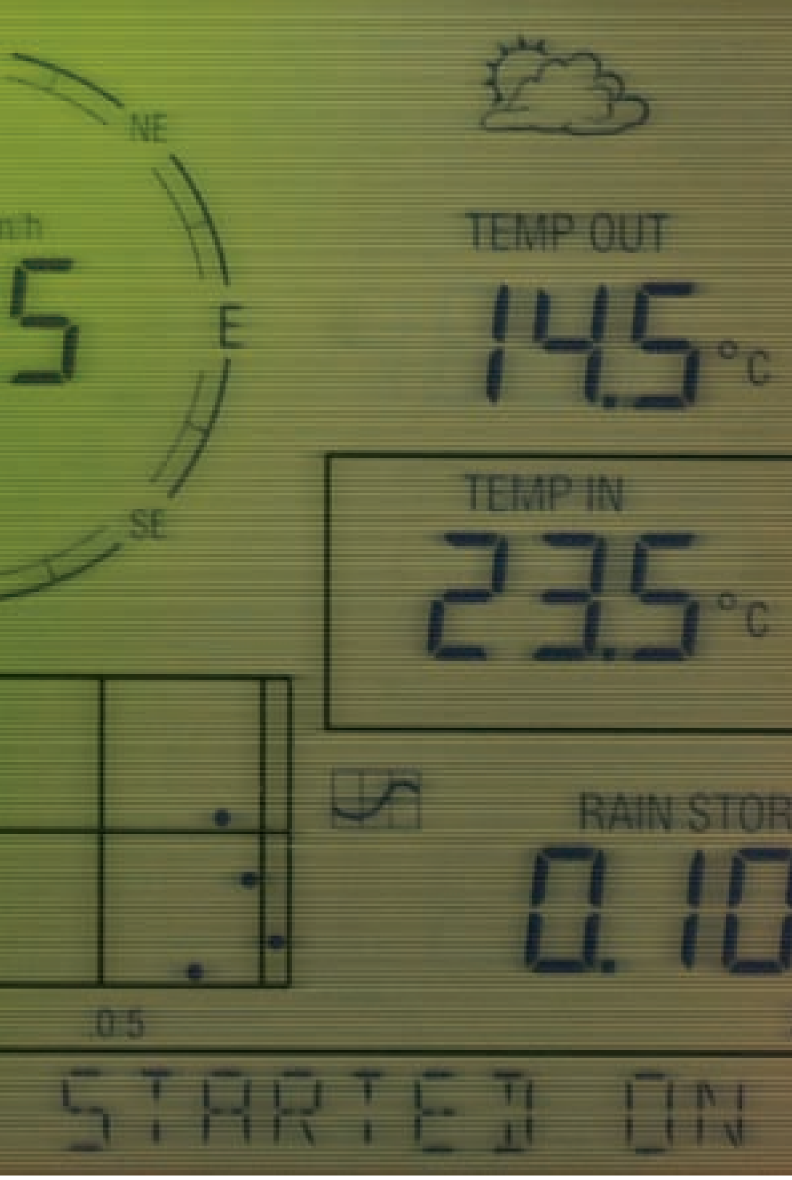
So we introduced Cash*Plus*. Unfortunately, because it was introduced in an environment where the politics were really mixing things up in the barley industry, and there were different expectations as to what was going to happen with the CWB's barley mandate, it wasn't universally accepted right from Day 1. However, several companies did use it early on – used it successfully – and other companies came on board as the year progressed. The reception by farmers to Cash*Plus* was very positive. Their main complaint was that they wanted to see more companies participate and more contracts being offered. From our point of view, Cash*Plus* hasn't solved all the politics of malting barley, but from an operational point of view, it's been very successful.

All of the domestic malting barley companies are now participating in Cash*Plus*. We expect Cash*Plus* to account for over 400 000 tonnes of malting barley business in 2008-09. That's a good quantity of business for the first year of this program.

The CWB's returns to farmers in 2007-08 were very high. Were we smart or just lucky?

We'd be the last to take credit for the fact that prices got as high as they did, but it's quite fair to say that within that market, we used our market analysis resources effectively and we made some good decisions on the sales side of the business. We're pleased that those decisions ended up making farmers quite a bit of money.

> "We've never seen such volatility and we've never seen prices go so high."



CWB sows innovative weather network on Canada's Prairies

"The project has gone way beyond what we envisioned when we first launched it," says Guy Ash, the brains and energy behind the CWB's burgeoning network of on-farm weather stations. "We had in mind 600 stations across the Prairies over three years. Well, we sold a thousand or so in the first 12 months."

Launched in August 2007 by the CWB in partnership with WeatherBug®, the world's leading provider of local weather information, Richardson International Ltd., and Alberta's Parkland Agri-Services, the network is designed to benefit western Canadian farmers. Weather information has major financial benefits for farmers, whether they're spraying valuable chemicals, predicting yields or pinpointing a crop management problem, says Ash. "It helps farmers maximize yield and quality. It also helps the CWB's sales planning by providing better intelligence about the crop we have to sell."

Each wireless, solar-powered station provides its owner with up-to-the-minute readings of temperature, wind speed and direction, humidity, precipitation, barometric pressure and dew point fed directly to a home computer, hand-held device or cell phone.

PARTNERS



> “We had in mind 600 stations across the Prairies over three years. Well, we sold a thousand or so in the first 12 months.”

But it’s the networking of stations through an online weather centre that reveals the project’s real potential. The centre puts instant updates from any WeatherBug® station at farmers’ fingertips, along with the ability to track historic trends of each weather variable. By the 2009-10 crop year, perhaps sooner, the online weather centre will be expanded to become what Ash calls a “command centre” featuring information on subjects such as marketing, crop protection, soil fertility and finance.

At $900 each, the weather stations are a hot commodity. “We’re struggling to keep up with demand at this point, which is a good indicator of the need that’s out there,” Ash says. Access to the weather centre costs $99 per year for those with a CWB weather station and $199 a year for those without.

The network now includes stations at Pioneer grain elevators, agri-retail outlets, schools, municipal offices and other locations across Western Canada. Bayer CropScience signed on as a major partner in the project in April 2008.

SHIP

PERF

Corporate governance

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

ORMANCE

CWB performance highlights

The CWB's performance is measured in terms of its achievements in two distinct areas: "Improving farmer returns" and "The business mandate and improving overall farmer satisfaction."

IMPROVING FARMER RETURNS

Strategic Goal: To explore and act on opportunities to improve returns to farmers by leveraging the CWB's existing structure and capabilities.

Initiatives

- Increase business development capabilities and pursue opportunities
- Develop best practice disciplines that enable the CWB to deliver against the long-term plan
- Implement a corporate brand strategy
- Enhance logistics operations and policies
- Advance the Supply Chain Transformation (SCT) initiative
- Execute and maintain the Information and Technology (I&T) strategic plan
- Increase market demand for Prairie wheat and durum
- Increase market demand for Prairie designated and feed barley
- Engage, strengthen and grow our human resources capabilities

Achievements

- Expanded our branding partnership with Smucker Foods of Canada to include a national spring campaign entitled "The Love of Bread", targeted at consumers and the retail trade.
- Partnered with Dover Flour to brand 22 of its vehicles in Southern Ontario with the CWB brand logo, creating a presence in that market.
- Created a part-time brand consultant position to seek branding opportunities in the Japanese market.
- Created a branding advertisement for a new trade publication from CANIMOLT, the Mexican milling industry, promoting western Canadian wheat in high-quality baked goods.
- Continued to be the primary supporter of the "Grains – They're Essential" national awareness campaign, designed to increase professional and public knowledge of the health benefits associated with cereal grains.
- Developed a transportation and rail services optimization plan. This is part of an ongoing process designed to achieve the most efficient and cost-effective handling and transportation system to meet the CWB's business needs.
- Re-engineered the inventory management plan. This included reviewing and implementing practices to improve inventory reporting by grain companies.
- Investigated opportunities to improve the timeliness of deliveries throughout the crop year by better monitoring farmer deliveries and more strongly enforcing delivery call terminations.
- Expanded strategic supply-sourcing with selected grain companies and developed a strategic partnership approach for terminal and port operations. This will ensure capacity to support the CWB sales program, improve handling and transportation service, and reduce the cost to farmers.

- Delivered all *Farmer Procurement and Payment System (FPPS)* functionality, providing a technological solution for supporting the CWB's supply chain. The supply chain project will position the organization for the future, ensuring the competitiveness of the CWB and western Canadian farmers.
- Developed an I&T strategy focused on assessing our current technology capabilities, verifying what new capabilities will be required going forward, and determining how to bridge the gap. The strategy is influenced by three main areas: I&T industry trends, SCT impacts and I&T direction.
- Implemented policies, procedures and tools for corporate records classification, retention and destruction (electronic records management). This positions the CWB to align and comply with the *Access to Information and Privacy Act* and the *Library & Archives Canada Act.*
- Prepared for the elimination of the mainframe computer. Elimination of the mainframe will simplify our technical environment and reduce operating costs.
- Developed a concept paper to address the CWB's current and future needs for accurate and timely grain quality assessment, inspection and certification services. This is part of the CWB's ongoing commitment to minimizing operating costs while maintaining or improving the risk management of quality assurance within the grain logistics system.
- Reviewed the possibility of establishing an insurance trust to manage various risks to which the CWB is exposed. An insurance trust would be pursued if it would reduce insurance costs for the CWB and the industry. The insurance trust also presents a potential income opportunity for the CWB.
- Explored business development opportunities and priorities with the purpose of making wheat and barley more profitable.
- Initiated the CWB's process to comply with Bill 198, the Canadian equivalent to the U.S. *Sarbanes-Oxley Act*. The first year of the four-year project is under way; it involves the analysis, documentation and testing of entity-level controls. This will help to ensure that CWB governance is consistent with industry best practices.

IMPROVING FARMER RETURNS (CONTINUED)

Strategic Goal: To explore and act on opportunities to improve returns to farmers by leveraging the CWB's existing structure and capabilities.

Achievements (continued)

- Developed a strategy for future investment in suitable wheat and barley varieties to increase marketing opportunities.
- Developed plans to address the production and marketing impact of general purpose wheat, to ensure minimum impact on other wheat classes.
- Implemented wheat quality-control initiatives to accommodate changes to the *Canada Grain Act* and the Canadian Grain Commission (CGC).
- Worked with designated producer car loading groups to select and ship malting barley for CWB direct shipments. This program provides these groups with more marketing opportunities, handling fee savings for the producer and higher rail car shipment volume for the group.
- Expanded shipments of Canadian malting barley to China under the Green Food label.
- Developed a production and marketing plan to expand niche food barley market opportunities with specific customers.
- Developed a new people vision and strategy for the CWB, to address the changing internal and external environment. The strategy focuses on enhancing existing human resource programs and developing new initiatives to suit the CWB's corporate needs and direction.
- Achieved Top 15 Employer status in Manitoba, in recognition of our workplace practices. This type of recognition sets the CWB apart from other employers and assists in attracting and retaining top talent.
- Implemented a variable pay program that recognizes and rewards individual efforts and contributions to corporate performance. Variable pay programs are useful tools for encouraging high levels of performance without increasing base pay. This allows the organization to drive specific required behaviours and focus on business results.

IMPROVING FARMER SATISFACTION

Strategic Goal: To work with farmers, government officials, and other stakeholders to enable an evolution of the CWB that will result in significant improvements in overall farmer satisfaction.

Initiatives

- Strengthen the CWB's trade position in international agreements
- Enhance CWB-farmer business interaction and information exchange
- Pricing and delivery redesign
- Enhance farmer connection programs

Achievements

- Employed a comprehensive multilateral advocacy strategy to build support for the CWB's objectives in reaching a World Trade Organization (WTO) agreement on agriculture that benefits western Canadian wheat and barley farmers.
- Urged the Government of Canada to pursue bilateral trade agreements in key markets to ensure unfettered, open market access for Canadian wheat and barley. Free trades talks were concluded with Peru and Colombia in 2008 – two key markets for Canadian wheat and barley.
- Implemented new e-Services for farmers and handling agents, including the online sign-up of permit applications and pricing option contracts, pricing options lock-ins and buyouts, access to payment information online, ability to defer payments online, and access to delivery information. This will improve the flow of information with farmers as it relates to their business dealings with the CWB.
- Evaluated, developed and implemented new pricing and delivery programs and services for wheat, durum and barley. The CWB introduced several new programs, such as the Churchill Storage Program, Cash*Plus*, GrainFlo and FlexPro and expanded the Wheat Storage Program and Delivery Exchange Program.

Board of directors

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

The board consists of 15 members: 10 elected farmers and five individuals appointed by the Government of Canada, 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. Appointed directors hold three-year terms.

ELECTED DIRECTORS

Henry Vos (District 1)

Henry has a degree in agriculture from the University of Alberta. Henry and his wife Anne farm over 2,500 acres at Fairview, AB, and grow canola, wheat, barley and forage seed. Henry serves on the board of the Canadian International Grains Institute. 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 & Food Council.

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 in his third term as a CWB director.

(not pictured)

Larry Hill, Chair (District 3)

Larry has been chair of the board of directors since March 2008. He 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.

ROD FLAMAN • BILL TOEWS • LARRY HILL • KEN MOTIUK • KYLE KORNEYCHUK • WILLIAM NICHOLSON • HENRY VOS

He previously chaired the Audit, Finance and Risk Committee and the Ad Hoc Trade Committee.

Ken Ritter (District 4)

Ken was the first elected director to chair the CWB's board of directors. He served as chair until March 2008. He previously 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.

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 those of the Alberta Wheat Pool, Agricore and the Canadian Cooperative Association. He currently serves as a board member of the Western Grains Research Foundation and is past chairman. Allen also serves as chair of the Farmer Relations Committee.

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 previously worked at the CWB as a marketing manager and policy analyst. Ian has served as chair of the Farmer Relations Committee, the Strategic Issues Committee, the Ad Hoc Transportation Committee, the Ad Hoc Steering Committee on the Kroeger Process, and the Ad Hoc Transportation Strategy 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.

Kyle Korneychuk (District 7)

Kyle and his wife Susan operate grain farms in the Pelly and Stenen, SK areas. Kyle is a graduate of the University of Saskatchewan and holds a B.Sc. 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 governments and the Government of Canada on national agriculture and environment committees.

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 B.Sc. 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 grain terminal at Balcarres, SK.

GLEN FINDLAY • ALLEN OBERG • KEN RITTER • IAN MCCREARY • IAN WHITE • BRUCE JOHNSON • DAVID CAREFOOT

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 Elevators delegate and represented farmers on the Prairie Agricultural Machinery Institute Council. He currently serves as a director on his local credit union board. Bill is past chair of the Strategic Issues Committee and currently chairs the Governance and Management Resources Committee. He also represents the CWB on the Barley Subcommittee of the Western Grain Standards Committee.

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 is the former chair of the Canadian International Grains Institute. Bill currently serves on a local credit union board and as a member of the Wheat Advisory Committee of the Western Grains Research Foundation. He also chairs the CWB Strategic Issues Committee.

APPOINTED DIRECTORS

David Carefoot*

A resident of Oakbank, MB, David has a strong background in agribusiness. He recently served as chief financial officer for Viterra Inc., and spent 11 years with Agricore United and its predecessor company, United Grain Growers Limited, where he held the positions of chief financial officer; vice-president, Corporate Finance and Investor Relations; director of finance; and corporate controller. For the 12 years prior to this, David held a series of positions with Price Waterhouse, Chartered Accountants, in both the Audit and Business Advisory as well as the Financial Services practices. He holds a bachelor's degree in commerce from the University of Manitoba, and is a member of the Canadian Institute of Chartered Accountants, the Institute of Chartered Accountants of Manitoba and the Canadian Institute of Chartered Business Valuators.

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, and currently serves on the Barley Advisory Committee of the Western Grains Research Foundation.

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 BA from the University of Manitoba. He currently chairs the Audit, Finance and Risk Committee, and served previously as co-chair of the Governance & Management Resources Committee.

Ken Motiuk

Ken has extensive experience in agribusiness and owns and operates grain and livestock operations near Mundare, AB. He holds a B.Sc. 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.

Ian White, President and Chief Executive Officer**

Ian has extensive senior management, agribusiness and commodity marketing experience, as managing director and CEO of Queensland Sugar Limited, and CEO of Grainco Australia Ltd., Defiance Milling Ltd. and Queensland Cotton's U.S. operations. Ian holds a Bachelor of Economics (Honours) degree from Sydney University, and is a member of the Australian Society of CPAs and a fellow of the Australian Institute of Company Directors. He has been a director of a number of organizations including Queensland Sugar Ltd., Cubbie Group Pty Ltd., the Queensland Competition Authority, Queensland Cotton Corporation and Defiance Milling Ltd.

Notes
* appointed May 2008
** appointed March 2008

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 assuming responsibility for establishing 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. It 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 farmer relations 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 2007-08 crop year was an exceptional one for the CWB. The CWB's operating environment was characterized by buoyant commodity markets, while significant changes took place within the organization. Among these changes was the recruitment of a new president to replace interim president Greg Arason. Ian White, formerly of Queensland Sugar Ltd., was appointed as the CWB's new president and CEO on March 31, 2008. The composition of the board further changed with the appointment of David Carefoot as a director on May 9, 2008. Larry Hill was selected as board chair on March 26, 2008.

Over the past year, the board has provided strong, forward-looking, strategic leadership with a view to ensuring that the CWB continues to serve the best interests of western Canadian farmers. In particular, the board has directed its efforts at enabling further enhancements to producer options, as well as improving pricing and delivery flexibility. The board also focused on improvements to performance measurement, renewed efforts in barley marketing, oversight of the information technology SCT project and direction on corporate mandate issues.

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 to guide corporate conduct
- Terms of reference for the board of directors which establish the mandate and responsibilities of the board with clear delegation to the CEO of the balance of decision-making
- Roles 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
- 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 2007-08 crop year, the board continued to provide strong governance and leadership. Specifically, it hosted numerous accountability meetings across the Prairies, to ensure accurate and transparent communication with farmers; provided oversight of the employee pension plan; and gave direction of the employee compensation program. A number of directors attended and successfully completed additional learning modules at the Director's College, and 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.

Over the past year, the board has provided strong, forward-looking, strategic leadership with a view to ensuring that the CWB continues to serve the best interests of western Canadian farmers.

Committee structure

To assist it in fulfilling its governance role and responsibilities, the board of directors has established four standing committees. Ad hoc advisory committees are also periodically created to provide a forum for establishing direction on key strategic issues.

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 – Bruce Johnson (chair), David Carefoot, Ian McCreary, Ken Motiuk, Bill Nicholson, Ken Ritter 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 – Bill Nicholson (chair), David Carefoot, Glen Findlay, Rod Flaman, Bruce Johnson, 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 to the board strategic plans for farmer relations, communications and government relations.

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

Remuneration and meeting attendance, 2007-08 crop year

Board of Directors

		Remuneration			Attendance		
Director	District	Retainer	Per diems	Total	Board meetings	Committee meetings	Industry/ miscellaneous meetings
Vos, Henry	1	$ 20,000	$ 21,250	$ 41,250	14/14	16/16	12
Chatenay, James	2	20,000	25,000	45,000	14/14	12/12	23
Hill, Larry[1]	3	40,000	44,000	84,000	14/14	18/19	37
Ritter, Ken[2]	4	48,668	26,100	74,768	14/14	16/16	16
Oberg, Allen	5	24,000	34,000	58,000	14/14	12/12	25
McCreary, Ian	6	20,000	25,000	45,000	14/14	16/16	24
Korneychuk, Kyle	7	20,000	23,900	43,900	14/14	12/12	25
Flaman, Rod	8	20,000	22,500	42,500	14/14	11/13	20
Nicholson, William	9	22,333	20,350	42,683	14/14	16/16	16
Toews, William	10	24,000	21,575	45,575	14/14	12/12	44
Arason, Greg[3]	A	N/A	N/A	N/A	9/9	N/A	N/A
Carefoot, David[4]	A	5,000	6,000	11,000	5/5	6/6	5
Cheuk, William[5]	A	15,000	10,000	25,000	9/9	8/10	3
Findlay, Glen	A	20,000	14,000	34,000	14/14	13/13	5
Johnson, Bruce	A	22,333	14,950	37,283	14/14	15/16	4
Motiuk, Kenneth	A	20,000	19,750	39,750	14/14	18/18	7
White, Ian[6]	A	N/A	N/A	N/A	5/5	N/A	N/A
Total:		**$ 341,334**	**$ 328,375**	**$ 669,709**			

Notes:

A = Appointed

[1] Elected chair, board of directors, March 26, 2008
[2] Resigned as chair, board of directors, March 26, 2008
[3] Term ended March 30, 2008
[4] Appointed May 8, 2008
[5] Term ended May 5, 2008
[6] Appointed March 31, 2008

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 on remuneration 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.

Total expenses for the board of directors during the 2007-08 crop year, including retainers, per diems and reimbursable expenses, were $963,041.

Director representation on external boards and committees, 2007-08 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 2007-08 crop year.

External Board or Committee	Position	Director
Canada Grains Council	Board member	Ian White
Canada Grains Council On-Farm Food Safety Committee	CWB board representative	Allen Oberg
Canadian Federation of Agriculture	CWB representative	Allen Oberg
Canadian International Grains Institute	Board member	Henry Vos
Western Grain Standards Committee	Member, barley subcommittee	Bill Nicholson
Western Grain Standards Committee	Member, wheat subcommittee	Kyle Korneychuk
Western Grains Research Foundation	Board member	Allen Oberg
Western Grains Research Foundation	Member, barley advisory committee	Glen Findlay
Western Grains Research Foundation	Member, wheat advisory committee	Bill Toews

CWB leadership team

This crop year marked a period of transition for the organization. After an extensive search, Ian White was hired by the board of directors and appointed through Order in Council by the Government of Canada, effective March 31, 2008. White succeeded Greg Arason, who held the position of president and CEO on an interim basis from December 19, 2006 to March 30, 2008. Arason also held this position from 1998 to 2002.

The leadership team, comprised of 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 supports the board of directors' establishment of the CWB's vision, mission and strategic initiatives. The team is also accountable for successful implementation of the CWB's annual and long-term plans, as well as leading all operational areas of the organization.

Leadership team compensation is set within a formal corporate compensation structure that is approved annually by the board of directors.

Variable pay was introduced as a new program for the 2006-07 crop year and was paid in December 2007. Based on audited financial statements, payment for variable pay is scheduled annually in December for the prior crop year. Eligible permanent employees of the CWB must achieve individual performance goals and the organization must achieve corporate performance targets in order for a payout to occur. With the introduction of this program, the CWB's total compensation is at about the 50th percentile of industry market compensation, or mid-range market compensation rates. The goal of the program is to reward results, high performance and the achievement of corporate targets for a number of corporate performance measures set by the leadership team and approved by board of directors.

This year, the CWB is also reporting the cost of benefit programs to ensure a comprehensive disclosure of executive compensation. These costs were not reported in previous years.

Summary compensation table, 2007-08

Salary disclosure for the top five salaries within the organization is being provided as part of the CWB's commitment to open communications and accountability to farmers. The following table outlines annual compensation for the president and CEO, chief operating officer, chief financial officer and two other highest paid senior officers of the company for the 2007-08 crop year. These figures reflect base salary (actual earnings) or expense to the corporation for the duration of time that the individual was on the job during the 2007-08 crop year.

Name	Base pay	Variable pay	Benefits	Total
President and CEO				
*Ian White (March 31, 2008 to July 31, 2008)	$ 211,783	$ –	$ 22,686	$ 234,469
*Greg Arason (August 1, 2007 to March 30, 2008)	258,000	–	–	258,000
Chief Operating Officer				
*Ward Weisensel	247,358	65,354	68,995	381,707
Chief Financial Officer				
*Brita Chell	192,574	50,882	49,710	293,166
Chief Information Office (CIO) and Vice-President, Strategic Planning				
Graham Paul	181,417	49,149	44,356	274,922
Vice-President, Marketing				
Gord Flaten	174,050	36,787	42,012	252,849

* The value of perquisites for senior officers did not exceed $50,000 per person.

Leadership team for 2007-08

Ian White – President and CEO from March 31, 2008

Greg Arason – President and CEO from December 19, 2006 to March 30, 2008 (not pictured)

Ward Weisensel – Chief Operating Officer

Brita Chell – Chief Financial Officer

Graham Paul – Chief Information Officer & Vice-President, Strategic Planning

Diane Wiesenthal – Vice-President, People & Organizational Services

Deborah Harri – Corporate Secretary

Jim McLandress – General Counsel

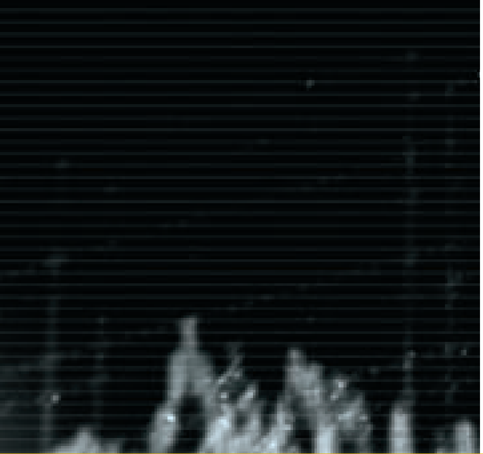
Earl Geddes – Vice-President, Product Development & Marketing Support and Farmer Relations (interim from February 1, 2008)

Dave Burrows – Vice-President, Communications and Government Relations (interim from February 1, 2008)

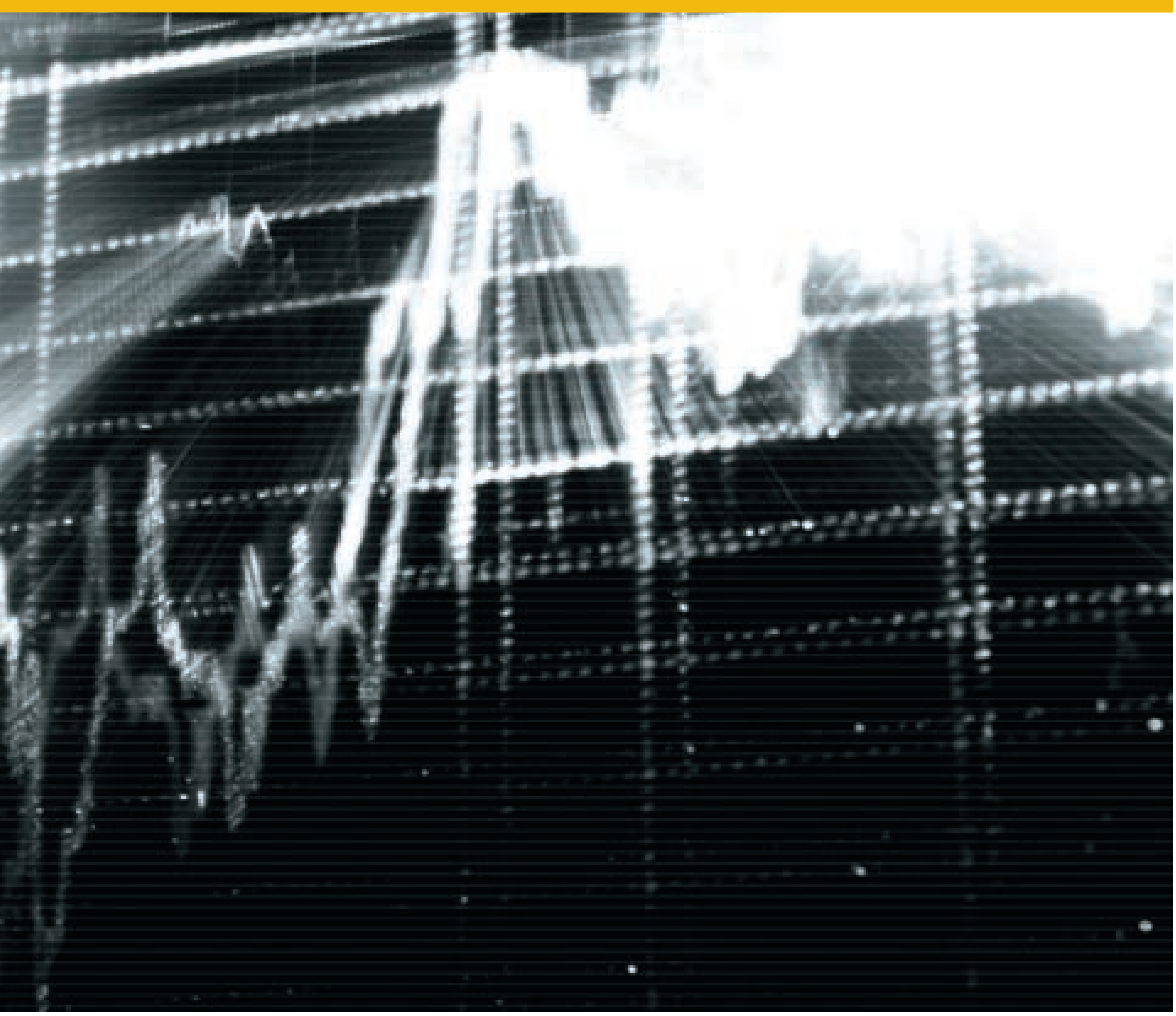
Deanna Allen – Vice-President, Farmer Relations and Public Affairs to February 1, 2008 (not pictured)

DEBORAH HARRI • GRAHAM PAUL • DIANE WIESENTHAL • EARL GEDDES • IAN WHITE • BRITA CHELL • DAVE BURROWS • JIM MCLANDRESS • WARD WEISENSEL

RESPO



Management discussion & analysis



ONSIBILITY

Responsibility

The following management discussion and analysis (MD&A) is the responsibility of management as of November 20, 2008. 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, the CWB is 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.

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. About 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 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.

PRODUCTS

Operational environment

The vast majority of grain grown in Canada comes from farmers living and working on the Prairies. We market 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 $4 billion and $8 billion, with all sales revenue, less marketing costs, returned directly to farmers.

Global competition

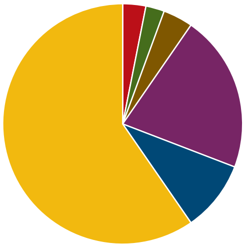
The global market for wheat, durum and barley is highly competitive. For more than 70 years, we have sustained and built our market presence through branding, reputation and customer service. While we are the largest single-desk wheat and barley marketer in the world, all competitors are seeking ways 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 74 per cent of the total wheat traded worldwide, while producing slightly more than 40 per cent of the world supply. This 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 in certain markets also continue to emerge.

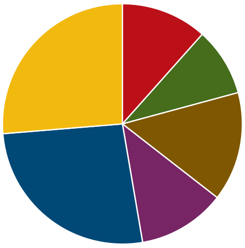
Figure 1: Market shares of production and exports by principal wheat exporting countries

(% of world totals 2003-07)



Major wheat producers

AUSTRALIA 3.2	EU-27 21.1
ARGENTINA 2.5	U.S. 9.5
CANADA 4.0	OTHERS 59.7



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

AUSTRALIA 11.6	EU-27 11.8
ARGENTINA 9.2	U.S. 26.4
CANADA 14.7	OTHERS 26.3

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

A similar condition exists in the durum market. The EU, Canada and the U.S. are responsible for about 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 43 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 and Tunisia), South America (Venezuela, Chile and Peru) and the United States. Canada's own domestic pasta industry purchases roughly 300 000 tonnes of durum a year and is usually among our top five buyers.

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

(% of world totals 2003-07)

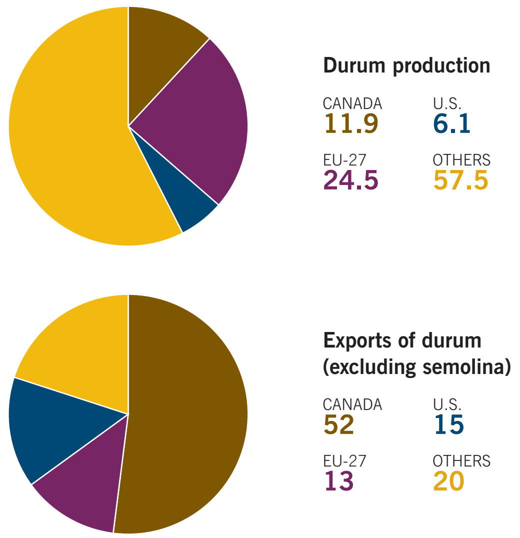
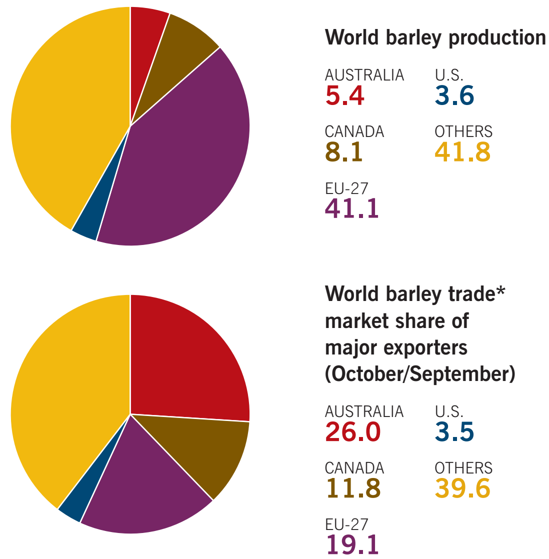


Figure 3: Market shares of production and exports by principal barley-exporting countries

(% of world totals 2003-07)



* Excludes products

In the feed and malting barley export markets, the main suppliers are Australia, Canada, the EU and the U.S., which together control approximately 57 per cent of exports. In most years, Australia and EU-27 dominate the barley market, capturing about 26 per cent and 19 per cent, respectively, of barley 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 close to 75 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 an important supplier of wheat and barley to the world, its annual revenues represent a small fraction of those of the huge multinationals with which it competes.

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. While subsidies are typically more significant in times of low market prices – unlike the 2007-08 crop year – it is nevertheless the case that western Canadian wheat and barley farmers receive less subsidy support than farmers in other countries 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 Government of Canada; and the chief executive officer is recommended by the board of directors and appointed by the 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 (such as ethanol) need not be sold through the CWB.

The single desk enables the CWB to operate an efficient logistical chain that extends from the farmer's field to domestic and international customers. It enables the CWB to contribute to Canada's reputation for consistent quality and reliable supply – a firm foundation for excellent customer service. It empowers farmers 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 three large grain companies and two national railways. By marketing as one rather than competing against one another, Western Canada's 75,000 wheat and barley farmers can command a higher return for their grain in certain markets and influence issues that affect their bottom line.

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 retaining additional marketing opportunities.

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. Price pooling is 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 Government of Canada. Guaranteed initial payments provide a minimum price floor, giving farmers protection from the extreme volatility of grain markets. Guaranteed borrowings are used primarily to finance payments to farmers before sales revenue is received, helping our farmers meet their operating costs.

Beyond price pooling: Producer Payment Options and more

The CWB introduced Producer Payment Options (PPOs) in response to farmers' desire to exercise greater individual control over the pricing of their wheat, durum and barley, as well as how and when they get paid. These options were designed to provide farmers with the ability to manage their own pricing risks without affecting pool accounts.

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

FlexPro (new for 2008-09)

A new pricing alternative that offers a daily cash price for wheat throughout the crop year.

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.

Early Payment Option (EPO)

An EPO contract enables farmers to establish a floor price based on the Pool Return Outlook (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.

In addition to the PPOs noted above, the CWB has developed other programs to provide farmers with greater flexibility and control over pricing and delivery of their grain.

Cash*Plus* (new for 2008-09)

The new Cash*Plus* program is designed to meet the needs of western Canadian barley farmers by adding flexibility to malting barley pricing and by establishing a guaranteed cash price that reflects market values.

GrainFlo (new for 2008-09)

GrainFlo was developed in response to farmers' desire for more control over when they deliver their grain. It is designed to provide this flexibility while ensuring that the CWB can still call grain as needed to meet sales commitments. This is achieved by allowing farmers to choose among defined delivery periods.

Delivery Exchange Contract (DEC)

The DEC enables farmers to trade delivery periods with one another to suit their own business needs. It provides greater control over delivery timing, and enables farmers to know acceptance and delivery periods in advance.

Value-added Incentive Program (VIP)

The VIP pays farmers a premium for delivering wheat and barley directly to western Canadian mills and malting plants that are licensed and bonded by the Canada Grain Commission (CGC). The VIP is part of the CWB's ongoing commitment to value-added processing on the Prairies. The program provides earlier delivery opportunities for farmers, reduces storage and carry costs for the CWB, and has the potential to lower farmers' handling costs.

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 Canada Western Red Spring (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.

Churchill Storage Program (new for 2008-09)

This program offers farmers a premium for storing their No. 1 and No. 2 CWRS wheat on farm until it is called for shipment to the northern port. The timing of the Churchill shipping season requires a large volume of grain grown the previous summer to move out from the country as early as the beginning of June. The Churchill Storage Program is designed to ensure this grain is on hand.

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; 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. Sixteen farm business representatives (FBRs) 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 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 gives them the means to bring innovative solutions to the challenges they face.

Our chief 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 excellent service to end-use customers, developing new markets, and managing costs effectively. Above all, we seek to be farmers' business partner, delivering unmatched service to farmers and earning farmers the highest possible returns for 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 understand and meet the needs of farmers.

Strengthening the 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.

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. The CWB is committed to reviewing these performance benchmarks on an ongoing basis, to identify opportunities to strengthen and improve our benchmarking process.

How the financial statements capture the business

The 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.

The net earnings directly attributable to current year grain sales activity in each pool account are distributed back to the farmers who delivered grain during the pool period, based on sales results by grade. The statement of distribution provides the details of how the net earnings by pool are distributed. This statement reflects initial, adjustment, interim and final pool payments to producers as approved by the Government of Canada.

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, 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.

In addition, the corporation has engaged in cash trading of feed and designated barley as well as organic wheat. Similar to the PPOs, 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) plus the final results of the cash trading programs are transferred to this Fund. It is capped at $60 million and controlled by legislation.

Since all earnings from the pools are distributed to farmers, our operations are financed by borrowings. These borrowings are made in the global capital markets and are guaranteed by the Government of Canada.

In 2007-08, the corporation adopted the new Canadian Accounting Standard Financial Instruments. The new standard requires that all financial instruments are recorded on the balance sheet including commodity, foreign-exchange and debt-related interest and cross-currency derivatives. The standard also requires that these financial instruments be fair-valued at year end, resulting in unrealized gains and losses being recorded in income. These unrealized gains and losses are not related to the current year pool operations and, as a result, should not be included in distributions to producers. The corporation re-evaluated the presentation of the financial statements with the objective of ensuring that they are clear and concise – a presentation that is in accordance with generally accepted accounting principles (GAAP) and is also relevant for our producer stakeholders.

Hence, the financial statements are presented in a combined manner. They capture all aspects of the business – pools, PPOs and cash trading. These activities are presented in a combined manner in accordance with Canadian GAAP. In addition, there is a separate statement of distributions to pool participants in order to report on the final distributions by pool. These combined statements, including the statement of distributions to pool participants, are audited by Deloitte & Touche, the corporation's auditors.

In order to meet the needs of producers and in the spirit of *The Act*, we have provided a separate accounting of our pool accounts in the MD&A. These statements exclude the effect of the financial instrument standard as the resulting gains and losses calculated under this standard do not relate to the current pool operations. This statement provides producers with an opportunity to review the results of each pool account and the resulting distributions which can be tied back to the audited statement of distributions to pool participants. Please see page 46 for a reconciliation of the individual statements in the MD&A to the audited financial statements.

The CWB: adding value for farmers

Adding value for farmers goes beyond how we market grain. We are advocates on issues that affect farmers' bottom lines and partners in research and development. We are committed to being at the forefront of issues that affect farmers' profits.

We continue to advocate for a World Trade Organization (WTO) deal that generates improved market access and an end to trade-distorting subsidies. We have regularly articulated the needs of western Canadian farmers in a new WTO agreement on agriculture, attending international trade talks to deliver farmers' message first-hand. We have supported the Government of Canada's efforts to establish bilateral agreements with key customer countries and focused attention on parts of the globe where agreements are required. In 2008, Canada concluded free trade agreements with Peru and Colombia, two important markets for Canadian wheat and barley.

In previous years, we have lobbied against the premature introduction of genetically modified wheat and for a speedier process for approval of farmer payments. In order to protect farmers' commercial interests, we 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.

We are continually looking at innovative ways to improve farmers' bottom lines. The CWB's weather station project, conceived by the CWB and launched in partnership with WeatherBug, the world's leading provider of local weather information, and Richardson International Ltd. delivers up-to-date, accurate weather information that Prairie farmers can factor into an array of farm management decisions.

Our WSP and our Churchill Storage Program provide financial incentives to farmers to store wheat on farm for specific marketing needs.

Both at home and abroad, we promote the goodness of Prairie wheat and the expertise of Prairie farmers with an eye to increasing the consumption of wheat products. In September 2007, we partnered with Robin Hood, the largest consumer flour maker in Canada, to launch our first co-branding campaign aimed at Canadian consumers. The campaign featured a number of elements, such as recipe booklets, grocery-store displays and messaging on flour packages to promote our brand logo, Canadian Wheat Makes it Good. In addition, we created a new Web site, www.prairiewheat.ca, to encourage Canadian consumers to eat foods made with superior-quality Prairie wheat and durum.

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 are 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 such as the Canadian International Grains Institute (CIGI) or the Canadian Malting Barley Technical Centre (CMBTC) help ensure we maintain and build on our reputation for unparalleled customer service. We have committed regular funding to research and market development, to strengthen the western Canadian organic grain industry through the Organic Sector Marketing Development Initiative (OSMDI).

We are a driving force in the development of new variety identification technology, to ensure that farmers will have a quick, inexpensive and practical tool to identify wheat classes in the wake of the removal of Kernel Visual Distinguishability (KVD) on August 1, 2008.

We are advocates on issues that affect farmers' bottom lines and partners in research and development.

An internal change that promises to pay long-term dividends in terms of CWB service to both farmers and customers is our Supply Chain Transformation (SCT) project. Launched in 2005, SCT is a comprehensive program to improve the systems and processes that directly serve our farmers and customers. Significant parts of the project were rolled out during the 2007-08 crop year, including an expanded e-Services capability that offers farmers online PPO sign-up. SCT is more than a change in technology; it is a re-organization of the way we do business. As such, it expresses the renewed commitment of the CWB's board of directors to orient all parts of the organization towards improved service to farmers.

Transportation is a fundamental issue for farmers and the CWB. 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 as an intervener in the level-of-service case launched by Great Northern Grain (GNG) in April 2007, and as a complainant in the September 2007 case against CN. At stake is the ability of smaller and single-point shippers to move their grain to ports and markets. In January 2008, the Canadian Transportation Agency (CTA) ruled that CN had breached its legal obligations to provide adequate rail service in 2006-07. This was a milestone victory in the pursuit of fairness for rail car supply. We have lobbied actively for a full rail-costing review. We also administer a producer car program that allows farmers to load grain in their own communities.

Current year results

Factors that shaped the 2007-08 business conditions

World production

Wheat

World wheat production in 2007-08 increased over the previous year and was significantly larger than the five-year average. The International Grains Council (IGC) estimates world wheat production for 2007-08 at 609 million tonnes, 11 million tonnes more than was produced in 2006-07. Despite the rebound in production during 2007-08, world consumption still exceeded production and ending stocks continued to decline. World wheat ending stocks for 2007-08 were the lowest since 1981-82. The five major exporters' stocks have decreased by almost 10 million tonnes to 29 million tonnes. Canada's 2007-08 ending stocks were 4.8 million tonnes, which was a drop of two million tonnes from the previous year. Prices increased rapidly during the first half of the marketing year, with values peaking during late February and early March. The wheat market declined through the spring and summer, mostly in response to expectation of increased production in 2008-09.

Durum

World durum production in 2007-08 was 34.9 million tonnes, an increase of 900 000 tonnes from 2006-07. Durum production in North America increased by only 300 000 tonnes from 2006-07. Canadian production of durum increased to 3.7 million tonnes, which was 400 000 tonnes more than 2006-07 production. Ending stocks of the major durum exporters dropped to 1.4 million tonnes, which helped maintain strong prices through the year.

Barley

The IGC estimates 2007-08 world barley production at 134.9 million tonnes, which was slightly lower than the 138.7 million tonnes of 2006-07. Canada's 2007-08 barley production of 11 million tonnes was four million tonnes higher than the previous year. Barley prices increased throughout the first half of the year due to the tight world stock situation.

High-quality crop for Canada

Canada's wheat production in 2007-08 was 20.1 million tonnes, which was significantly below the five-year average. Sown area was lower for both winter and spring wheat crops in Canada, when compared to the 2006-07 crop year. A wet spring in some areas of central Alberta and northern Saskatchewan also contributed to the reduction in area. Rains during the months of May and June resulted in good crop growth and prospects for an above-average crop. Record heat during July combined with below-normal precipitation dropped the yield potential of all crops dramatically. The quality of the western Canadian wheat crop was consistent and high quality, with more than 80 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.

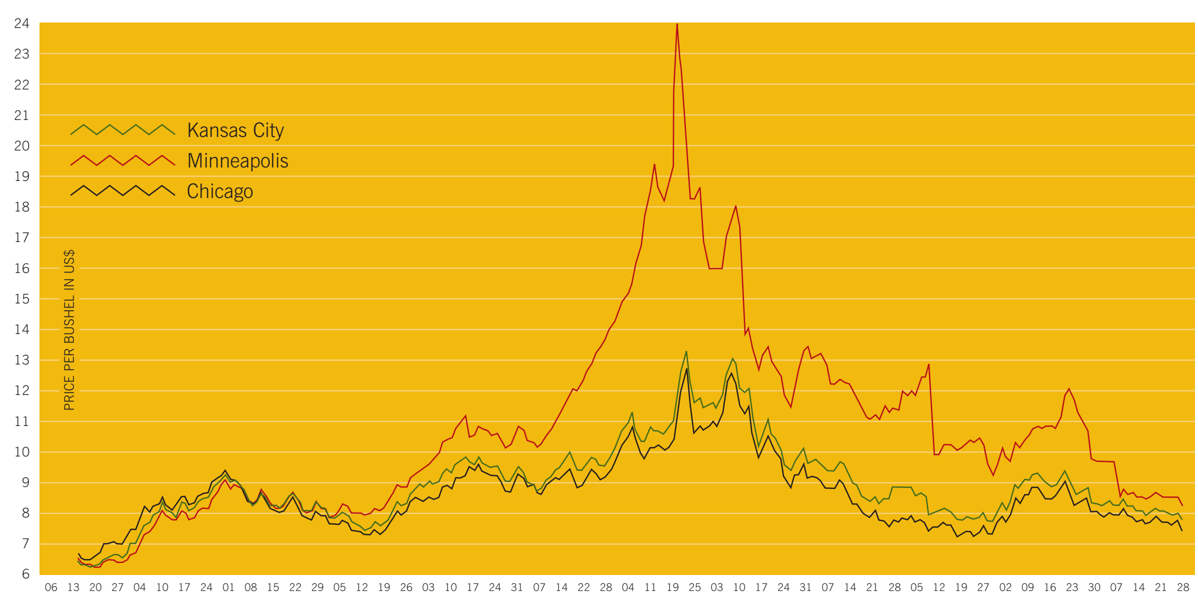
Commodity markets

Commodity markets rose modestly during the August and September period of 2007 as strong demand and reduced crop prospects in Europe, the Black Sea region and North America drove price movement. Prices declined during October, but moved higher in the first half of November when deteriorating Australian prospects further boosted prices. Strong corn and oilseed values also helped support wheat values. Concerns about extremely tight ending stocks, rapid appreciation of the price of other grains and generally buoyant global commodity markets drove future prices to record highs in late February 2008. Prices declined for the rest of the year as prospects for the 2008-09 world wheat crop improved. Corn provided some limited support for wheat during June as flooding delayed the planting of the crop in the United States.

U.S. wheat futures contracts traded at record levels during the 2007-08 crop year. Minneapolis wheat futures experienced the largest price gain of any of the U.S. wheat futures exchanges during the year. The spring wheat contract in Minneapolis began the crop year at a discount to both Chicago and Kansas City. This trend continued until October, when strong spring wheat export demand resulted in expectations for extremely tight ending stocks of spring wheat. Spring wheat futures traded at a significant premium compared to the other wheat contracts for the rest of the year. Minneapolis wheat futures traded at a low of $6.32 US per bushel at the start of the crop year and a high of $24.00 US per bushel at the end of February 2008. During the 2007-08 crop year, Chicago wheat traded at a low of $6.36 US per bushel at the beginning of August 2007 and a high of $12.80 US per bushel at the beginning of March 2008. Finally, Kansas City wheat futures traded at a low of $6.32 US per bushel at the beginning of August 2007 and a high of $13.37 US per bushel at the end of February 2008. The price of corn reached record levels at the end of June 2008, peaking at $7.54 US per bushel. Figure 4 shows the price of Chicago, Kansas City and Minneapolis wheat throughout the 2008-09 crop year.

The durum wheat market also rose in value during the first six months of the 2007-08 crop year. The strong world demand for durum and limited supplies in the major exporting countries pushed the price of durum to record levels by January 2008. Prices for durum began to drop during the second half of the year, as supplies from the southern U.S. and Mexico eased the tight stock situation. Improved prospects for the 2008-09 crop in Europe also pushed prices lower during June and July.

Figure 4: 2007-08 nearby futures prices for Kansas City, Minneapolis and Chicago August 1, 2007 to July 31, 2008



Strong Canadian dollar and Euro

The U.S. dollar continued its devaluation in 2007-08 against most major currencies, including the Canadian dollar. Strong commodity prices, a cooling U.S. economy due to the expanding impacts of the credit crisis and a strong Canadian economy pushed the Canadian dollar to record levels at the beginning of November. The dollar declined from these levels by December and remained in a trading range at around par for the rest of the year.

Because most grain sold by the CWB is priced directly in U.S. dollars, the strong Canadian dollar tempered returns and did not provide a further boost to strong commodity prices. However, hedging strategies implemented by the CWB mitigated these effects on the pools. Figure 5 illustrates the Canadian dollar value versus the U.S. dollar over the 2007-08 crop year.

Likewise, a strong European economy pushed the Euro to record levels against the dollar in 2007-08. The Euro strengthened through most of the crop year and hit a record high in April. The Euro/U.S. dollar exchange rate remained in a trading range between 1.55 and 1.60 for the remainder of the crop year. 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 when compared to those of other origins, such as the United States. Figure 6 shows the Euro/U.S. dollar rate over the 2007-08 crop year.

Financial market conditions

The credit crunch began in August 2007 as the fallout from exposure to sub-prime mortgages in the U.S. began in the global financial markets. Credit markets tightened as investors were no longer certain of the value of their investments. Financial institutions were particularly hard hit as they began to post record write downs and losses related to sub-prime mortgages and the derivatives associated with these types of arrangements.

As a result of the turmoil, market volatility was very high and investors sought out very high-quality investments such as government debt. The CWB, with its debt guaranteed by the Government of Canada, benefited from this and was able to maintain liquidity through very challenging times.

Figure 5: Bank of Canada CAD/USD Noon Rate Source: Bank of Canada

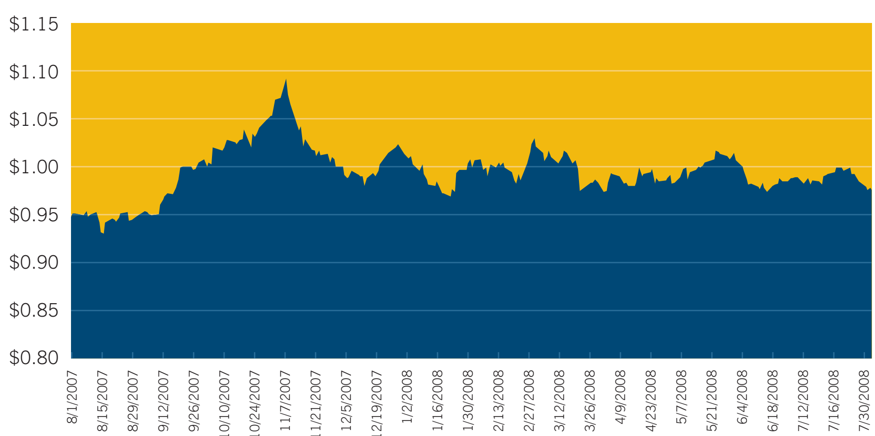
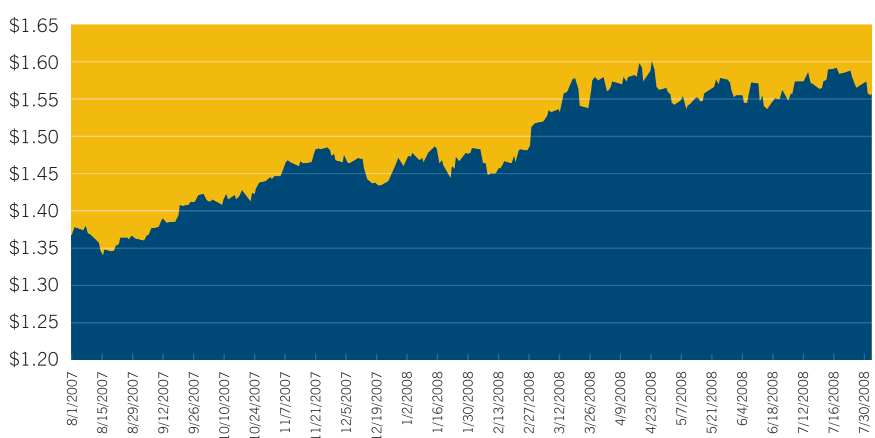


Figure 6: USD/Euro Rate Source: Reuters



High ocean freight rates

The 2007-08 crop year coincided with an unprecedented level of volatility in the global ocean freight market. To start the crop year, the Baltic Dry Index (BDI), which is a measure of the relative strength of the global dry bulk freight market, was at a level of 7,000 points. By the beginning of November, the BDI had reached 11,000 points, fuelled in large part by strong global demand for iron ore and coal, particularly from China. Between early November and the end of January 2008, however, the BDI had lost half of its value. Chinese iron ore importers were at a standoff with major ore exporters over a proposed price increase, which caused a slowdown in purchases and resulted in a build-up of freight near-term, pressuring the market. However, by the middle of May, the BDI had exploded, setting a new record high of over 11,700, due in large part to a rise in iron ore freight. Chinese industry slowed in advance of the summer Olympics, resulting in reduced demand for bulk commodities such as iron ore. By the end of July, freight rates and the BDI had declined by 30 per cent.

MEASURING SUCCESS

In November 2008, the CWB's board of directors reviewed the corporate performance measures (CPM) results for 2007-08. 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 on consultations with staff, an analysis of historical trends, consideration of future trends and input from senior management. Targets also undergo a review by the board of directors. The individual 2007-08 targets and the Corporation's performance for the above measures are summarized below.

Measure	Target for 2007-08	Result for 2007-08
Percentage of grain marketed[1]	Wheat – 100% Durum – 100% Designated barley – 100%	Wheat – 100% Durum – 100% Designated barley – 100%
Sales price comparison[2] (Net per-tonne price spread realized by the CWB compared to competitors' values for wheat, durum and barley sales.)	Wheat – $6.90 Durum – $24.50 Designated barley – $33.70	Wheat – $13.81 Durum – $48.84 Designated barley – $29.47
Contribution from other revenue sources[3] (Additional CWB revenue sources other than grain sales.)	Total additional revenue – $56.9 million	Total – ($169) million
Net demurrage/despatch[4]	$4.5 million net despatch	$1.5 million net despatch

[1] The anticipated strong demand from traditional and non-traditional importers put the CWB in a position to sell 100 per cent of the wheat, durum and designated barley offered by farmers.

[2] Sales price comparison targets for 2007-08 were set in November 2007 in an environment of unexpectedly tight supplies of quality wheat and durum and rapidly escalating prices as buyers chased those tight supplies. The targets that were established at that time far exceeded historical targets and results for this measure. In the months following, stocks tightened further and prices continued to escalate, during which time the CWB was able to leverage the single desk to increase the sales spread well beyond the forecast. This resulted in a significantly larger weighted sales spread for wheat and durum than expected.

Designated barley results were slightly below target, mainly due to higher demand and a high price structure that was favourable to the overall return to pool. In other words, CWB sold more tonnage into the 2007-08 pool than anticipated, increasing from a pool size of 2.2 million tonnes to 2.445 million tonnes. When the targets were set, the CWB anticipated that it would sell approximately 170 000 more tonnes to fully cover the pool and achieve an average spread premium of $6. In fact, over 415 000 additional tonnes were sold at an average premium more than $10.

It should be noted that the maximization of the net price spread does not drive the overall CWB sales strategy. Focus is placed on achieving the highest possible returns to farmers over the entire sales volume, not necessarily by individual sale.

[3] Contribution from other revenue sources was negative $169 million, of which approximately $226 million was a result of discretionary commodity trading activity. All other non-grain-sales revenue sources exceeded 2007-08 expectations.

Discretionary commodity trading occurs within the Wheat Pool Pricing Model, which establishes the pricing pace for the wheat pool. 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 and will generally be negative in a rising wheat market, as was the case in 2007-08.

Note that the methodology used for benchmarking discretionary activity can result in the measurement of gains or losses that are not truly achievable in the marketplace. In 2007-08, of the $226 million below target, $61 million was determined to fall into this category.

[4] The CWB incurred significant demurrage between October and March of the 2007-08 marketing year, for two primary reasons. First, the large feed barley program sold by the industry for the October/November/December period pushed capacity to its limits and caused execution problems for the CWB program. In addition, railway performance on service was very poor from October to March. This resulted in the CWB incurring more demurrage than was earlier forecast.

THE WHEAT POOL

For the year ended July 31 (dollar amounts in 000s)	2008		2007	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**13 368 118**		**15 516 550**	
Revenue	**$ 5,203,943**	**$ 389.28**	**$ 3,540,904**	**$ 228.20**
Direct costs				
Freight	199,904	14.95	196,322	12.65
Terminal handling	103,269	7.73	116,474	7.51
Inventory storage	41,503	3.10	44,316	2.86
Country inventory financing	8,566	0.64	7,980	0.51
Inventory adjustments	4,891	0.37	(2,875)	(0.19)
Grain purchases	14,766	1.10	23,964	1.54
Other direct expenses	29,934	2.24	22,005	1.42
Total direct costs	**402,833**	**30.13**	**408,186**	**26.30**
Net revenue from operations	**4,801,110**	**359.15**	**3,132,718**	**201.90**
Other income	138,347	10.35	146,310	9.42
Net interest earnings	8,910	0.67	22,382	1.44
Administrative expenses	(46,132)	(3.45)	(48,760)	(3.14)
Grain industry organizations	(957)	(0.07)	(1,399)	(0.09)
Total pool earnings	**4,901,278**	**366.65**	**3,251,251**	**209.53**
Deduct:				
Sales returns to Producer Payment Options program	1,846,584	363.91	872,656	208.01
Earnings for distribution	**$ 3,054,694**	**$ 368.31**	**$ 2,378,595**	**$ 210.10**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**13 368 118**		**15 516 550**	
Less: Producer Payment Options program receipts	**5 074 311**		**4 195 282**	
Receipts for pool distributions	**8 293 807**		**11 321 268**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 2,193,016	$ 264.43	$ 1,905,925	$ 168.35
Adjustment payments	664,444	80.11	372,208	32.88
Interim payment	–	–	–	–
Final payment	175,881	21.20	100,462	8.87
Total earnings distributed to pool participants	3,033,341	365.74	2,378,595	210.10
Transferred to Contingency Fund				
Undistributed earnings	21,353	2.57	–	–
Total distribution	**$ 3,054,694**	**$ 368.31**	**$ 2,378,595**	**$ 210.10**

The strategy

Western Canada's wheat production (excluding durum) in 2007-08 was 14.7 million tonnes, down 4.4 million tonnes from 2006-07 and below the five-year average. The harvested quality of the wheat crop was above average, with 68 per cent of the crop grading as No. 1 or No. 2. Average protein levels in CWRS were also higher than the five-year average, at 14.1 per cent.

The CWB manages marketing risk and price volatility by pricing wheat throughout the year to a wide range of customers with differing quality and shipping requirements. Sales are managed to maximize returns while matching logistical capacity with producer delivery requirements. Logistical capacity for export grain from Western Canada is seasonally constrained in the post-harvest and winter periods. The 2007-08 crop year was no exception. We worked to maximize the wheat and barley shipment program and accepted farmer deliveries as early as possible while keeping logistics fluid. A central part of our strategy was to maximize sales and shipments prior to the anticipated price impact of the 2008-09 northern hemisphere harvest.

Producer receipts

Producer receipts of all non-durum wheat totalled 13.4 million tonnes, down from 15.5 million tonnes from the previous year. This decrease can be attributed to lower production for the 2007-08 crop, relative to the previous year. Deliveries were accepted into the wheat pool until August 21, 2008. Allowing the pool to remain open beyond July 31 ensures that deliveries can be receipted into the pool and producers can fulfil their contract requirements regardless of difficulties arising from factors such as transportation or weather.

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 class, 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, Series B and Series C wheat was accepted at 100 per cent.

2007-08 Contract acceptance

	Acceptance	% Accepted
Series A	Call acceptance for all wheat:	100%
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 wheat, Canada Prairie Spring Red (CPSR) wheat and the other wheat classes. These calls reflected significant sales of CWRW, CPSR and No. 3 CWRS in the fall period. These contract programs saw terminations throughout the latter half of the crop year, as a result of an effort to encourage deliveries of those classes into the system to meet sales commitments. Strong CWRW sign-up resulted in a sales program that extended beyond the traditional August to November period. Heavy cash barley sales between October and December affected the movement of wheat, particularly the higher grades of CWRS. Deliveries of Canadian Western Feed wheat were secured through seven Guaranteed Delivery Contracts (GDCs), which match farmer deliveries to specific sales.

The WSP offered farmers a chance to sign up high-quality No. 1 CWRS in the 2006-07 crop year for delivery in 2007-08, to ensure supplies would be available for premium customers. The high quality and protein of the 2007-08 crop meant that these strategic stocks were not required, and the program was released for general delivery later in the crop year.

The Churchill Corridor Guaranteed Delivery Contract offered farmers premium and storage opportunities to ensure stocks of CWRS were available for the Churchill sales program at freight-favourable locations. The program was called at the end of the 2007-08 crop year.

2007-08 Delivery calls

Class called	Call period	Call volume
Series A Nos. 1 and 2 CWRS	April	100%
Series A No. 3 CWRS	March	100%
Series A CPSR	October	100%
Series A CPSW*	September	100%
Series A CWES**	February	100%
Series A CWRW	September	100%
Series A CWSWS***	March	100%
Series B CWRS	April	100%
Series B – Other classes	March	100%
Series C – All classes	June	100%

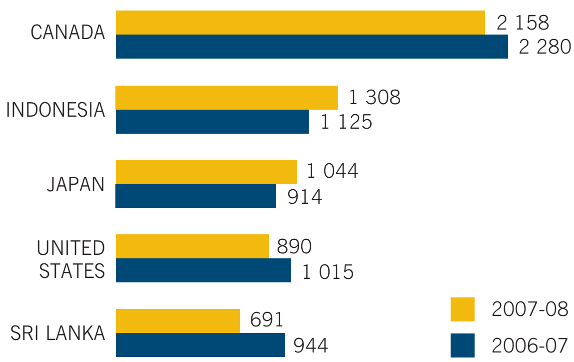
* CPSW = Canada Prairie Spring White wheat
** CWES = Canada Western Extra Strong wheat
*** CWSWS = Canada Western Soft White Spring wheat

Revenue

The domestic market was our single largest wheat market, accounting for 2.2 million tonnes of shipments. The second-largest wheat customer was Indonesia, with shipments of over 1.3 million tonnes, compared to 1.1 million tonnes one year earlier. Japan and the U.S. were the next largest markets, with shipments totalling one million tonnes and 890 000 tonnes, respectively. Sri Lanka, at 691 000 tonnes of shipments, rounded out our top five volume customers.

Figure 7: Largest-volume wheat customers

(2007-08 and 2006-07 sales in 000s tonnes)



Total revenue in the wheat pool was $5.2 billion on 13.4 million tonnes of receipts, representing an average gross revenue of $389.28 per tonne, up $161.08 from the previous year. The increase in revenue is a reflection of a rapid increase in prices during the first half of the marketing year, given low ending stock levels globally. Values peaked in late February and early March, then declined through the spring and summer, mostly in response to expectations of increased production in 2008-09. Tempering the extremely high commodity prices was the effect of a stronger Canadian dollar versus the U.S. dollar; this reduced the overall Canadian dollar value of sales.

The final pool return for No. 1 CWRS with 13.5 per cent protein (net of all costs) was $372.06 per tonne in store Vancouver/St. Lawrence, compared to $212.89 per tonne a year earlier. Due to an abundant supply of high-grade, high-protein North American milling wheat, the protein spread between 11.5 per cent and 13.5 per cent dropped to $6.44 per tonne, from $7.24 per tonne one year before. The final pool returns for No. 3 CWRS and No. 2 CPSR were $351.26 and $337.03 per tonne, respectively, compared to $196.32 and $185.90 per tonne in 2006-07.

Direct costs increased $3.83 per tonne. Freight costs were the main contributor as a result of more sales being executed through the eastern ports and seaway. There were blending promotions by the grain companies, given the higher grade pattern, which resulted in higher costs. Finally, the heavy barley program through the fall, which competed with the wheat program, combined with railway performance and weather issues to result in higher demurrage costs.

Net revenue from operations was $359.15 per tonne, up $157.25 from the previous year.

Other income of $10.35 per tonne, an increase of $0.93 per tonne, relates to the recovery of charges deducted by the CWB's agents. Recovery of freight charges decreased due to a smaller proportion of sales that were sold basis a country position and the fact that the freight collected by grain companies was subsequently recovered by the pool account. Although overall tonnes attracting this recovery decreased, the rate per tonne increased due to higher freight cost per tonne.

Distribution of earnings

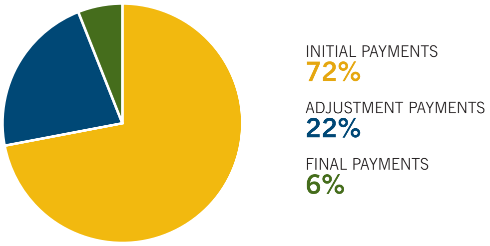
The average sales proceeds available for distribution increased 51 per cent to $4.9 billion or $366.65 per tonne. Of the $4.9 billion, $3 billion was returned to pool participants. Of this amount, 94 per cent was approved by July 16, 2008 for distribution in the form of initial and adjustment payments.

Approximately $1.9 billion of sales returns was paid from the wheat pool to the PPO programs. This amount represents the return on specific grades and classes of wheat delivered under the FPC, DPC, BPC and EPO. It is $974 million higher than the $873 million returned to PPO participants the previous year. The PPOs, in turn, paid farmers at the respective contract price.

The board of directors also approved a $25.5 million transfer to the Contingency Fund. Of the total transferred, $21.4 million was from the wheat pool.

Figure 8: Earnings distributed to farmers

Wheat 2007-08



THE DURUM POOL

For the year ended July 31 (dollar amounts in 000s)	2008 Total	2008 Per tonne	2007 Total	2007 Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**3 581 037**		**3 982 710**	
Revenue	**$ 1,976,339**	**$ 551.89**	**$ 1,019,368**	**$ 255.95**
Direct costs				
Freight	89,325	24.94	82,982	20.84
Terminal handling	24,763	6.92	27,915	7.01
Inventory storage	13,006	3.63	14,910	3.74
Country inventory financing	3,050	0.85	1,627	0.41
Inventory adjustments	5,318	1.49	(741)	(0.19)
Grain purchases	12,437	3.47	19,063	4.79
Other direct expenses	6,367	1.78	6,707	1.68
Total direct costs	**154,266**	**43.08**	**152,463**	**38.28**
Net revenue from operations	**1,822,073**	**508.81**	**866,905**	**217.67**
Other income	21,939	6.13	24,841	6.23
Net interest earnings	1,350	0.38	3,705	0.93
Administrative expenses	(12,358)	(3.45)	(12,515)	(3.14)
Grain industry organizations	(260)	(0.07)	(359)	(0.09)
Total pool earnings	**1,832,744**	**511.80**	**882,577**	**221.60**
Deduct:				
Sales returns to Producer Payment Options program	266,213	511.43	44,407	222.01
Earnings for distribution	**$ 1,566,531**	**$ 511.85**	**$ 838,170**	**$ 221.58**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**3 581 037**		**3 982 710**	
Less: Producer Payment Options program receipts	**520 522**		**200 026**	
Receipts for pool distributions	**3 060 515**		**3 782 684**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 964,923	$ 315.29	$ 581,155	$ 153.64
Adjustment payments	503,313	164.45	188,558	49.84
Interim payment	–	–	34,044	9.00
Final payment	95,194	31.10	34,413	9.10
Total earnings distributed to pool participants	1,563,430	510.84	838,170	221.58
Transferred to Contingency Fund				
Undistributed earnings	3,101	1.01	–	–
Total distribution	**$ 1,566,531**	**$ 511.85**	**$ 838,170**	**$ 221.58**

The strategy

Durum seeded area in Western Canada increased to 4.8 million acres, up 25 per cent from 2006-07, but below the five-year average. Although it was affected by drought, durum production increased to 3.7 million tonnes compared to 3.3 million tonnes the year before. That being said, total 2007-08 durum pool receipts were lower than in 2006-07, when farm stocks were reduced to their lowest level in the past 10 years. The Canadian durum crop had a very high grade pattern, with 79 per cent of harvested grain falling into the top two grades. Although the overall pool size was down, the high grade pattern and high protein levels of the crop ensured sufficient supplies to meet demand from our quality-focused customers.

Canadian durum exports represent a very large proportion of total world durum trade and as a result, Canadian durum can have a significant impact on overall price structure and farmer returns. In 2007-08, it became apparent as the northern hemisphere harvest progressed that the world supply-demand balance for durum had the potential to become very tight and that this would support a much higher price structure. Our underlying strategy in 2007-08 was to manage the movement of the crop into the market while pursuing opportunities to increase export volumes to the higher-return markets.

The high prices made it likely that farmers would plant more durum for harvest in 2008 in all major production areas; prices were expected to weaken as that harvest approached. A central objective of the marketing program was to minimize the volume of durum carried into the forecasted price inverse. The CWB asked farmers to keep up the pace of deliveries during the late winter through spring seeding when it is more difficult to move grain from the farm and into the handling system. Farmers responded and maintained a good pace of deliveries through this traditionally difficult shipping period, supporting an aggressive sales program that brought carryout stocks of durum to record low levels by the end of July 2008 and took our pool returns to record highs.

Producer receipts

Producer receipts of durum wheat totalled 3.6 million tonnes, a decrease from four 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 August 21, 2008. Allowing the pool to remain open beyond July 31 ensured that deliveries could be receipted into the pool and producers could fulfil their contract requirements, regardless of difficulties arising from factors such as transportation or weather.

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 class, 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.

All Series A and Series B durum was accepted at 100 per cent.

2007-08 Contract acceptance

	Acceptance	% Accepted
Series A	Call acceptance for all durum:	100%
Series B	Call acceptance for all durum:	100%

Calls on Canada Western Amber Durum (CWAD) contracts were evenly spaced throughout the crop year, reflecting a consistent sales plan. As demand drove prices higher, there was pressure to sell as much durum as possible prior to the market dropping. In order to encourage deliveries and thus maximize farmers' market returns, durum growers were contacted by letter and phone. This proved very successful, with producers delivering more durum sooner than in the previous year. Farmers were 75-per-cent delivered on their durum contracts by March, versus 75-per-cent delivered by May 2006-07. In addition, delivery terminations were used to encourage full delivery compliance. Nos. 4 and 5 CWAD were sourced through two GDCs, which match farmer deliveries to specific sales.

2007-08 Delivery calls

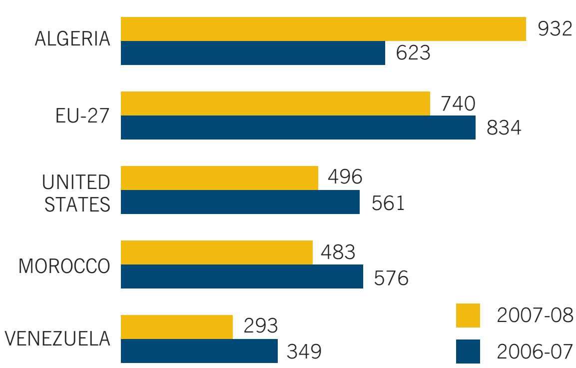
Class called	Call period	Call volume
Series A Nos. 1 and 2 CWAD	February	100%
Series A No. 3 CWAD	December	100%
Series B – All classes	February	100%

Revenue

Export markets accounted for 3.3 million tonnes of durum shipments, compared to 3.7 million tonnes in the 2006-07 pool. Pool year shipments to Algeria increased from 623 000 tonnes in 2006-07 to 932 000 tonnes in 2007-08. The EU-27 was the second-largest CWB customer for durum, with pool shipments of 740 000 tonnes. Strong demand from U.S. customers for quality Canadian durum saw shipments to that market reach 496 000 tonnes. Morocco purchased 483 000 tonnes. Rounding out the top five markets by volume was Venezuela at 293 000 tonnes. The 2007-08 crop year also saw continued growth to Canadian domestic processors from 253 000 tonnes in 2006-07 to 285 000.

Figure 9: Largest-volume durum customers

(2007-08 and 2006-07 sales in 000s tonnes)



Gross revenues in the durum pool amounted to $2 billion on 3.6 million tonnes of receipts for an average of $551.89 per tonne; this is a significant increase from the $255.95 per tonne in 2006-07. Ending stocks of the major durum exporters dropped, helping to maintain strong prices through the year. Foreign exchange continued to have a significant impact on pool returns. The growing strength of the Canadian dollar compared to the U.S. dollar caused downward pressure on the average price per tonne.

The final pool return for No. 1 CWAD with 13.0 per cent protein was $511.52 per tonne in store Vancouver/St. Lawrence, more than double the 2006-07 return of $225.13 per tonne. The final pool return for No. 3 CWAD was $493.09 per tonne versus $203.85 per tonne in 2006-07.

Direct costs increased $4.80 per tonne over the prior year. Freight and inventory adjustments were the major contributors to the increase. A greater number of tonnes were moved by rail through the eastern ports and per-tonne movement costs increased. In addition, there were significant blending promotions by the grain companies, given the very high grade pattern at the time and expectations for 2008-09, which resulted in higher costs. Offsetting a portion of these increases were fewer late 2006-07 producer receipts entering into the 2007-08 pool.

The net revenue from operations was $508.81 per tonne, up $291.14 over the prior year.

Distribution of earnings

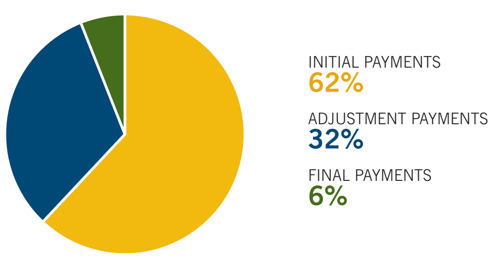
The average sales proceeds available for distribution increased 131 per cent or $290.20 per tonne to $511.80 per tonne, for a total of $1.8 billion. Of the $1.8 billion, $1.6 billion was returned to pool participants. Of this amount, 94 per cent was approved by April 17, 2008 for distribution in the form of initial and adjustment payments.

For producer receipts delivered under the PPO programs, $266 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, BPCs and EPOs. The PPOs, in turn, paid farmers at the respective contract price.

The board of directors also approved a $25.5 million transfer to the Contingency Fund. Of the total transferred, $3.1 million was from the durum pool.

Figure 10: Earnings distributed to farmers

Durum 2007-08



THE DESIGNATED BARLEY POOL

For the year ended July 31 (dollar amounts in 000s)	2008 Total	2008 Per tonne	2007 Total	2007 Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**2 444 897**		**1 851 337**	
Revenue	**$ 688,227**	**$ 281.50**	**$ 354,641**	**$ 191.56**
Direct costs				
Freight	16,239	6.64	17,987	9.72
Terminal handling	3,361	1.37	5,072	2.74
Inventory storage	13,629	5.57	11,671	6.30
Country inventory financing	900	0.37	542	0.29
Inventory adjustments	1,480	0.61	871	0.47
Grain purchases	1,309	0.54	1,375	0.74
Other direct expenses	1,794	0.73	(896)	(0.48)
Total direct costs	**38,712**	**15.83**	**36,622**	**19.78**
Net revenue from operations	**649,515**	**265.67**	**318,019**	**171.78**
Other income	62,283	25.47	45,797	24.73
Net interest earnings	5,081	2.08	2,160	1.17
Administrative expenses	(8,437)	(3.45)	(5,818)	(3.14)
Grain industry organizations	(210)	(0.09)	(248)	(0.13)
Total pool earnings	**708,232**	**289.68**	**359,910**	**194.41**
Deduct:				
Sales returns to Producer Payment Options program	120,722	287.94	81,257	193.27
Earnings for distribution	**$ 587,510**	**$ 290.04**	**$ 278,653**	**$ 194.74**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**2 444 897**		**1 851 337**	
Less: Producer Payment Options program receipts	**419 257**		**420 434**	
Receipts for pool distributions	**2 025 640**		**1 430 903**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 468,948	$ 231.51	$ 213,855	$ 149.45
Adjustment payments	58,313	28.79	39,258	27.44
Interim payment	–	–	11,447	8.00
Final payment	59,569	29.41	14,093	9.85
Total earnings distributed to pool participants	586,830	289.71	278,653	194.74
Transferred to Contingency Fund				
Undistributed earnings	680	0.33	–	–
Total distribution	**$ 587,510**	**$ 290.04**	**$ 278,653**	**$ 194.74**

The strategy

The volatility in the global malting barley market was unprecedented throughout the 2007-08 marketing year. Malting barley prices were supported by crop production and quality problems in the U.S., Europe and Australia. As well, the strength of the global feed grain markets, particularly feed barley, supported malting barley prices. The CWB's strategy was to maximize sales of selectable malting barley to the highest-return customers. Record high ocean freight rates reduced the overall return to pool for offshore sales; as a result, these customers were located principally in the U.S. and Mexico. The Australian crop, although affected by drought, was expected to negatively impact the price structure and sales opportunities from December forward. Our objective was to maximize sales to customers in the Australian competitive regions prior to the arrival of that country's crop in the market. We saw some erosion of import demand in some markets as high prices and ocean freight costs prompted maltsters to turn to domestic barley production and wheat for a higher proportion of their total malting requirements. These factors contributed to reductions of imports by Chinese maltsters, traditionally the largest importers of malting barley in the world.

Producer receipts

The size of the designated barley pool rose 32 per cent to 2.4 million tonnes compared to 2006-07, representing the highest pool volume since 1999-2000 (2.6 million tonnes). Strong global malting barley demand resulted in greater marketing opportunities for western Canadian barley, which in turn translated into a higher than average selection rate. Pool volume was high despite a hot, dry finish to the growing season which caused quality problems in southern growing areas of the Prairies and wet weather during the harvest in northern growing regions. Domestic malt plants had generally been running on tight supplies during the summer period, which meant new crop malting barley movement to domestic plants was more aggressive than usual at the start of the crop year. Malt plants ran at or near capacity through the year given strong global demand for malt, and domestic demand was steady. The bulk export program was weighted more heavily towards the front end of the marketing year, given strong global demand and concerns regarding below-average malting barley quality due to wet harvest weather. Deliveries were accepted into the designated barley pool until August 31, 2008. Allowing the pool to remain open beyond July 31 ensured that deliveries could be receipted into the pool and producers could fulfil their contract requirements, regardless of difficulties arising from factors such as transportation or weather.

Revenue

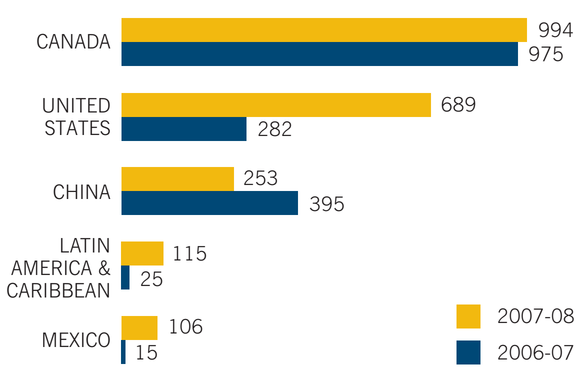
Malting barley sales to the domestic market amounted to 994 000 tonnes, compared to 975 000 tonnes in 2006-07. Malt plants ran at close to full capacity thanks to strong demand for export and domestic malt brought on by tight global malting barley supplies. China was supplanted by the U.S. as the single largest export market for Canadian malting barley. Exports to the U.S. rose sharply to 689 000 tonnes as a combination of tight carry-in supplies and a hot, dry finish to the growing season caused quality problems for the U.S. two-row malting barley crop. Exports to China fell from 395 000 tonnes in 2006-07 to just 253 000 tonnes, as high international malting barley prices stifled Chinese demand and pushed Chinese buyers to increase their reliance on domestic barley and wheat for a greater proportion of their malting requirements.

Gross returns in the designated barley pool were $688.2 million on 2.4 million tonnes of receipts. This translated into an average gross revenue of $281.50 per tonne versus $191.56 per tonne in 2006-07. Heading into the 2007-08 marketing year, global malting barley supplies were very tight, which meant that the global malting industry was counting on a good harvest in 2007-08 to maintain adequate supplies of malting-quality barley and reduce upward pressure on prices. However, crop production problems in key malting barley producing areas of the world, including Europe, Australia and North America, resulted in supplies of malting barley becoming even tighter worldwide and pushed malting barley prices to historic highs.

The final pool return for Special Select two-row barley in store Vancouver/St. Lawrence was $299.59 per tonne, compared to $202.02 per tonne a year earlier. The final pool return for Special Select six-row barley was $272.61 per tonne, compared to $188.12 per tonne in 2006-07. The spread between Special Select two-row and Special Select six-row barley widened from $13.90 per tonne in 2006-07 to $26.98 per tonne, reflecting the relative value of the two products in the international market.

Figure 11: Largest-volume designated barley customers

(2007-08 and 2006-07 sales in 000s tonnes)



Direct costs decreased $3.95 per tonne. The reduced volume of bulk export sales to China caused overall terminal handling and ocean freight costs to decline. This segment of the CWB's business declined as a proportion of pool size and, therefore, contributed to a decline in the average cost per tonne. As a result of the reduced volume sold to China, selection fees earned on this business also declined.

The net result is that the net revenue from operations was $265.67 per tonne, a $93.89 per tonne increase over the prior year.

Other income increased $0.74 per tonne to $25.47 per tonne. Recovery of freight charges increased due to a greater proportion of sales that were sold basis a country position and the fact that freight collected by grain companies was subsequently recovered by the pool account. For example, when producers deliver to a country point, the agent deducts freight. The CWB then recovers that freight as the agent does not incur any freight cost. This recovery is included in other income.

Distribution of earnings

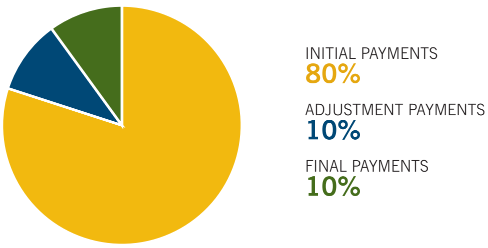
The average sales proceeds available for distribution increased 49 per cent or $95.27 per tonne to $289.68 per tonne for a total of $708 million. Of this amount, $587 million was returned to pool participants. Ninety per cent was approved by February 21, 2008 for distribution in the form of initial and adjustment payments.

Just under $121 million of sales returns was paid from the designated barley pool to the PPO programs, representing the return on the specific grades and classes of barley delivered under FPCs, BPCs and EPOs. The PPOs, in turn, paid farmers at the respective contract price.

The board of directors also approved a $25.5 million transfer to the Contingency Fund. Of the total transferred, $0.7 million was from the designated barley pool.

Figure 12: Earnings distributed to farmers

Designated barley 2007-08



THE FEED BARLEY POOL A

For the six months ended January 31 (dollar amounts in 000s)	2008		2007	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**37 474**		**147 513**	
Revenue	**$ 11,120**	**$ 296.73**	**$ 30,013**	**$ 203.46**
Direct costs				
Freight	7	0.18	(20)	(0.14)
Terminal handling	306	8.17	1,863	12.63
Inventory storage	184	4.91	364	2.47
Country inventory financing	13	0.35	24	0.16
Inventory adjustments	35	0.94	(329)	(2.23)
Grain purchases	243	6.48	(99)	(0.67)
Other direct expenses	(53)	(1.41)	613	4.16
Total direct costs	**735**	**19.62**	**2,416**	**16.38**
Net revenue from operations	**10,385**	**277.11**	**27,597**	**187.08**
Other income (Note 24)	516	13.76	127	0.86
Net interest earnings	948	25.31	1,201	8.14
Administrative expenses	(129)	(3.45)	(426)	(2.89)
Grain industry organizations	(4)	(0.10)	(14)	(0.09)
Total pool earnings	**11,716**	**312.63**	**28,485**	**193.10**
Deduct:				
Sales returns to Producer Payment Options program	3,824	280.01	26,061	187.63
Earnings for distribution	**$ 7,892**	**$ 331.32**	**$ 2,424**	**$ 281.40**

	2008 Total	2008 Per tonne	2007 Total	2007 Per tonne
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**37 474**		**147 513**	
Less: Receipts through payment program	**13 655**		**138 898**	
Receipts for pool distributions	**23 819**		**8 615**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 5,247	$ 220.28	$ 522	$ 60.62
Adjustment payments	199	8.35	724	83.98
Interim payment	–	–	–	–
Final payment	1,210	50.78	296	34.40
Total earnings distributed to pool participants	6,656	279.41	1,542	179.00
Transferred to Contingency Fund				
Undistributed earnings	1,236	51.91	882	102.41
Total distribution	**$ 7,892**	**$ 331.32**	**$ 2,424**	**$ 281.41**

The strategy

In anticipation of the removal of the CWB's single desk authority for western Canadian barley for the 2007-08 marketing year, the private grain trade sold close to 900 000 tonnes of western Canadian feed barley during the spring and summer of 2007, mostly for shipment in October and November. When the CWB's single desk authority was confirmed for 2007-08, the CWB agreed to work with the private trade to facilitate feed barley sales and minimize any negative impacts on western Canadian farmers and on customers related to sales execution. A key component of our negotiations with the private trade on these sales was to spread shipments over a more manageable shipment window, to minimize logistical problems and disruption for CWB shipments through the fall period. The tonnage and concentration of these private trade barley sales in the fall and early winter shipment period consumed a large amount of the Pacific coast shipping capacity, restricting the logistical space available for additional sales. Pool A was relatively small.

Producer receipts

Total feed barley receipts for pool A were 37 474 tonnes. The majority of feed barley was originated using an open GDC. Deliveries were accepted into pool A until February 15, 2008. Allowing the pool to remain open beyond July 31 ensures that deliveries can be receipted into the pool and producers can fulfil their contract requirements, regardless of difficulties arising from factors such as transportation or weather.

Revenue

Gross revenue in feed barley pool A was $11.1 million on 37 474 tonnes of receipts, representing an average of $296.73 per tonne, versus $203.46 per tonne in the previous year. The final pool return for No. 1 Canada Western feed barley in store Vancouver/St. Lawrence was $281.28 per tonne, compared to $187.42 per tonne in 2006-07.

The majority of the feed barley in pool A was marketed to Japan (18 000 tonnes), and the number of trades in the pool was very limited. Marketing feed barley to the Japanese market represented the best return to pool compared to alternatives.

Figure 13: Largest-volume feed barley pool A customers

(2007-08 and 2006-07 sales in 000s tonnes)

Direct costs increased $3.24 per tonne over the previous year. Carry-in stocks of feed barley were on average slower to move through the country and terminal elevator system, due to the lack of opportunities to market feed barley through the pool. (The offshore export sale to Japan shipped in December 2007.) Inventory adjustments increased, reflecting promotions by the grain companies. Other grain purchases increased. Although a smaller tonnage of 2006-07 late receipts entered the 2007-08 pool, the rate per tonne was substantially higher as the proportion of late receipts to total pool size increased. As well, 2006-07 saw a terminal audit settlement in our favour. A reduced proportion of the pool was moved through export terminal facilities, reducing terminal per-tonne handling costs. Decreases 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.

The net result is that net revenue from operations was $277.11 per tonne, up $90.03 over the prior year.

Other income increased $12.90 per tonne to $13.76 per tonne. A higher percentage of the pool was sold basis a country position and freight collected by grain companies was subsequently recovered by the pool account.

Distribution of earnings

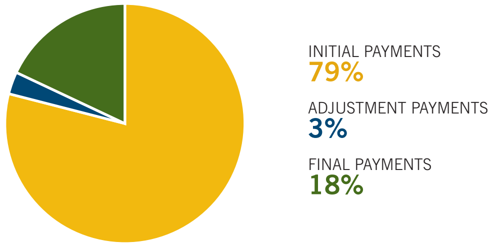
The average sales proceeds available for distribution increased 62 per cent or $119.53 per tonne, to $312.63 for a total of $11.7 million. Of this amount, $6.7 million was returned to pool participants. Eighty-two per cent was approved by November 22, 2008 for distribution in the form of initial and adjustment payments.

Just over $3.8 million of sales returns was paid from the feed barley A pool to the PPO programs, representing the return on specific grades and classes of barley delivered under the FPCs, BPCs and EPOs. The PPOs, in turn, paid farmers at the respective contract price.

The board of directors approved a formula that ensures that a fair amount of interest earnings is allocated to the barley pool and mitigates the distorting effects of certain costs in years when pool volume is unusually low. The total transferred under the policy was $1.2 million.

Figure 14: Earnings distributed to farmers

Feed barley pool A 2007-08



THE FEED BARLEY POOL B

For the six months ended July 31 (dollar amounts in 000s)	**2008** Total	**2008** Per tonne	2007 Total	2007 Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**418 014**		**19 809**	
Revenue	**$ 125,059**	**$ 299.17**	**$ 3,658**	**$ 184.64**
Direct costs				
Freight	178	0.43	(4)	(0.23)
Terminal handling	5,007	11.98	126	6.39
Inventory storage	636	1.52	140	7.06
Country inventory financing	114	0.27	3	0.15
Inventory adjustments	46	0.11	6	0.28
Grain purchases	1,525	3.65	31	1.55
Other direct expenses	525	1.26	234	11.81
Total direct costs	**8,031**	**19.22**	**536**	**27.01**
Net revenue from operations	**117,028**	**279.95**	**3,122**	**157.63**
Other income	1,537	3.68	994	50.17
Net interest earnings	1,216	2.91	1,102	55.61
Administrative expenses	(1,443)	(3.45)	(62)	(3.14)
Grain industry organizations	(30)	(0.07)	(2)	(0.09)
Total pool earnings	**118,308**	**283.02**	**5,154**	**260.18**
Deduct:				
Sales returns to Producer Payment Options program	66,966	280.33	3,296	209.96
Earnings for distribution	**$ 51,342**	**$ 286.63**	**$ 1,858**	**$ 451.91**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**418 014**		**19 809**	
Less: Producer Payment Options program receipts	**238 888**		**15 697**	
Receipts for pool distributions	**179 126**		**4 112**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 39,434	$ 220.15	$ 490	$ 119.23
Adjustment payments	632	3.53	44	10.80
Interim payment	–	–	218	53.00
Final payment	10,014	55.91	110	26.64
Total earnings distributed to pool participants	50,080	279.59	862	209.67
Transferred to Contingency Fund				
Undistributed earnings	1,262	7.04	996	242.24
Total distribution	**$ 51,342**	**$ 286.63**	**$ 1,858**	**$ 451.91**

The strategy

The CWB's strategy was to maximize feed barley sales to export customers that generated returns to farmers greater than those in the western Canadian domestic market. Record high ocean freight rates, relatively tight Canadian supplies and tight logistical capacity limited export opportunities. However, in the latter half of the 2007-08 crop year, the CWB was able to take advantage of market conditions and execute more than 418 000 tonnes of feed barley sales in pool B, using a combination of GDCs and tenders to originate supplies.

Producer receipts

Total feed barley receipts for pool B were 418 014 tonnes. Besides the influence of global supply and demand factors on the relative demand for feed barley globally, the relationship between the export market and the domestic feed market has a strong influence on the volume of feed barley that can be exported from Western Canada. During the course of pool B in 2006-07, the price relationship between the export and domestic market limited producers' interest in marketing feed barley through the CWB as returns were better in the domestic market. In 2007-08, however, due in large part to very strong international feed barley prices, farmers showed significant interest in marketing feed barley into export channels. Feed barley prices during the 2007-08 marketing year were historically high due in large part to historically tight global feed grain stocks.

Deliveries were accepted into pool B up until August 31, 2008. Allowing the pool to remain open beyond July 31 ensures that deliveries can be receipted into the pool and producers can fulfil their contract requirements regardless of difficulties arising from factors such as transportation or weather.

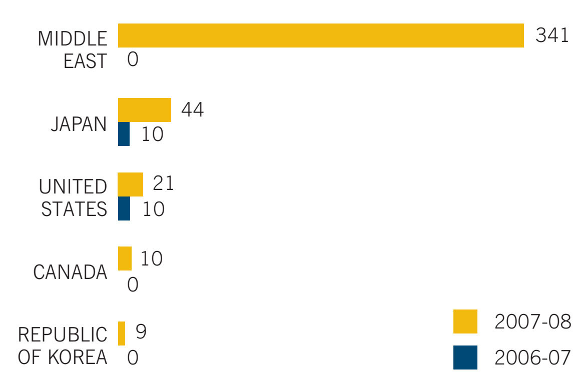
Revenue

Gross revenue in feed barley pool B was $125.1 million on 418 014 tonnes of receipts, representing an average of $299.17 per tonne, versus $184.64 per tonne in the previous year. The final pool return for No. 1 Canada Western feed barley in store Vancouver/St. Lawrence was $280.67 per tonne, compared to $210.14 per tonne in 2006-07.

Exports to the Middle East amounted to 341 000 tonnes. Strong demand there stemmed from a lack of feed barley for export from the Black Sea due to a combination of production problems and export taxes. Another strong factor that influenced exports to Saudi Arabia during early spring 2008 was a decision by that country's government to increase its import subsidy for barley by 71 per cent, in turn increasing opportunities to export feed barley. Sales volume to Japan increased to 44 000 tonnes as export competition, primarily from the U.S., was limited, creating opportunity to sell feed barley to Japan.

Figure 15: Largest-volume feed barley pool B customers

(2007-08 and 2006-07 sales in 000s tonnes)



Direct costs decreased $7.79 per tonne to $19.22 per tonne. The decrease is a result of lower per-tonne storage costs, reflecting the dilution effect of a larger pool size and other direct expenses that reflect accrual differences. The accrual differences are offset by a proportionate allocation of interest earnings prior to any net interest transfer to the Contingency Fund. Offsetting these decreases are increased costs in terminal handling due to a higher percentage of the pool volume being sold on a freight-on-board basis and grain purchases used to complete sales commitments.

The net result is that net revenue from operations was $279.95 per tonne, up $122.32 from the prior year.

Other income declined $46.49 per tonne. The current year pool was substantially larger than the prior year, resulting in a dilution per tonne of other income. More specifically, during the course of 2006-07, a prior-year claim was settled in our favour, substantially increasing other income in pool B. (Consistent with the interest earnings allocation policy, this amount was transferred to the Contingency Fund.) In the current year, there was an increase in the volume of grain grown in the Thunder Bay and U.S. catchment zones that attracted an additional cost to move the grain collected from the grain companies. Finally, more grain was shipped from western catchment zones to the east, resulting in favourable freight rates that were also collected from the grain companies.

Distribution of earnings

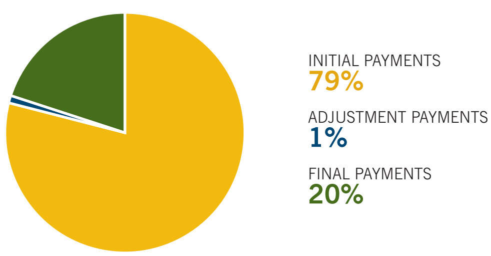
The average sales proceeds available for distribution increased nine per cent or $22.84 per tonne to $283.02 per tonne, for a total of $118 million. Of this amount, $50 million was returned to pool participants. Eighty per cent was approved by April 17, 2008 for distribution in the form of initial and adjustment payments.

Just under $67 million of sales returns were paid from the feed barley B pool to the PPO programs, representing the return on the specific grades and classes of barley delivered under FPCs, BPCs and EPOs. The PPOs, in turn, paid farmers at the respective contract price.

The board of directors approved a formula that ensures that a fair amount of interest earnings is allocated to the barley pool to mitigate the distorting effects of certain costs in years when pool volume is unusually low. The total transferred under the policy was $0.9 million. The board of directors also approved a $25.5 million transfer to the Contingency Fund. Of the total transferred, $0.3 million was from the feed barley B pool.

Figure 16: Earnings distributed to farmers

Feed barley pool B 2007-08



The CWB's strategy was to maximize feed barley sales to export customers that generated returns to farmers greater than those in the western Canadian domestic market.

INDIRECT INCOME AND EXPENSES

Net interest earnings (pool accounts only)

(dollar amounts in 000s)	2007-08	2006-07
Interest on credit sales		
Revenue on credit sales receivable	$ 60,134	$ 94,718
Expense on borrowings used to finance credit sales receivables	41,589	74,727
Net interest on credit sales	**18,545**	19,991
Interest revenue (expense) on pool account balances	**(13,290)**	1,043
Other interest		
Revenue	14,902	12,171
Expense	2,652	2,656
Net other interest revenue	**12,250**	9,515
Total net interest earnings	**$ 17,505**	**$ 30,549**

Net interest earnings of $17.5 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." In 2007-08, revenue earned was consistent with the credit agreements of customers. The increased revenue was generated by lower costs of funds. With the credit crisis, the CWB was able to borrow at very favourable rates due to its government guarantee on debt. This reduction in overall interest costs resulted in a favourable spread that helped offset the decrease in outstanding balances.

The interest expense on the pool account balances has increased as a result of margin financing costs associated with commodity hedging activity.

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. Expenses, primarily from financing costs such as fees and bank charges, make up the main portion of other interest expense.

Administrative expenses

Administrative expenses increased $3.5 million or five per cent from the previous year to $75.7 million.

Human resources increased $3 million, reflecting merit increases and higher benefit costs as well as a higher variable pay payout and severance costs. With the implementation of the SCT project, a one-time write off of systems development assets being replaced by SCT accounted for $2 million of the increase, partially offset by reductions in depreciation from fully depreciated assets. Outsource costs decreased $1.2 million. Although the overall spend on the outsourcing increased due to a greater demand from the SCT project, consistent with the CWB's capitalization policy, these costs were capitalized. This resulted in a decrease over the previous year.

Grain industry organizations

The CWB continued to provide support for organizations that benefit, both directly and indirectly, western Canadian grain farmers. During 2007-08, the CWB contributed $1.5 million to the operations of the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC). CIGI and CMBTC play integral roles in the CWB's marketing and product development strategies by providing technical information and educational programs to customers.

PRODUCER PAYMENT OPTIONS (PPOs)

Financial Results

Statement of Producer Payment Options program operations

For the year ended July 31 (dollar amounts in 000s)	2008	2007
FIXED / BASIS / DAILY PRICE CONTRACTS		
Receipts (tonnes)	**4 503 682**	**3 421 406**
Revenue		
Sales returns paid to program	$ 1,642,690	$ 710,837
Pricing damages	7,864	2,547
	1,650,554	713,384
Expense		
Contracted amounts paid to producers	1,258,809	743,119
Net hedging activity	466,911	3,354
Net interest	12,681	3,222
Administrative expense	1,666	3,618
	1,740,067	753,313
Net program deficit, to Contingency Fund	**$ (89,513)**	**$ (39,929)**

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 4 503 682 tonnes compared to the prior year's 3 421 406 tonnes. This represents an increase of 32 per cent. See the chart below for details on the number of contracts and producers involved and the 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 $1.6 billion for wheat, $20 million for durum, $3.4 million for designated barley and $12.2 million for feed barley pools A and B.

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 $89.5 million. This loss is largely attributable to the FPC, BPC and DPC programs that are offered for wheat. The factors that caused the losses in the wheat programs relate to commodity hedging and pricing. The placement of hedges in exchanges and future months plus the cost of rolling the hedges in an inverse market, never significant in the past, became very significant in the current year because of the large volatility. As well, prices offered to producers

(dollar amounts in 000s)	2007-08				2006-07			
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	28,859	16,048	3 754 342	$ (72,182)	20,481	12,581	2 887 629	$ (33,396)
Wheat DPC	2,157	1,772	654 479	(18,520)	1,908	1,606	501 366	(7,231)
Durum	339	282	39 805	(102)	11	9	754	21
Designated barley	62	53	11 826	396	112	98	19 813	121
Feed barley A	3	3	223	13	86	78	11 844	556
Feed barley B	57	49	43 007	882	–	–	–	–
Total	**31,477**	**18,207**	**4 503 682**	**$ (89,513)**	**22,598**	**14,372**	**3 421 406**	**$ (39,929)**

are based on nearby prices. In an adverse market, the nearby price offered is higher than can be achieved by hedging forward in the futures market.

Offsetting these losses were gains in basis. Once producers have priced, they have locked in their basis levels. If the final achieved basis of the pool is different from what producers locked in, a gain or loss will result. The basis, which is unhedgable, widened over the course of the year due to the very tight world grain fundamentals that became apparent after producers locked in their FBC/BPC prices, resulting in a gain to the program.

The DPC was introduced in 2005-06. It offers producers an opportunity to capture daily cash prices based on the U.S. market. A total of 654 479 tonnes was delivered to the program in 2007-08. Pool returns paid to this program were $242 million. After accounting for pricing damages (offset by contracted values net hedging losses, interest and administrative expenses), the program had a net deficit of $18.5 million. The reasons for this deficit are similar to those with the FPC and BPC programs. However, the DPC had additional basis risks as it was based on U.S. elevator prices. During the period of pricing, the U.S. elevator bids became dramatically out of line with pricing in the rest of the world, largely because little grain was available for sale at U.S. elevators. As the CWB sells into multiple markets, this resulted in a loss for the program.

The DPC has operated as a pilot program for the last three years. While farmer interest has increased, the program remained risky to operate. It did not reach the break-even point in its first three years of operation. The program contained more unhedgeable risk than other PPOs and current volatility in market prices and cash prices have made it financially unsustainable. The DPC faces heavy basis risk in part because pricing is based on a single market, that of U.S. northern-tier states. The fact that the CWB sells on multiple market structures creates unhedgeable risk from inter-market spread volatility. The effect of the unmanageable risk in the DPC meant the program had to operate under a tonnage limit that capped availability and made it inaccessible to many farmers. As a result, 2007-08 was the final year of the DPC program. It has been replaced with a new program for 2008-09 called FlexPro.

Management expects that the revised offerings of PPO programs as well as the adjustments implemented due to the previous years' losses will generate positive results for the Contingency Fund in the future. In addition, management has engaged an external consultant to validate the hedging and pricing adjustments.

Statement of Producer Payment Options program operations

For the year ended July 31 (dollar amounts in 000s)	2008	2007
EARLY PAYMENT OPTION		
Receipts (tonnes)	**1 762 951**	**1 548 931**
Revenue		
Sales returns paid to program	$ 661,619	$ 316,840
Program discount	9,019	2,943
Pricing damages	246	14
	670,884	319,797
Expense		
Contracted amounts paid to producers	662,275	317,215
Net hedging activity	4,248	487
Net interest	436	219
Administrative expense	810	573
	667,769	318,494
Net program surplus, to Contingency Fund	**$ 3,115**	**$ 1,303**

Early Payment Option (EPO)

Deliveries to the EPO in 2007-08 totalled 1 762 951 tonnes, compared to 1 548 931 tonnes in 2006-07. See chart below for details on the number of contracts and producers involved and the tonnes delivered.

The EPO discount, charged to farmers for risk, time value of money and program administration costs, was $9 million, up from $2.9 million in 2006-07. The increase in this discount was primarily due to risk associated with the volatility in the markets. After accounting for pricing damages charged for non-delivery, net interest expense, net hedging results and administration, a net surplus of $3.1 million was generated.

(dollar amounts in 000s)	2007-08				2006-07			
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	4,896	3,957	665 490	$ 379	6,029	4,668	806 287	$ 487
Durum	3,163	2,343	480 717	1,039	1,072	768	199 272	244
Designated barley	2,210	1,874	407 431	1,007	2,231	1,943	400 621	378
Feed barley A	109	104	13 432	41	981	883	127 054	162
Feed barley B	1,403	1,256	195 881	649	165	153	15 697	32
Total	**11,781**	**9,534**	**1 762 951**	**$ 3,115**	**10,478**	**8,415**	**1 548 931**	**$ 1,303**

CASH TRADING

Financial Results

Statement of cash trading operations

For the year ended July 31 (dollar amounts in 000s)	2008		2007	
	Total	Per tonne	Total	Per tonne
Receipts (tonnes)	**1 206 934**		**5 905**	
Revenue	**$ 297,857**	**$ 246.79**	**$ 1,138**	**$ 192.76**
Direct costs				
Purchase cost	271,514	224.96	1,026	173.83
Freight	(211)	(0.18)	–	–
Terminal handling	2,177	1.80	15	2.62
Inventory storage	160	0.13	–	–
Inventory adjustments	(20)	(0.02)	–	–
Other direct expenses	344	0.28	85	14.36
Total direct costs	**273,964**	**226.97**	**1,126**	**190.81**
Net revenue from operations	**23,893**	**19.82**	**12**	**1.95**
Other income	91	0.08	–	–
Net interest earnings	315	0.26	99	16.68
Administrative expenses	(4,328)	(3.59)	(19)	(3.14)
Net program surplus, to Contingency Fund	**$ 19,971**	**$ 16.57**	**$ 92**	**$ 15.49**

(dollar amounts in 000s)	2007-08	
Program	**Tonnes**	**Net surplus (deficit)**
Feed barley	1 192 645	$ 19,938
Designated barley	12 278	43
Organic wheat	2 011	(1)
Pre-delivery top-up		(9)
Total	**1 206 934**	**$ 19,971**

Cash trading

In response to the changing marketing environment as well as requests from farmers for additional marketing options, the CWB operated several cash trading accounts during the 2007-08 marketing year. These programs are managed outside of the pool accounts and transactions are structured to cover operating costs, manage trading risk and generate positive trading margins while adding value to western Canadian wheat, durum and barley marketing.

Feed barley cash trading

The total volume of feed barley marketed via various cash-related marketing arrangements was 1 192 645 tonnes, with a net trading margin of $19.9 million. These marketing arrangements can be divided into two categories: facilitating feed barley business concluded by the grain trade in anticipation of an open market; and cash feed barley trading.

On June 7, 2007, the Government of Canada made amendments to the CWB Regulations that would have resulted in an open market for barley effective August 1, 2007. On July 31, 2007, the Federal Court of Canada ruled that the regulations were of no force and effect. However, in the intervening time, the private grain trade sold nearly 900 000 tonnes of feed barley for export in anticipation of the open market. All contracts that were entered into by contracting parties in anticipation of the regulations becoming effective were rendered null and void, pursuant to *The Act*. The CWB agreed to work with the private trade to facilitate its feed barley sales and minimize any negative impacts related to sales execution on western Canadian farmers and on customers. These transactions were handled through the cash trading mechanism.

During the 2007-08 marketing year, the CWB also directly concluded a number of cash feed barley trades.

Designated barley cash trading

In advance of what was anticipated by many to be an open market for malting barley during the 2007-08 marketing year, there was great uncertainty as to what the marketing environment would look like, leaving many players either on the sidelines or making arrangements for an open market. The Cash*Plus* program had yet to be developed by the CWB, leaving extremely limited opportunities for the CWB to trade new crop malting barley during the time period running up to the 2007-08 pool year. The total designated barley volume marketed by the CWB via cash trading activities in the 2007-08 marketing year was 12 278 tonnes, with a net trading margin of $43,000. Effectively all of the trading activity in this account occurred in a short period prior to the start of the crop year.

Organic cash trading

For 2007-08, the board of directors approved a pilot project to directly market organic wheat and barley on a cash buying basis, as part of its enhanced services to organic farmers. Under this program, the CWB bought 2 011 tonnes of organic grain, paying farmers on average $846 per tonne at the farm gate. After operating and administration costs, the CWB had a small loss of $1,000.

With the exception of risk related to currency volatility, there are no suitable risk-management derivatives available for organic grain. As a result, there is substantial cash trading risk, particularly in an environment characterized by extreme volatility in market prices and freight costs. Unhedgeable risk is managed by ensuring that trading margins between the buy side price, determined by the competitive domestic market structure, and the sale price to the customer is sufficient, over the long term, to offset trading risk.

For 2007-08, all sales revenues net of payments to farmers and operating and administration costs will be transferred to the Contingency Fund. For 2008-09, the CWB is offering a “basis pooling contract” with an upfront cash price and a possible final payment at the end of the year, based on the CWB’s performance selling and executing sales.

As part of the procedures put in place to administer the organic cash program, the CWB established a firewall between the administration of the Organic Fixed Spread Contract (OFSC) and the commercial activities of the organic marketing program. Information pertaining to the OFSC is held in a secure directory and all farmer-specific or sale-specific information is withheld from the organic marketing managers. Not only does this establish integrity in the CWB’s organic marketing activities, it also ensures that the CWB is compliant with the *Privacy Act* and the CWB’s Protection of Personal Information Policy.

Predelivery 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 $730,000 were issued to 58 farmers. This compares to $6.8 million distributed to 387 farmers in 2006-07. This decline was expected, as the program is designed to increase cash flow early in the crop year and will be most utilized in years of low prices, something which was not the case in 2007-08. There was a small net deficit of $9,000 in the program, compared to a net surplus of $14,000 in 2006-07. The discount taken was sufficient to cover the cost of financing. However, accounts written off at year-end resulted in the net deficit.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk of being unable to meet corporate obligations. We operate diversified debt issuance programs to meet daily cash requirements and also hold highly rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, we maintain lines of credit with financial institutions to provide supplementary access to funds.

Cash flow – Sources and uses

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

Cash provided by operations was $4.9 billion, up from the previous year. Financing activities contributed $0.1 billion and investing activities contributed $0.2 billion.

We issue adjustment and interim payments during the year. After all accounting has been concluded, we issue a final payment to producers who delivered into the pool accounts. Distributions to producers totalled $5.2 billion. Because the CWB is typically in a net borrowing position, there is a zero net cash position at the end of the year.

We believe that cash generated from operations supplemented by debt issued will be sufficient to meet our anticipated capital expenditures and other cash requirements in 2008-09. The CWB has been able to remain liquid during the credit crisis that began on August 2007, as a result of the company's diversified funding sources, liquidity reserves and top credit rating.

Balance sheet

The balance sheet of the CWB was revised for July 31, 2008 to more appropriately reflect the nature of the balance sheet items. Debt held by the CWB has been reclassified into borrowings (commercial paper net of cash) and long-term debt (domestic and Euro medium-term notes) with a current portion of long-term in current liabilities to reflect the portion due within one year. Investments were also reclassified between short-term investments with current maturities and Investments for longer maturities. The adoption of the financial instrument standard on August 1, 2007, resulted in two new balance sheet items, derivative assets and liabilities. These accounts reflect the fair value of derivative instruments.

Overall, the balance sheet at July 31, 2008 was $1.3 billion higher, at $5.5 billion. Inventory of grain and liability to agents were the main contributors to this increase, due to higher grain prices and inventory levels at July 31, 2008 compared to last year. The new balance sheet derivative accounts reflecting the fair-value financial instruments increased assets and liabilities.

Over the next five years, credit receivable repayments will result in significantly lower credit receivables and corresponding borrowing levels. It will also have the effect of lowering net interest earnings. The CWB estimates that net interest earnings on credit sales will progressively decline to $3 million by 2012-13.

On August 1, 2007 the CWB adopted the following new accounting standards: Section 3855 – Financial Instruments – Recognition and Measurement; Section 3861 – Financial Instruments – Disclosure and Presentation; Section 3865 – Hedges; and Section 1530 – Comprehensive Income. The adoption of these new standards resulted in changes to the accounting for financial instruments and hedges, as well as the recognition of certain adjustments in opening balances on the balance sheet. These are described in greater detail in the Notes to the Financial Statements.

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 CWB 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 Government of Canada. Long-term and short-term ratings of the debt (senior unsecured and commercial paper) are currently as follows: Moody's Investors Service Senior Unsecured Ratings (Aaa/P-1), Standard & Poor's (AAA/A-1+) and Dominion Bond Rating Service (AAA//R-1(high)).

We borrow money to finance grain inventories, accounts receivable from credit sales, and administrative and operating expenses, and to administer the Government of Canada's advance payment programs. We borrow in a variety of currencies, but mitigate currency risk by converting debt issued into either Canadian or U.S. dollars to match the assets being financed.

We manage multiple debt programs to minimize borrowing costs and manage liquidity risk. Total debt outstanding ranged from $3.3 billion to $5.1 billion (Canadian dollar equivalent) in 2007-08. Our debt programs include:

- Domestic commercial paper program (the "Wheat Board Note" program)
- U.S. commercial paper program
- Euro medium-term note program
- 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 increased slightly from $3.1 billion at the 2006-07 year-end to $3.3 billion at the close of 2007-08.

Contingency Fund

The Act provides for the establishment of a Contingency Fund to be used for certain specified purposes. Currently, the only use to which the Fund may be put is to provide for potential losses from operations under section 33.01 or 39.1 of *The Act*. Section 33.01 enables the CWB to provide producers with the option of receiving an amount other than the adjustment, interim and final payments (generally referred to as an "Early Payment Option" or "EPO"). Currently, the CWB offers farmers early payment programs under section 33.01 (see page 38 under Early Payment Option). Section 39.1 enables the CWB to enter into contracts to purchase wheat, durum or barley from producers or others for an amount other than the sum certain and on whatever terms it considers appropriate (generally referred to as "cash buying"). Currently, the CWB offers farmers fixed, basis and daily contract programs under section 39.1 (see page 38 under Fixed Price Contract/Basis Price Contract/Daily Price Contract), as well as cash purchases from other sources.

Pursuant to the Contingency Fund Regulation, the Contingency Fund can be populated by deducting an amount from any amount the CWB receives in the course of its operations under *The Act* and crediting that amount to the Fund. The only limitations are that the CWB cannot make a deduction if doing so would create a pool deficit and that the balance of the Fund cannot exceed $60 million. Pursuant to *The Act*, the Fund balance can be negative; there is no limit specified.

During the year, a net deficit of $86.4 million was transferred to the Contingency Fund as a result of the PPO programs. Interest earnings on feed barley totalling $2.1 million were transferred to the Fund. Finally, surpluses generated by cash trading, totalling $20 million, were transferred as well.

At July 31, 2008, in the absence of any action by the CWB, the Contingency Fund balance would be at a deficit of $54.4 million. Recapitalization of the Contingency Fund is prudent risk management. The board of directors decided to allocate revenue from the pool deemed to be ancillary to grain sales activities (approximately $18 million), in addition to repatriating funds allocated from the Contingency Fund to the pool accounts in 2005 ($7.5 million). The total recapitalization is $25.5 million, bringing the balance in the Contingency Fund to $(28.9) million at July 31, 2008. Management expects that the revised offerings of PPO programs as well as the adjustments implemented due to the previous years' losses will generate positive results for the Contingency Fund on a go-forward basis.

To uphold the principle communicated to farmers that the PPO programs will operate independently of the pool, the board of directors has approved a policy that provides for repayment of funds to the pools from the PPO programs when the Contingency Fund is in a positive balance. Repayments to the pools cannot force the Contingency Fund into a negative position.

RECONCILIATION OF NON-GAAP MEASURES

In 2007-08, the CWB adopted the new Canadian accounting standard Financial Instruments. The new standard requires that all financial instruments are recorded on the balance sheet, including commodity, foreign-exchange and debt-related interest and cross-currency derivatives. The standard also requires that these financial instruments be fair-valued at year end, resulting in unrealized gains and losses being recorded in income. The result is that the statement of operations by pool are affected by the fair value calculated that is relevant to a future year.

Hence an alternative report format was explored and the financial statements are now presented on a combined basis. It captures all aspects of the business – pools, PPOs and cash trading – and is presented in a combined manner in accordance with Canadian GAAP. In addition, there is a separate statement of distributions to pool participants, in order to report on the final distributions by pool. These combined statements, including the statement of distributions to pool participants, are audited by Deloitte & Touche, the CWB's auditors.

The combined statements will meet the needs of some stakeholder groups. However, a separate statement for each pool account and the results of operations excluding amounts that are not related to the current marketing results are still required for the producer stakeholder group. In order to meet that need and given the requirement of *The Act* to establish a separate pool account for each crop, we have provided a separate accounting of the pool accounts in the MD&A. These statements exclude the effect of the Financial Instrument standard, as the resulting gains and losses calculated under this standard do not relate to the current pool operations. These statements provide producers an opportunity to review the results of each pool account and the resulting distributions that can be tied back to the audited statement of distributions to pool participants.

Reconciliation of individual pool statement to the combined statements

(dollar amounts in 000s)	2008	2007
Pool operations		
Wheat	$ 3,054,694	$ 2,378,595
Durum	1,566,531	838,170
Designated barley	587,510	278,653
Barley A	7,892	2,424
Barley B	51,342	1,858
Cash trading	**19,971**	**92**
PPO programs		
FPC/BPC/DPC Price programs	(89,513)	(39,929)
Early Payment Option programs	3,115	1,303
	5,201,542	3,461,166
Net change in fair value of financial instruments	**527,818**	–
Net earnings, per combined statement of operations	**$ 5,729,360**	**$ 3,461,166**

Financial risk management

We seek to minimize risks related to the financial operations of the CWB. We actively manage exposures to financial risks and ensure adherence to approved corporate policies and risk-management guidelines.

Governance framework

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

The board of directors approves the risk tolerance of the CWB 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 CWB 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 risks.

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 CWB's financial condition. The market risks the CWB is 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. We use exchange-traded futures and option contracts to mitigate commodity-price risk inherent to the core business for the wheat pool.

Our commodity risk-management program comprises 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. We also manage 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, we hedge 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, we manage foreign-exchange risk 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 a mismatch in term and interest rate repricing 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.

Credit risk

Credit risk is the risk of potential loss, should a counterparty fail to meet its contractual obligations. We are exposed to credit risk of $1.2 million on new credit sales under the ACF, as well as credit risk on investments and over-the-counter derivative transactions used to manage market risks. We enter into master agreements with all counterparties to minimize credit, legal and settlement risk. We transact 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. We manage 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

We sell grain under two government-guaranteed export credit programs: the Credit Grain Sales Program 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 Credit Program in Financial Statement Note 4.

Investments

We use short-term investments for the purpose of cash management and liquidity risk management. We also maintain 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. We manage 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. Our 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, use of an integrated financial system, internal and external audits, and an independent risk-control and reporting function.

Outlook

The 2008-09 growing season started with high expectations for both production and prices. The main concern going into the year was the dry conditions in the southern growing regions. Cool, wet conditions helped boost soil moisture levels although crop growth was slowed across the Prairies. The trend of below-normal temperatures continued during July, resulting in crop development that was two weeks behind normal. Warmer temperatures in August and an extended frost-free period in September resulted in most crops reaching maturity without major damage to crop quality. Crop yields in Western Canada were above average in most regions, resulting in the largest wheat crop since the 2000-01 crop year. Harvest began in the southern regions in late August, but did not start until mid-September in most central and northern areas. Although the 2008-09 harvest was not as early as in the previous year, crop quality has remained slightly above average.

Market conditions for the 2008-09 crop are expected to be challenging, due to improved world grain supplies and deterioration of the global economy. The global economic crisis is expected to result in lower demand for most agricultural commodities, including grains. Grain prices have been declining steadily since the beginning of the crop year and are not expected to rebound significantly until the world economy stabilizes. The weakening of the Canadian dollar and a dramatic drop in ocean bulk freight rates will partially offset the market declines.

Wheat markets rose to all-time record levels in February 2008 and have been declining since. Record wheat production of 680 million tonnes in 2008-09 is expected to weigh on wheat prices during the crop year. Increased production in Russia, Ukraine, the U.S. and the EU has been the major factor pushing global prices lower. World wheat ending stocks are forecast to increase by 25 million in the 2008-09 crop year, the largest wheat ending stock increase in more than 20 years.

The durum market fundamentals have paralleled those of milling wheat. Increased production in the major exporting countries has led to sharp price declines in the first three months of the crop year. Durum production in Canada and the EU was significantly higher than in the previous crop year, due to excellent growing conditions and increased area. Demand from North Africa and the Middle East is expected to remain steady, due to production difficulties in both regions.

International barley markets have dropped from highs set early in 2008. Increased production in Europe and the Black Sea region, combined with prospects for improved Australian production, have pressured both the feed and malting barley markets. Another factor in the world barley markets has been the sharp decline in U.S. corn prices, which have dropped significantly since hitting market highs in late June 2008. The dramatic drop in corn prices has lower international prices for all alternative feed grain crops.

The credit crisis, which became evident in August 2007, resurfaced in the spring of 2008. As the banks reported difficulties through the summer and into the fall of 2008, it became clear that the credit difficulties in the financial sector were much more severe than originally thought. A crisis of confidence ensued, with all financial markets experiencing unprecedented levels of volatility. Major governments and central banks responded with a variety of measures aimed at restoring both liquidity and confidence in global financial markets. In the near term, global economic growth is expected to be weak as tight credit conditions are likely to persist until the impacts of the measures enacted by governments and central banks can work their way into the broader economy, providing support for economic growth. Volatility is expected to continue in the markets and the CWB is not expected to have any liquidity issues as the CWB's debt continues to be guaranteed by the Government of Canada.

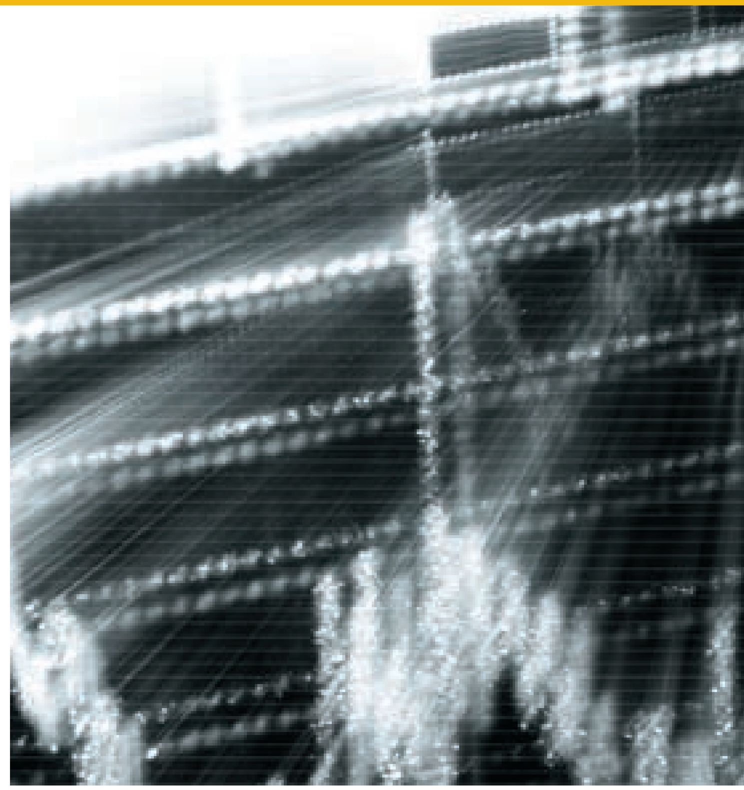
Market conditions for the 2008-09 crop are expected to be challenging, due to improved world grain supplies and deterioration of the global economy.

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; fluctuations in world agriculture commodity prices and markets; shifts in currency values, interest rates, 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 regarding Governemt of Canada guarantees of CWB borrowings and initial payments to farmers, and the monopoly powers of State Trading Enterprises (STEs).

As well, while the Government of Canada was not successful in its appeal of 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*, it remains committed to the removal of the CWB's single-desk mandate for wheat, durum and barley. Specifically, the commitment to remove the single desk on barley was included in the platform of the Conservative Party of Canada, released during the 2008 federal election campaign, and is expected to remain a priority for the Government of Canada in the coming months. The single-desk was also an issue in the 2008 CWB director elections in which five of 10 farmer representatives on the CWB board of directors were determined by mail-in ballot. The board of directors recognizes that the possible loss of the single desk is a principal business risk to the organization, and in its ongoing strategic planning process, continues to assess and prepare for a range of environments and scenarios.

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 2007-08 pool accounts, Producer Payment Options, cash trading and the financial status of the corporation at July 31, 2008.

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, which conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfils 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, internal auditors and 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.

Ian White
President and Chief Executive Officer

Brita Chell
Chief Financial Officer

Winnipeg, Manitoba
November 26, 2008

Auditors' report

To the Board of Directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which includes the balance sheet as at July 31, 2008 and the combined statements of operations, cash flows, distributions to pool participants, transfers to contingency fund and administrative expenses for the year then ended. 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 26, 2008

Balance sheet

As at July 31 (dollar amounts in 000s)	2008	2007
ASSETS		
Current assets		
Short-term investments (Note 3)	$ 1,130,994	$ 948,301
Current portion of credit programs (Note 4)	692,662	496,279
Advance payment programs (Note 5)	571,852	417,079
Prepayment of inventory program	294,619	67,507
Accounts receivable – Non-credit sales	182,157	55,325
Other accounts receivable	152,705	77,690
Derivatives (Note 6)	370,508	–
Inventory of grain (Note 8)	1,620,070	843,346
Prepaid expenses (Note 9)	23,591	192,549
	5,039,158	3,098,076
Credit programs (Note 4)	226,475	863,532
Investments (Note 10)	149,162	146,692
Capital assets (Note 11)	105,207	82,064
	$ 5,520,002	**$ 4,190,364**
LIABILITIES		
Current liabilities		
Borrowings (Note 12)	$ 2,265,198	$ 1,737,590
Accounts payable and accrued expenses (Note 13)	226,086	253,700
Liability to agents (Note 14)	1,136,190	462,897
Derivatives (Note 6)	101,228	–
Liability to producers – Outstanding cheques	227,386	25,599
Liability to producers – Current earnings (Note 15)	381,614	324,032
Current portion of long-term debt (Note 16)	29,834	65,520
	4,367,536	2,869,338
Long-term debt (Note 16)	957,594	1,307,015
	5,325,130	4,176,353
UNDISTRIBUTABLE EARNINGS		
Reserve for producer payment expenses (Note 17)	1,404	1,608
Special account (Note 18)	3,376	3,177
Contingency Fund (Note 19)	(28,942)	9,226
Earnings for future allocation (Note 20)	219,034	–
	194,872	14,011
	$ 5,520,002	**$ 4,190,364**

Approved by the board of directors:

Larry W. Hill

Larry W. Hill
Chair, board of directors

Ian White

Ian White
President and Chief Executive Officer

Combined statement of operations

For the year ended July 31 (dollar amounts in 000s)	2008	2007
Revenue	**$ 8,418,595**	**$ 4,945,882**
Direct costs		
Grain purchases (Note 21)	2,287,630	1,105,693
Freight	305,381	297,268
Terminal handling	138,884	151,467
Inventory storage	69,119	71,401
Country inventory financing	12,643	10,175
Inventory adjustments (Note 22)	11,750	(3,069)
Other direct expenses (Note 23)	38,911	28,748
Total direct costs	2,864,318	1,661,683
Net revenue from operations	5,554,277	3,284,199
Other income (Note 24)	241,841	223,573
Net interest earnings	10,005	27,206
Administrative expenses (Note 25)	(75,303)	(71,790)
Grain industry organizations	(1,460)	(2,022)
Net earnings	**5,729,360**	**3,461,166**
Earnings for future allocation, beginning of year	–	–
Transition adjustment	(308,784)	–
Earnings distributed to pool participants	(5,240,337)	(3,497,822)
Losses transferred to Contingency Fund	38,795	36,656
Earnings for future allocation, end of year	**$ 219,034**	**$ –**

Statement of cash flow

For the year ended July 31 (dollar amounts in 000s)	2008	2007
Increases (decreases) of cash during the year		
Cash flow from operating activities		
Net earnings	$ 5,729,360	$ 3,461,167
Adjustments to determine net cash from (used in) operations		
Interest earned on Contingency Fund balance	627	1,571
Depreciation on CWB hopper cars	4,234	3,925
Depreciation on other capital assets	9,852	8,593
Investment fair value adjustment	(3,153)	–
Long-term debt fair value adjustment	41,809	–
Derivative asset	(268,780)	–
Derivative liability	(339,600)	–
Changes in operations assets and liabilities		
Accounts receivable, excluding credit sales	(583,732)	(71,424)
Inventory of grain	(776,724)	(127,185)
Prepaid expenses	236,514	(84,947)
Accounts payable and accrued expenses	(53,411)	135,118
Liability to agents	673,293	81,476
Liability to producers for outstanding cheques	201,787	3,934
Liability to producers EPO excess payments – Interim & final	40,955	16,723
	4,913,031	3,428,951
Cash flow from financing activities		
Increase (decrease) in borrowings	527,608	(903,307)
Decrease in long-term debt	(443,561)	(254,790)
	84,047	(1,158,097)
Cash flow from investing and other activities		
Accounts receivable – Credit programs	440,674	1,388,719
(Increase) decrease in short-term investments	(182,694)	25,422
(Increase) decrease in investments	5,885	(146,692)
Purchase of capital assets	(37,600)	(23,602)
Proceeds from sale of capital assets	371	718
Provision for producer payment expenses	(204)	(658)
Special Account	199	389
	226,631	1,244,296
Cash distributions		
Prior year undistributed earnings	(324,032)	(324,636)
Current year distributions prior to July 31	(4,899,677)	(3,190,514)
	(5,223,709)	(3,515,150)
Net increase in cash and cash equivalents	–	–
Net cash position at beginning of year	–	–
Net cash position at end of year	**$ –**	**$ –**

Statement of distributions to pool participants

For the year ended July 31 (dollar amounts in 000s)	**2008**		2007	
	Total	Per tonne	Total	Per tonne
WHEAT				
Receipts for pool distributions (tonnes)	**8 293 807**		**11 321 268**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 2,193,016	$ 264.43	$ 1,905,925	$ 168.35
Adjustment payments	664,444	80.11	372,208	32.88
Interim payment	–	–	–	–
Final payment	175,881	21.20	100,462	8.87
Total wheat distribution	3,033,341	365.74	2,378,595	210.10
DURUM				
Receipts for pool distributions (tonnes)	**3 060 515**		**3 782 684**	
Earnings distributed to pool participants				
Initial payments on delivery	964,923	315.29	581,155	153.64
Adjustment payments	503,313	164.45	188,558	49.84
Interim payment	–	–	34,044	9.00
Final payment	95,194	31.10	34,413	9.10
Total durum distribution	1,563,430	510.84	838,170	221.58
DESIGNATED BARLEY				
Receipts for pool distributions (tonnes)	**2 025 640**		**1 430 903**	
Earnings distributed to pool participants				
Initial payments on delivery	468,948	231.51	213,855	149.45
Adjustment payments	58,313	28.79	39,258	27.44
Interim payment	–	–	11,447	8.00
Final payment	59,569	29.41	14,093	9.85
Total designated barley distribution	586,830	289.71	278,653	194.74
BARLEY A				
Receipts for pool distributions (tonnes)	**23 819**		**8 615**	
Earnings distributed to pool participants				
Initial payments on delivery	5,247	220.28	522	60.62
Adjustment payments	199	8.35	724	83.98
Interim payment	–	–	–	–
Final payment	1,210	50.78	296	34.40
Total barley A distribution	6,656	279.41	1,542	179.00
BARLEY B				
Receipts for pool distributions (tonnes)	**179 126**		**4 112**	
Earnings distributed to pool participants				
Initial payments on delivery	39,434	220.15	490	119.23
Adjustment payments	632	3.53	44	10.80
Interim payment	–	–	218	53.00
Final payment	10,014	55.91	110	26.64
Total barley B distribution	50,080	279.59	862	209.67
Earnings distributed to pool participants	**$ 5,240,337**		**$ 3,497,822**	

Statement of transfers to Contingency Fund

For the year ended July 31 (dollar amounts in 000s)	2008	2007
PRODUCER PAYMENT OPTIONS PROGRAM		
FPC Program – losses on program operations	$ (89,513)	$ (39,929)
EPO Program – earnings on program operations	3,115	1,303
	(86,398)	(38,626)
CASH TRADING OPERATIONS		
Earnings on program operations	19,971	92
POOL OPERATIONS		
Wheat	21,353	–
Durum	3,101	–
Designated barley	680	–
Barley A	1,236	882
Barley B	1,262	996
	27,632	1,878
Losses transferred to Contingency Fund (Note 19)	**$ (38,795)**	**$ (36,656)**

Statement of administrative expenses

For the year ended July 31 (dollar amounts in 000s)	2008	2007
Human resources	$ 42,185	$ 39,189
Office services	3,386	3,623
Professional fees	13,821	14,909
Computer services	1,359	1,537
Facilities	1,919	1,780
Travel	1,880	1,875
Advertising and promotion	1,860	1,417
Other	1,657	1,023
Training	389	453
Depreciation	9,852	8,593
Recoveries	(2,646)	(2,254)
Total administrative expenses (Note 25)	**$ 75,662**	**$ 72,145**

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 CWB.

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

The combined financial statements include the pool results, Producer Payment Option programs and the cash trading activities.

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 combined 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 combined 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. The inventory of grain held at year-end is valued against grain sales contracts. On average, this would represent approximately 96 per cent of the grain in inventory. The remaining inventory would be valued based on management's best estimate, taking into account the grade of grain to be sold and the most probable destination.

Allowances for losses on accounts receivable

Accounts receivable from credit programs – The Government of Canada 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 Government of Canada. 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 Government of Canada 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 basis 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 losses included in operations for the year ended July 31, 2008 are $49,594 (2007 – $5,885 gain).

Financial instruments

In January 2005, the Canadian Institute of Chartered Accountants (CICA) issued new accounting standards: Section 3855 – Financial Instruments – Recognition and Measurement, Section 3861 – Financial Instruments – Disclosure and Presentation, Section 3865 – Hedges, and Section 1530 – Comprehensive Income. Financial Instruments – Recognition and Measurement, Financial Instruments – Disclosure and Presentation and Comprehensive Income standards were adopted August 1, 2007 and applied prospectively. The Corporation has elected to discontinue hedge accounting and therefore has not adopted Section 3865 – Hedges.

The new standards required 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 determined by the classification of each financial asset and financial liability.

Financial assets classified as held-to-maturity are 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 due to changes in fair value reported in income. Financial assets classified as available-for-sale will be accounted for at fair value with unrealized gains and losses due to changes in fair value being reported in a new category called earnings for future allocation.

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 due to changes in fair value being reported in income.

All derivatives, including embedded derivatives, grain sales and purchase contracts, are classified as held-for-trading and will be accounted for at fair value with realized and unrealized gains and losses due to changes in fair value reported in income.

Embedded derivatives are contracts that contain both a derivative and a non-derivative component (hybrid contract). The characteristics of an embedded derivative are the same as those of a free-standing derivative. Under the new standards, derivatives embedded within these contracts must be accounted for as separate derivatives when their risks and characteristics are not clearly and closely related to those of the host contract and the hybrid contract is not carried at fair value. Derivatives meeting these criteria are accounted for separately from the host contract and are carried at fair value.

The Corporation's grain sales and purchase contracts are derivatives because their prices are based on an index. The Corporation's decision is to treat all grain sales and purchase contracts as derivatives. All outstanding grain sales and purchase contracts will be fair-valued with realized and unrealized gains and losses due to changes in fair value reported in income.

We do not apply hedge accounting to our derivatives. All derivatives, including embedded derivatives, will be classified as held-for-trading and recognized on the balance sheet upon the settlement date and are removed from the balance sheet when they expire or are terminated. Derivatives with a positive fair value are reported as derivative instruments within assets, while derivatives with a negative fair value are reported as derivative instruments within liabilities. All derivatives, including embedded derivatives, will be measured at fair value with realized and unrealized gains, and losses due to changes in fair value are reported in income.

The following table summarizes the Corporation's classification, measurement and gain/loss recognition of financial instruments.

	Financial instrument type	Classification	Measurement	Gains/losses
Financial assets	Accounts receivable	Loans and receivables	Amortized cost	Recognized in net income in the period that the asset is derecognized or impaired
	Investments (long-term/short-term)	Held-for-trade	Fair value	Recognized in net income in the current period
Financial liabilities	Accounts payable Accrued liabilties	Other liabilties	Amortized cost	Recognized in net income in the period that the liability is derecognized or impaired
	Debt (Long-term/Short-term)	Held-for-trade	Fair value	Recognized in net income in the current period
Derivatives	Single-currency interest rate swaps Cross-currency interest rate swaps Forwards Currency swaps Commodity futures contracts Options Sales contracts Purchase contracts Embedded derivatives	Held-for-trade	Fair value	Recognized in net income in the current period

Earnings for future allocation

A new category called earnings for future allocation has been added to the Corporation's balance sheet. Earnings for future allocation will comprise the revaluation of the Corporation's long-term debt and investments designated as held-for-trading as well as the adjustment to recognize the fair value of the derivative contracts upon adoption of the standards.

Transition adjustment

A transition adjustment attributable to the following was recognized in the Corporation's opening balance of earnings for future allocation as at August 1, 2007:

	Earnings for future allocation
Revaluation of long-term debt designated as held-for-trading	(49,976)
Revaluation of long-term investments designated as held-for-trading	671
Adjustment for fair value of derivatives upon adoption of Section 3855	358,089
Total	**308,784**

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 on each pool account during the pool period and until the final distribution of earnings to producers, Producer Payment Option programs, cash trading and the change in fair value of swaps, investments and debt.

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 *PSSA* pension plan, administered by the Government of Canada. Currently, the Corporation has completed negotiations with the Government of Canada for the transfer of pension assets from the *PSSA* pension plan for employees who choose to transfer past service to the new plan. As at July 31, 2008, the majority of pension assets have been transferred to the Corporation's pension plan.

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 (2007 – 11 years) for defined benefit pension plans and 13 years (2007 – 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

General standards of financial statement presentation
In June 2007, the CICA issued revisions to general standards on financial statement presentation. CICA Handbook Section 1400 clarifies guidance on financial statement on a going-concern basis. These recommendations are effective for fiscal years beginning on or after January 1, 2008, and therefore, the Corporation will implement them for its year ended July 31, 2009.

Capital disclosures
In December 2006, the CICA issued a new accounting standard for capital disclosures. CICA Handbook Section 1535 – Capital Disclosures establishes guidelines for the disclosure of information regarding a corporation's capital and how it is managed.

Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a corporation regards as capital is required. These recommendations are effective for fiscal years beginning on or after October 1, 2007, and therefore, the Corporation will implement them for its year ended July 31, 2009.

Inventory
In June 2007, the CICA issued a new accounting standard on inventories. CICA Handbook Section 3031 provides more guidance on the measurement and disclosure requirements for inventories. Specifically, it requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The standard also provides guidance on the cost formulas used to assign costs to inventories. These recommendations are effective for fiscal years beginning on or after January 1, 2008, and therefore, the Corporation will implement them for its year ended July 31, 2009.

Financial instruments – Presentation and disclosure
In December 2006, the CICA issued two new accounting standards for the presentation and disclosure of financial instruments. CICA Handbook Section 3862 – Financial Instrument Disclosures and Section 3863 – Financial Instruments – Presentation revised the current standards on financial instrument disclosure and presentation. Section 3862 places an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Section 3863 established standards for the presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer, between liabilities and equity. These recommendations are effective for fiscal years beginning on or after October 1, 2007, and therefore, the Corporation will implement them for its year ended July 31, 2009.

International financial reporting standards
On February 13, 2008, the Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required for publicly accountable entities for fiscal years beginning on or after January 1, 2011 and therefore, the Corporation will implement them for its year ending July 31, 2012. The impact to the Corporation of all the above-noted changes is being assessed.

3. SHORT-TERM INVESTMENTS

The Corporation uses short-term investments for cash management and liquidity risk management and maintains a short-term investment portfolio as the result of a credit receivable prepayment. All investments adhere to requirements of *The Act*, the Corporation'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 maturities of less than one year. The effective interest rates for these investments ranged from 2.00 to 3.07 per cent during the year (2007 – 4.50 to 5.34 per cent).

Of the total investments at July 31, 2008, $667,132 represents the Canadian equivalent of $651,496 that will be receivable in U.S. funds. Of the total investments at July 31, 2007, $748,617 represents the Canadian equivalent of $701,741 that will be receivable in U.S. funds.

These financial instruments are classified as held for trade. They are due within one year and, as a result, their carrying values approximate fair value.

4. CREDIT PROGRAMS

		Credit Grain Sales Program		Agri-food Credit Facility		**2008 Total**		2007 Total
Due from foreign customers								
Current	$	–	$	58,798	**$**	**58,798**	$	58,562
Rescheduled		853,617		–		**853,617**		1,284,813
		853,617		58,798		**912,416**		1,343,375
Due from Government of Canada		6,721		–		**6,721**		16,436
Total credit program receivables		860,338		58,798		**919,137**		1,359,811
Current portion of credit programs		633,863		58,798		**692,662**		496,279
Credit programs	$	226,475	$	–	**$**	**226,475**	$	863,532
Credit risk								
Guaranteed by Government of Canada	$	860,338	$	57,622	**$**	**917,961**	$	1,358,640
Assumed by CWB				1,176		**1,176**		1,171
	$	860,338	$	58,798	**$**	**919,137**	$	1,359,811

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 $853,617 principal and accrued interest due from foreign customers at July 31, 2008, $508,190 represents the Canadian equivalent of $496,280 repayable in U.S. funds. Of the $1,284,813 principal and accrued interest due from customers at July 31, 2007, $701,495 represents the Canadian equivalent of $657,569 repayable in U.S. funds.

Through a forum known as the Paris Club, the Government of Canada 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 Government of Canada at the Paris Club, there are agreements the Corporation has entered into 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.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Poland. Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the Government of Canada. A total of $6,721 was due from the Government of Canada as at July 31, 2008 under these debt reduction agreements. Of this amount, $2,081 represents the Canadian equivalent of $2,032 that will be repayable in U.S. funds.

There is no allowance for credit losses, as the Government of Canada 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, Guatemala, Indonesia, Mexico and Peru. The July 31, 2008 balance of $58,798 principal and accrued interest due under the Agri-food Credit Facility (ACF) represents the Canadian equivalent of $57,420 repayable in U.S. funds. The July 31, 2007 balance of $58,562 principal and accrued interest represents the Canadian equivalent of $54,895 repayable in U.S. funds.

There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. Management considers this balance collectable in its entirety; therefore there is no allowance for credit losses.

Credit program receivables are financial instruments and have been classified as loans and receivables. These accounts receivable have contractual interest rate repricing dates under 365 days and as a result, their carrying values approximate their fair values.

Maturities

These accounts receivable mature as follows:

	2008	2007
Amounts due:		
Within 1 year	**$ 692,662**	$ 496,279
From 1-2 years	**6,895**	630,397
From 2-3 years	**12,367**	7,331
From 3-4 years	**17,931**	12,407
From 4-5 years	**19,039**	17,187
Over 5 years	**170,243**	196,210
	$ 919,137	$ 1,359,811

5. ADVANCE PAYMENT PROGRAMS

	Agricultural Marketing Programs Act	Advance Payment Program (after-harvest)	*Prairie Grain Advance Payments Act*	Spring Credit Advance Program	Enhanced Spring Credit Advance Program	Advance Payment Program (Pre-Harvest)	Unharvested Threshed Grain Advance Program	**2008 Total**	2007 Total
Due from producers	$ 8,792	$ 21,192	$ –	$ (2)	$ 4,306	$ 535,671	$ –	**$ 569,959**	$ 404,331
Due from (to) Government of Canada	(1,839)	599	6	(151)	(596)	3,504	(7)	**1,516**	7,703
Due from (to) agents of the CWB	38	4,925	–	–	41	(4,627)	–	**377**	5,045
	$ 6,991	$ 26,716	$ 6	$ (153)	$ 3,751	$ 534,548	$ (7)	**$ 571,852**	$ 417,079

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the Government of Canada. The Government guarantees approximately 99 per cent of the repayment of advances made to producers; therefore the Corporation has minimal exposure to credit risk. The Corporation recovers its costs of administering the programs from the Government and from producers using the program.

The Government of Canada 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 Government of Canada on the first $100 issued. Advances issued in 2007 and later are issued under this program.

The Government of Canada 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 Government of Canada. 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 Government of Canada 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 Government of Canada. Any balances outstanding under the program reduced the interest-free and maximum entitlements available to producers in the fall under the *AMPA*.

The Government of Canada 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 Government of Canada. Any balances outstanding under the program reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*.

The Government of Canada 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 Government of Canada program under the *Prairie Grain Advance Payments Act* (PGAPA). The Government of Canada pays interest on advances of up to $100 and the producer pays interest on any amounts in excess of $100.

Cash advances issued during the year by the Corporation under these programs totalled $778,870, including $267,057 issued under the APP-After Harvest, $511,813 issued under the APP-Pre-Harvest.

Collections from producers and grain companies subsequent to reimbursement by the Government of Canada, plus interest on default accounts collected from producers, are remitted to the Government of Canada 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.

6. DERIVATIVES

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 derivative contracts are initiated within the guidelines of the Corporation's financial risk-management policies. These policies, approved by the Corporation's board of directors, also provide for discretionary trading within the policy's trading limits. We do not use derivatives for speculative purposes.

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign-exchange rates or other financial or commodity prices or indices. Derivative instruments are either regulated exchange-traded contracts or negotiated over-the-counter contracts.

The following are detailed descriptions of the derivative instruments used by the Corporation to mitigate risk.

Interest-rate contracts, including single and cross-currency interest-rate swaps are used to manage interest-rate and currency risk associated with the Corporation's funding and asset/liability management strategies.

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.

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.

These interest rate contracts have been classified as held-for-trade and are fair-valued at the balance sheet date, with changes in fair value recorded in the combined statement of operations as a component of net interest earnings. Realized gains or losses from these contracts are recorded in the period in which they occur, as a component of net interest earnings.

Foreign-exchange contracts, including over-the-counter forwards, currency swaps and options, are used to hedge currency exposure arising from grain sales, PPOs, cash trading and funding operations.

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

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

Options – 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. Caps, collars and floors are specialized types of written and purchased options.

These foreign-exchange contracts have been classified as held-for-trade and are fair-valued at the balance sheet date, with changes in fair value recorded in the combined statement of operations as either a component of revenue (if hedging currency risk from grain sales, PPOs, or cash trades) or net interest earnings (if hedging currency risk from funding operations). Realized gains or losses from currency contracts used to hedge currency risk from grain sales, PPOs and cash trades are recorded in the period in which they occur as a component of revenue. Realized gains or losses 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.

Exchange-traded commodity contracts, including futures and options are used to manage price risk arising from grain sales, PPOs and cash trading.

Futures contract – 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.

Options – 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. Caps, collars and floors are specialized types of written and purchased options.

These commodity contracts have been classified as held-for-trade and are fair-valued at the balance sheet date, with changes in fair value recorded in the combined statement of operations as a component of revenue. Realized gains or losses are recorded in the period in which they occur as a component of revenue.

Other derivatives

Upon review of all contracts the Corporation has deemed fuel surcharges within transportation contracts to be embedded derivatives.

Embedded derivatives are contracts that contain both a derivative and a non-derivative component (hybrid contract). The characteristics of an embedded derivative are the same as those of a free-standing derivative.

These embedded derivatives (fuel surcharges) have been classified as held-for-trade and are fair-valued at the balance sheet date, with changes in fair value recorded in the combined statement of operations as a component of freight.

The Corporation's grain sales and purchase contracts are derivatives because their prices are based on an index. The grain sales and purchase contracts have been classified as held-for-trade and are fair-valued at the balance sheet date, with changes in fair value recorded in the combined statement of operations as a component of revenue.

Notional amounts are not recorded as assets or liabilities on our balance sheet, as they represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

As at July 31, 2008 the fair value of outstanding derivative contracts is as follows:

	Assets		Liabilities	
	2008	2007	**2008**	2007
Derivative Instrument				
Commodity contracts	**$ 66,197**	$ –	**$ –**	$ –
Foreign exchange contracts	**–**	–	**31,827**	–
Swaps – Investment	**–**	–	**8,725**	–
Swaps – Debt	**66,589**	–	**–**	–
PPO purchase contracts	**–**	–	**60,652**	–
Sales contracts	**237,722**	–	**–**	–
Embedded derivatives	**–**	–	**24**	–
Total	**$ 370,508**	**$ –**	**$ 101,228**	**$ –**

The change in fair value of outstanding derivative contracts totals a $569,724 gain. Of the total gain, a $629,114 gain is in revenue, a $64,751 loss is in grain purchases, a $60 gain is in freight and a $5,301 gain is in net interest earnings. Of the $569,724 gain, $527,818 is not related to the current year's pool operations and as a result is included in the earnings for future allocation.

Counterparty credit risk

The Corporation is exposed to credit risk from investments and derivative transactions, when the transactions have a positive market value. Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. Credit risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the Corporation's financial risk-management policies. Master-netting agreements and, in certain cases, collateral agreements are used to reduce credit risk from potential counterparty default.

Collateral agreements provide for the positing of collateral by the counterparty when our exposure to that entity exceeds a certain threshold. Collateral is held by a third party and at July 31, 2008 exposures were below threshold levels and no collateral was held. Where we have a collateral agreement with a counterparty, the counterparty must have a minimum credit rating of A- from an external credit rating agency. Where we do not have a collateral agreement with a counterparty, the counterparty must have a minimum external credit rating of A for transactions of less than three years, and a minimum external credit rating of AA- for transactions of greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties. The largest cumulative notional amount contracted with any institution as at July 31, 2008 was $1,049,147 (2007 – $908,535) and the largest credit risk with any institution as at July 31, 2008, was $45,403 (2007 – $16,415).

As at July 31, 2008 the credit risk of outstanding derivative contracts, before netting and after collateral is considered, is as follows:

		2008			2007	
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest rate contracts						
Single currency interest rate swaps	**$ 164,154**	**$ 15,914**	**$ 15,914**	$ 452,349	$ 843	$ 8,219
Cross currency interest rate swaps	**833,946**	**41,950**	**74,340**	992,202	(58,900)	42,430
	998,100	**57,864**	**90,254**	1,444,551	(58,057)	50,649
Foreign exchange contracts						
Forwards	**2,351,067**	**(26,642)**	**25,831**	1,497,441	31,087	48,893
Swaps	**28,672**	**889**	**889**	25,137	(80)	–
Options	**1,562,419**	**(6,074)**	**–**	–	–	–
	3,942,158	**(31,827)**	**26,720**	1,522,578	31,007	48,893
	$4,940,258	**$ 26,037**	**$ 116,974**	$2,967,129	$ (27,050)	$ 99,542

7. FAIR VALUE

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length transaction between knowledgeable and willing parties under no compulsion to act. Fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. When the instrument is short-term or floating-rate in nature, its carrying value is considered to be its fair value. Fair value for exchange-traded derivatives is considered to be the price quoted on derivatives exchanges. Fair value for over-the-counter derivatives is derived using valuation models and various methodologies including net present value analysis. Option implied volatilities, an input into the valuation model, are either obtained directly from market sources or calculated from market prices. 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.

The Corporation has determined the fair value of financial instruments as follows:

- Carrying amounts reflect fair value for financial instruments designated as held-for-trading, since these financial instruments are measured at fair value.
- Fair value is assumed to equal carrying value for accounts receivable, advance payments, accounts payable, liability to agents, liability to producers, short-term investments and short-term borrowings, due to the relatively short period to maturity of these instruments.
- Fair value of the credit programs is assumed to equal carrying value, due to the floating-rate nature of the programs.
- Fair value for the exchange-traded commodity derivatives is based on the close price quoted on derivatives exchanges.
- Fair value for foreign-exchange forwards and swaps is calculated using market observable inputs. The notional amounts are discounted using the respective currency's yield curve and converting the amounts using the spot Canadian dollar exchange rate.
- Fair value for foreign-exchange options is derived using market standard valuation models and techniques. Inputs to the models are market observable. The value of the options is determined using market measures for interest rates, currency exchange rates and volatility levels.
- Fair value for long-term debt is derived using market standard valuation models and techniques as independent market prices for the long-term debt that are not observable. The majority of our long-term debt includes call or extension options. Inputs to these models are market observable and include option volatilities and correlations in addition to interest rate yield curves and foreign-exchange rates. An estimation of credit risk is made by comparing a AAA agency curve to a swap curve.
- Fair value for interest rate single currency and cross-currency swaps is derived using market standard valuation models and techniques as independent market prices for the swaps that are not observable. The majority of our interest rate single-currency and cross-currency swaps includes call or extension options. Inputs to these models are market observable and include option volatilities and correlations in addition to interest rate yield curves and foreign-exchange rates.
- Fair value for fixed-rate, long-term investments is derived using market standard valuation models and techniques as independent market prices for long-term investments that are not observable. Inputs to these models are market observable and include interest rate yield curves and foreign-exchange rates. An estimation of credit risk is made by comparing a AAA agency curve to a swap curve. Fair value for a floating-rate, long-term investment is assumed to equal carrying value.

8. 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.

	2008		2007	
	Tonnes	**Amount**	Tonnes	Amount
Wheat	**2 828 248**	**$ 1,111,156**	2 803 462	$ 703,136
Durum	**724 849**	**451,850**	547 487	135,921
Designated barley	**120 084**	**44,461**	13 893	2,590
Barley	**45 713**	**12,603**	7 255	1,699
	3 718 894	**$ 1,620,070**	3 372 097	$ 843,346

9. PREPAID EXPENSES

	2008	2007
Net results of hedging activities applicable to subsequent pool accounts	**$ (19,228)**	$ 18,207
Prepaid cost of moving inventory to eastern export position	**16,494**	14,213
Deposits on hedging accounts	**15,100**	146,732
Deferred pension asset	**9,082**	10,847
Other	**2,143**	2,550
	$ 23,591	$ 192,549

10. INVESTMENTS

The Corporation maintains a long-term investment portfolio that is 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 the requirements of *The Act*, the Corporation's annual borrowing authority granted by the Minister of Finance and applicable government guidelines.

Long-term investments consist of notes issued in the medium-term note market with an original term to maturity of between one and 15 years. These investments mature in December 2014.

The Corporation uses swap contracts to manage interest-rate risk and convert the currency exposure to either Canadian or U.S. dollars. These contracts ultimately create a floating rate investment similar to that of the Corporation's borrowings. The effective interest rates for these investments ranged from 3.08 to 4.50 per cent during the year (2007 – 5.33 to 5.54 per cent).

Of the total investments at July 31, 2008, $71,680 represents the Canadian equivalent of $70,000 that will be receivable in U.S. funds. Of the total investments at July 31, 2007, $74,676 represents the Canadian equivalent of $70,000 repayable in U.S. funds.

These financial instruments were classified as held for trade. The $75,000 Canadian note receivable is shown at a fair value of $77,482. The US$70,000 note receivable is a floating interest rate investment and is carried at a cost that approximates fair value.

11. CAPITAL ASSETS

	2008			2007		
	Cost	**Accum. deprec.**	**Net book value**	Cost	Accum. deprec.	Net book value
Computer systems development	**$ 88,784**	**$ 26,801**	**$ 61,983**	$ 91,546	$ 52,856	$ 38,690
Hopper cars	**105,271**	**79,835**	**25,436**	105,515	75,643	29,872
Computer equipment	**9,820**	**5,903**	**3,917**	15,413	11,046	4,367
Furniture and equipment	**5,558**	**3,393**	**2,165**	4,834	3,232	1,602
Land, building and improvements	**19,188**	**8,088**	**11,100**	14,921	7,935	6,986
Automobiles	**897**	**291**	**606**	854	307	547
Leasehold improvements	**109**	**109**	**–**	109	109	–
	$ 229,627	**$ 124,420**	**$ 105,207**	$ 233,192	$ 151,128	$ 82,064

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 242 cars have been wrecked and dismantled, leaving 1,758 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, 10 cars have been wrecked and dismantled, leaving 1,653 in the fleet. The Corporation is reimbursed for destroyed cars under operating agreements with the Canadian National Railway and the Canadian Pacific Railway.

12. 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 and U.S. markets and bank loans with maturities of less than one year. The effective interest rates for these borrowings ranged from 1.75 to 3.00 per cent during the year (2007 – 3.50 to 5.50 per cent).

Of the total borrowings at July 31, 2008, $501,260 represents the Canadian equivalent of $489,512 that will be repayable in U.S. funds. Of the total borrowings at July 31, 2007, $729,876 represents the Canadian equivalent of $684,173 that will be repayable in U.S. funds.

These financial instruments were classified as held for trade. The borrowings are repayable within one year and as a result, their carrying values approximate fair value.

13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2008	2007
Net hedging and foreign exchange applicable to current year	**$ 79,771**	$ 116,281
Other Accounts payable and accrued expenses	**115,561**	124,830
Deferred sales revenue	**30,754**	12,589
	$ 226,086	$ 253,700

14. LIABILITY TO AGENTS

	2008	2007
Grain purchased from producer	**$ 881,683**	$ 401,853
Deferred cash tickets	**254,507**	61,044
	$ 1,136,190	$ 462,897

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.

15. LIABILITY TO PRODUCERS – CURRENT EARNINGS

The liability to producers – current earnings represents the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. For the current year, $381,614 (2007 – $324,032) remains undistributed as at July 31, 2008. There was no interim payment issued during the year (2007 – $45,676). All adjustment payments were paid out during the year. The prior year, an adjustment payment totalling $112,522 was distributed to producers on August 8, 2007. Included in the liability to producers – current earnings is a payment of $40,955 (2007 – $19,361) to EPO participants where the pool price exceeded the contract price. The balance of $340,659 (2007 – $146,473) will be distributed to producers through final payments.

16. LONG-TERM DEBT

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*.

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. The effective interest rates for these borrowings ranged from 2.13 to 2.88 per cent during the year (2007 – 4.09 to 5.21 per cent).

Total by currency (in Canadian $ equivalent)

	Debt currency		Canadian $ equivalent	
	2008	2007	**2008**	2007
Canadian notes	**$ 381,124**	$ 105,639	**$ 381,124**	$ 105,639
US notes	**$ 103,913**	$ 596,762	**106,408**	636,625
Yen notes	**¥ 52,665,048**	¥ 65,900,000	**499,897**	630,271
			987,428	1,372,535
Current portion long-term debt			**29,834**	65,520
Long-term debt			**$ 957,594**	$ 1,307,015

These borrowings mature as follows:

	2008	2007
Amounts due:		
Within 1 year	**$ 29,834**	$ 65,520
From 1-2 years	**55,107**	44,881
From 2-3 years	**106,408**	95,341
From 3-4 years	**45,641**	117,348
From 4-5 years	**31,044**	62,516
Over 5 years	**719,394**	986,929
	$ 987,428	$ 1,372,535

These financial instruments were classified as held-for-trade and have been recorded at fair value. July 31, 2007 balances were recorded at cost.

17. RESERVE FOR PRODUCER PAYMENT EXPENSES

The amount of $1,404 (2007 – $1,608) 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.

18. 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 which 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, the Section 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:

	2008	2007
Beginning of year	**$ 3,177**	$ 2,788
Transfer from payment accounts	**991**	1,340
Expenditures	**(780)**	(939)
Payments to producers against old payment accounts	**(12)**	(12)
End of year	**$ 3,376**	$ 3,177
Ending balance comprising:		
Unexpended authorizations	**$ 170**	$ 137
Not designated for expenditure	**3,206**	3,040
	$ 3,376	$ 3,177

During the year-ended July 31, 2008, the balances from payment accounts for 2000 wheat, 2000 durum and 2000 designated barley were transferred to the Special Account under Order-in-Council P.C. 2008-847.

Program activity during the 2007-08 crop year is detailed as follows:

	Unexpended at beginning of year	Authorized	Expended	Expired	Unexpended at end of year
Canadian International Grains Institute					
Capital expenditures	$ –	$ 150	$ (143)	$ –	$ 7
Canadian International Grains Institute					
Research and technical equipment	–	320	(300)	(20)	–
Scholarship program	37	363	(237)	0	163
Fusarium head blight research	100	–	(100)	–	–
	$ 137	$ 833	$ (780)	$ (20)	$ 170

19. 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. Pursuant to *The Act*, the fund balance can be negative; there is no limit specified. 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 opportunities 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. A Daily Price Contract (DPC) is available for wheat. It operates similar to an FPC contract; however, the sign-up occurs before the beginning of the pricing period. The sign-up period for the 2007-08 DPC began on June 18, 2007 and ended on July 20, 2007 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 surplus or deficit arising from the operation of these programs is transferred to the Contingency Fund.

Cash trading

During 2007-08, the Corporation transacted cash trading of barley, designated barley and organic wheat sales under the authority of Section 39.1 of *The Act*. A total of 1 206 934 (2007 – 5 905) tonnes were traded at a profit of $19,980 (2007 – $78).

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. PDT payments of $730 were issued to 58 farmers (compared to $6,764 of payments to 387 farmers in 2006-07). There was a small net deficit of $9 (2006-07 net surplus $14) in the program.

Pool operations

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. During 2007-08 $2,132 (2007- $1,878) was transferred to the Contingency Fund.

At July 31, 2008, the board of directors approved an allocation of $25,500 of earnings from the pool accounts deemed to be ancillary to grain sales activities and to repatriate funds allocated from the Contingency Fund to the pool accounts in 2005. This action was taken as recapitalization of the Contingency Fund is prudent risk management for the programs that it underwrites. However, to uphold the principle communicated to farmers that the PPO programs will operate independently of the pool, the board of directors also approved a policy that provides for the repatriation of funds between the pools and PPO programs. The policy states that the funds will be repatriated as quickly as possible, provided that the Contingency Fund balance does not fall below zero. Consistent with the treatment applied to the pools and PPO program, the Contingency Fund surplus/deficit is not specifically funded and bears interest at the Corporation's weighted-average cost of borrowing.

The Contingency Fund balance at July 31, 2008 is detailed as follows:

	FPC program	EPO program	Cash trading	Pool operations	**2008 Total**	2007 Total
Opening surplus, beginning of year	$ (15,687)	$ 5,701	$ 133	$ 19,079	**$ 9,226**	$ 44,312
Transferred from pool accounts	–	–	–	27,632	**27,632**	1,878
Current year surplus (deficit)	(89,513)	3,115	19,971	–	**(66,427)**	(38,535)
Interest earned (expensed)	(263)	185	5	700	**627**	1,571
Closing surplus, end of year	$ (105,463)	$ 9,001	$ 20,109	$ 47,411	**$ (28,942)**	$ 9,226

20. EARNINGS FOR FUTURE ALLOCATION

In 2007-08, the Corporation adopted the new Canadian accounting standards for Financial Instruments. The new standard requires that all financial instruments are recorded on the balance sheet, including commodity, foreign-exchange and debt-related interest and cross-currency derivatives. The standard also requires that these financial instruments be fair-valued at year-end, resulting in unrealized gains and losses being recorded in the current-year income. These unrealized gains and losses are not related to the current year's pool operations and, as a result, are not included in distributions to producers.

In accordance with GAAP, these unrealized gains and losses have been recorded through the combined statement of operations. However, as they relate to a future period, they have been transferred to the balance sheet to be allocated to the future pool or program that they relate to.

21. GRAIN PURCHASES

Grain purchases are primarily made up of purchases under PPO contracts of $1,921,083 (2007 – $1,060,335), purchases from third-party suppliers of grain in the course of cash trading of grain of $271,516 (2007 – $1,026), late receipts, and inventory overages and shortages of $30,280 (2007 – $44,332) and the fair value of PPO contracts of $64,751 (2007 – nil). Purchases under PPO contracts represent the contract value of the grain delivered through the PPO programs. Third-party purchases represent the acquisition cost of grain in the course of cash trading reflective of the tonnes sold during the year. 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.

22. 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.

23. 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.

24. 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 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.

25. ADMINISTRATIVE EXPENSES

	2008	2007
Allocated as follows:		
Wheat pool	**$ 46,132**	$ 48,758
Durum pool	**12,358**	12,515
Designated barley pool	**8,437**	5,818
Barley pool A	**129**	426
Barley pool B	**1,443**	62
Cash trading	**4,328**	19
PPO programs	**2,476**	4,192
Total	**75,303**	71,790
Producer payment accounts	**359**	355
Administrative expenses	**$ 75,662**	$ 72,145

Administrative expenses, less the expenses attributable to the distribution of final payments and costs related to the PPO program and organic wheat program are allocated to each pool, feed barley and designated barley cash trading on the basis of relative tonnage.

26. COMMITMENTS

Operating leases

The Corporation has entered into operating leases for premises and office equipment for periods ranging from one to five years. 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, 2008 were $654 (2007 – $687).

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

	Premises and office equipment
2008-09	600
2009-10	373
2010-11	319
2011-12	178
After 2012	40

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 lease term. Commitments under capital leases are as follows:

	Vehicles
2008-09	220
2009-10	123
2010-11	15

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.

27. 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 plan that provide other post-employment benefits to eligible employees. The defined benefit plans are based on years of service and average earnings prior to retirement. The supplemental defined-benefit 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 and unused sick leave accumulated prior to 1988.

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the Corporation to its defined-benefit and defined-contribution plans, plus cash payments made directly to employee and beneficiaries and third-party service providers for the benefit plans, were $4,637 (2007 – $14,807).

Expenses

The Corporation's expenses for its defined-benefit and other post employment benefit plans, for the year ended July 31, 2008 was $7,413 (2007 – $6,975).

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 was prepared as at July 31, 2007. The next valuation, which is in progress, will be as at July 31, 2008. The preliminary results are indicating a solvency deficit of approximately $16,000 that is not reflected in the table below. 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.

	2008 Pension benefits	2007 Pension benefits	**2008 Other benefits**	2007 Other benefits
Change in fair value of plan assets				
Balance at beginning of year	**$ 62,588**	$ 14,667	**$ –**	$ –
PSSA Transfer & other adjustments	**–**	33,420	**–**	–
Contributions by corporation	**2,544**	14,156	**1,291**	1,096
Contributions by employees	**1,039**	1,182	**–**	–
Expected return on plan assets	**4,352**	3,758	**–**	–
Actual return on plan assets	**(5,419)**	(3,228)	**–**	–
Benefits paid	**(1,408)**	(1,367)	**(1,291)**	(1,096)
Fair value, end of year	**$ 63,696**	$ 62,588	**$ –**	$ –
Change in accrued benefit obligation				
Balance at beginning of year	**$ 55,110**	$ –	**$ 28,796**	$ 24,930
Actuarially determined obligation	**–**	49,290	**–**	–
Current service cost	**4,560**	4,220	**689**	653
Interest cost on benefit obligation	**3,300**	2,970	**1,586**	1,530
Contribution by employees	**1,039**	1,182	**–**	–
Benefits paid	**(1,408)**	(1,367)	**(1,291)**	(1,095)
Plan amendment	**–**	–	**–**	2,778
Actuarial gain on accrued benefit obligation	**(5,798)**	(1,185)	**(1,232)**	–
Benefit obligation, end of year	**$ 56,803**	$ 55,110	**$ 28,548**	$ 28,796
Funded status				
Plan surplus (deficit)	**$ 6,893**	$ 7,479	**$ (28,548)**	$ (28,796)
Unamortized net actuarial loss	**8,383**	9,094	**5,167**	6,693
Unamortized transition (asset) obligation	**(4,332)**	(4,897)	**4,588**	5,122
Amortization of deferred pension asset	**(1,035)**	(829)	**–**	–
Accrued benefit asset (obligation), end of year	**$ 9,909[(a)]**	$ 10,847	**$ (18,793)[(b)]**	$ (16,981)

(a) Recorded in Deferred and prepaid expenses
(b) Recorded in Accounts payable and accrued expenses

Defined benefit costs

	2008 Pension benefits	2007 Pension benefits	**2008 Other benefits**	2007 Other benefits
Defined benefit costs				
Current service cost	**$ 4,560**	$ 4,220	**$ 689**	$ 653
Interest cost on benefit obligation	**3,300**	2,970	**1,586**	1,530
Actual return on plan assets	**(5,419)**	(3,228)	**–**	–
Actuarial (gain) on accrued benefit obligation	**(5,798)**	(1,185)	**(1,232)**	–
Costs arising in the period	**(3,357)**	2,777	**1,043**	2,183
Adjustments for difference between costs arising in the period and costs recognized in the period in respect of				
Return on plan assets	**1,067**	(530)	**–**	–
Actuarial gain (loss)	**6,130**	1,420	**1,526**	327
Transition asset (obligation)	**(564)**	(564)	**533**	533
Amortization of deferred pension asset	**1,035**	829	**–**	–
Total expense included in administrative expenses	**$ 4,311**	$ 3,932	**$ 3,102**	$ 3,043

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:

	2008	2007
Discount rate	**6.25%**	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	**10 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 2008:

		Increase		Decrease
Accrued benefit obligation	$	3,027	$	(2,444)
Current service and interest cost	$	277	$	(220)

Plan assets

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

($ thousands)	**2008**	2007
Equity securities	**60%**	58%
Debt securities	**32%**	36%
Other	**8%**	6%
	100%	100%

Defined Contribution plan

The Corporation expensed $71 (2007 – $60) to the defined contribution component of the Corporation's pension plan. Employees contributed $318 (2007 – $293) to the defined contribution component of the Corporation's pension plan as at July 31, 2008. Benefits paid from the defined contribution component were $238 (2007 – $267).

28. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the current year's presentation. The July 31, 2007 Combined Statement of Operations includes $4,527,378 of combined pool earnings plus $92 from cash trading operations, less $1,066,304 in payments to producers and other expense under the PPO programs which were previously shown only in the statement of PPO program operations but are now reflected in Grain Purchases, resulting in net earnings of $3,461,166. Last year, the statement of operations for each pool and program was presented separately. The pool statements were the only statements that also had a combined statement. This year all statements of operation from all pools and programs are combined resulting in the reclassifications noted above.

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
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
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

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
Tomoecho Annex 2, 4F
3-8-27 Toranomon
Minato-ku
Tokyo 105-0001
Phone 011-81-3-5425-1055
Fax 011-81-3-5425-0036