STRENGTH IN NUMBERS 2008-09 ANNUAL REPORT

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.

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CORPORATE PROFILE

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

All sales revenue, less marketing costs, is returned to farmers. The CWB is controlled by a board of directors 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

	2008-09*	2007-08*	2006-07*	2005-06	2004-05
Combined pool operating results ($millions)					
Revenue	**$ 7,916.5**	$ 8,418.6	$ 4,945.9	$ 3,498.3	$ 3,739.3
Payments to Pool Participants	**6,432.1**	5,240.3	3,497.8	2,623.4	2,706.1
Payments to PPO Participants	**679.3**	1,921.1	1,060.3	537.2	781.4
Payments to Cash Trading Participants	**5.2**	–	–	–	–
Receipts (000 tonnes)					
Wheat	**15 931.5**	13 368.1	15 516.6	11 971.2	13 296.3
Durum	**4 281.4**	3 581.0	3 982.7	4 308.9	3 824.0
Designated barley	**2 411.4**	2 444.9	1 851.3	1 464.7	1 752.5
Barley (pool A)	**19.3**	37.5	147.5	915.8	29.0
Barley (pool B)	**11.6**	418.0	19.8	127.5	468.7
Cash trading	**561.1**	1 206.9	5.9	–	–
Total	**23 216.3**	**21 056.4**	**21 523.8**	**18 788.1**	**19 370.5**

* Calculations for 2008-09, 2007-08 and 2006-07 include the impact of the Canadian accounting standard Financial Instruments.

A MESSAGE FROM THE CHAIR OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

November 2009

Strength in Numbers is a phrase that neatly sums up the CWB. There is amazing strength in 75,000 farmers working together to market their wheat, durum and barley in challenging markets throughout the world.

STRENGTH IN NUMBERS also captures the essence of the 2008-09 crop year. Put another way, the numbers for Prairie grain farmers were extremely strong in 2008-09 – and all the more powerful given that the year saw a catastrophic global economic meltdown.

A snapshot of the numbers:

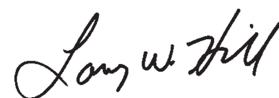
- Farmers received $7.1 billion in returns for the sale of their grain, the second highest revenue ever. This is down slightly from the record $7.2 billion in 2007-08, but about 56 per cent more than the $4.6 billion in 2006-07.
- Total exports reached 18.4 million tonnes – the highest number in nine years and an increase of one million tonnes over the previous year.
- Record bulk malting barley export numbers of 1.4 million tonnes were achieved. Pooled earnings for malting barley were the highest ever, at between $5.37 and $5.61 per bushel for two-row, depending on producer location, after deductions for freight and handling.
- Production of all wheat was 25.5 million tonnes, the highest level since 1996.
- The 2008-09 crop year marked the 10th anniversary of farmer control – a significant number and milestone. (See page 12.)
- A record number of producer cars – 12,447 – were loaded by Prairie producers. (See page 8.)
- The CWB producer survey found that 60 per cent of producers were feeling optimistic about agriculture last year – despite economic turmoil, rising input costs and weather concerns.
- A customer survey found that 92 per cent of major customers had a positive or very positive impression of the CWB.
- More than 2.2 million tonnes of wheat, durum and barley were exported in April, 2009 – the biggest single month for exports in 12 years. This marked a 70 per cent increase over the previous April's exports of 1.3 million tonnes. In fact, exports were well above average for each month from October to July, due to a strong sales program to market the large crop, and the availability of rail and vessel capacity due to the economic slowdown in other commodities.

As significant as these numbers are, they don't tell the whole story of 2008-09. The CWB was active in a range of exciting initiatives and in meeting challenges head on:

- A renewed emphasis on service to farmers, called Farmer First, was initiated across the organization. The Farmer First strategy places employee focus on providing clearer information, improving service and enhancing programs for wheat, durum and barley farmers across the Prairies.
- The board approved a new strategic plan for the CWB. Aligned with our Farmer First strategy, our overarching commitment is to create value for all farmers. Our mission: "Creating a sustainable competitive advantage for farmers and customers through our unique business structure, innovative marketing, superior service, profitable investments and effective partnerships."
- Developed FPC*Plus*, an enhanced Producer Payment Option for durum growers, which adds to the roster of pricing and delivery programs available.
- On the trade front, the CWB welcomed the Government of Canada signing a free trade agreement with Colombia, a country that imports more than $120 million in western Canadian wheat and barley each year. The CWB also welcomed Canadian efforts to start free trade talks with Morocco, a major customer for Prairie durum. At the same time, we sought to speed up ratification of the deal with Colombia and an earlier deal with Peru.
- World Trade Organization (WTO) talks dominated much of the year. A draft text from December 2008 would eliminate western Canadian farmers' right to choose their marketing system for wheat and barley. This is in addition to the significant concessions already made at the WTO, under which farmers will lose the government guarantees on initial payments and CWB borrowings. The CWB supports the government's stated position that decisions regarding the CWB marketing structure should be made in Canada and not by our international trading partners. The CWB also continues to advocate for a WTO deal that would benefit Prairie farmers through reduced tariffs on wheat and barley and an end to trade-distorting practices.
- The CWB continued to engage on behalf of farmers in a number of fronts with the aim of having fairer rail service.
- A number of new initiatives were undertaken to brand and promote Canadian wheat products in Canada and around the globe (see page 10).
- Western Canadian farmers, through the CWB, supported a number of research projects that could ultimately improve the quality of or open new markets for Prairie wheat and barley.

In 2008-09, after a nearly horrendous start, the growing season finished off fairly strong with warm weather throughout much of September. This enabled farmers to harvest a much higher-quality crop than had been expected. However, harvest issues left many farmers with crop in the field late in the fall.

Future challenges will always be a reality. We can be sure that these challenges, as they arise, will be met with the spirit of our Farmer First initiative and new strategic plan: with a renewed emphasis on improved service to farmers and customers.



Larry Hill (L)
Chair, board of directors

Ian White (R)
President and Chief Executive Officer

STRENGTH IN NUMBERS

For 75,000 western Canadian wheat and barley farmers, the 2008-09 crop year was all about the numbers. As the global economy collapsed, those numbers – whether for revenue, production or export – held strong.

On the following pages, we take a look inside the numbers. We look at farmers who choose the pool and farmers who prefer to lock in prices. We visit farmers who helped load a record number of producer cars. We examine the branding of Prairie wheat. And we review 10 years of farmer control of the CWB.

These stories add colour to the numbers, and help paint the overall picture of *Strength in numbers*, our theme for 2008-09.

THE POOL AND THE PPOs

A TALE OF TWO MARKETING TOOLS

Leonard and Louis Forcade near Legal, AB.

Louis Forcade grows animated, a big smile on his face, as he recalls the 2008-09 growing season.

"IT WAS A very, very good year. We can't complain," Forcade says.

"It was a little on the dry side. Seeding started late, but there were no stoppages for rain; once we were going we were *going*. We had such a good start because we got 1-1/2 inches of rain after we seeded. That's why the crop was so nice: we had such a big boost."

The Forcades' farm is near Legal, AB. Sitting around the kitchen table with his wife, Marie, and father, Leonard, Louis notes that the family's operation enjoyed above-average yields for their 700 acres of wheat, 700 acres of barley and 700 acres of canola. That's despite a series of dry years that have decimated the subsoil moisture in the region.

"Last year was dry, but we got timely rains," Leonard says. "The timely rains make all the difference."

Louis, 51, is a third-generation farmer who is unsure if his own four children will one day want to take on the family business. Leonard started farming with his father in 1946.

"The CWB was rigid back then," Leonard recalls. "In those days you couldn't approach the board. It's evolved."

What has remained constant, however, is the pooling system. As in most years, the Forcades sold their wheat through the pool in 2008-09. This meant they shared in the second highest net revenues in history for western Canadian farmers.

"I'm an expert at farming. The CWB is expert at marketing my grain. I rely on the CWB," Louis says. "We like pooling. It gives us a good average throughout the year. I enjoy the stability."

Halfway across the Prairies in Rama, SK, Debbie and Nick Kowalyshyn discuss the merits of PPOs as they load grain into a bin for drying.

"The nice thing about the Producer Price Options is that you know where you stand, as long as you have the grain," says Nick.

"It's a nice option to have – that's what all the other commodities have, the ability to lock in a price," Debbie says.

"It's one more tool in your toolbox," Nick continues.

The couple did well on the Basis Price Contract (BPC) in 2008-09, committing 30 per cent of their wheat. Looking back, they wish they had committed even more. Amid volatile markets, they missed the market high but managed to lock in a portion of their crop at $11.39 per bushel.

"I'M AN EXPERT AT FARMING. THE CWB IS EXPERT AT MARKETING"

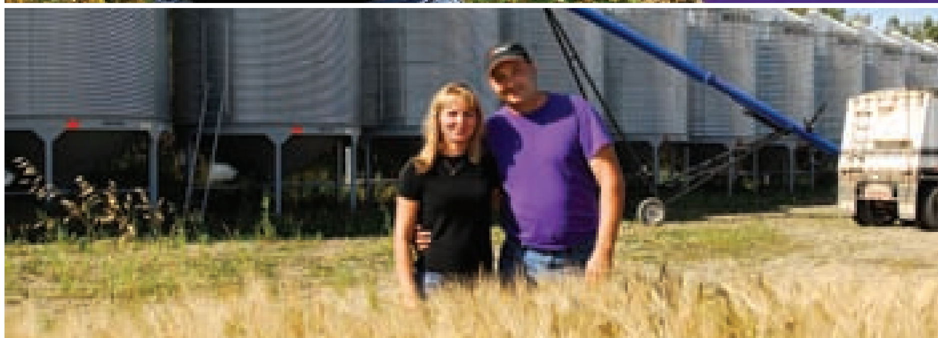
"Last year, everything was smoking. There was so much volatility, no one knew what was happening," Debbie says.

The Kowalyshyns farm 4,400 acres of wheat, barley, canola and oats. After living in Regina for several years, they seeded their first crop in 1996, and they have been steadily growing their business ever since. Their family has grown as well: the couple now have two daughters, Brittany and Sarah, and are expecting their third child this spring. Each year, however, the family ploughs their earnings back into the farm, to the point where they have not taken a vacation since they first started farming.

"Farming isn't a lifestyle anymore," Debbie says. "It's a business."

And each of those businesses is different, just like the Forcades and the Kowalyshyns are different. The pool and the PPOs combine to offer choices to suit those different needs.

"You have the option," Nick says. "You aren't forced into pooling or forced into the BPC."



Debbie and Nick Kowalyshyn on their farm near Rama, SK.

PRODUCER CARS PICK UP STEAM

From his yard, Sandy Sutherland can see his local producer car-loading facility in the distance.

"THE BIGGEST thing is convenience," says Sutherland. "I can load up, drive in, and get the job done. The fewer miles I can put on my truck the better, and I'm not waiting in line for two or three hours at the elevator."

Sutherland, 49, has been loading producer cars since the mid-1990s. He started loading cars manually on a siding, but now accesses the producer car-loading facility in nearby Eston, SK.

More and more farmers across the Prairies are following in the tracks of producers like Sutherland, and are loading their own hopper cars with wheat and barley. In fact, in 2008-09, more producer cars were loaded than ever before – about 2,800 producers loaded 12,447 cars – continuing a decade-long trend of increased use.

The previous record of 12,124 cars was achieved in 1990-91. A sharp decline ensued, and usage bottomed out at about 3,000 cars in 1998-99. That number has been rebounding ever since, due to a growing number of producer car-loading facilities and increased cost-awareness among producers.

Dedicated users say the do-it-yourself movement provides significant advantages. Farmers can save between $800 and $1,200 per car, usually through reduced trucking and elevation costs.

"There are so many benefits," says René Saquet, who has been loading his own cars for 30 years. "It increases our revenue, and it's not very difficult to load cars."

John Boerchers, like Saquet, loads cars at Laurier, MB, about 150 kilometres north of Brandon.

"We have a great loading site that's adjacent to our farm and about a quarter mile from our bins," says Boerchers. These Laurier producers are part of a small group that loads cars at the local siding, using augers to move the grain directly from their trucks to waiting rail cars.

This is the way producer car-loading has traditionally been done. However, loading facilities are becoming a much more common sight across the Prairies, greatly adding to convenience.

"About 65 or 70 per cent of users now have some type of facility, like an old elevator or a bin at trackside," says Paul Stow, grain services manager at Mission Terminal, the largest east coast shipper of producer cars.

Sandy Sutherland has been loading producer cars since the mid-1990s.

THE DO-IT-YOURSELF MOVEMENT PROVIDES SIGNIFICANT ADVANTAGES.

Over at Eston, Sutherland loads at a dedicated storage and loading facility built and operated by West Central Road & Rail. Such facilities, built for the purpose of producer car-loading, are "the next generation of producer cars," says Rob Lobdell, president of West Central, adding they can offer virtually the same services as a grain terminal.

A good deal of the growth in producer cars is the result of ongoing collaboration between the CWB and producer car networks like West Central, Mission, Prairie Grain Producers and Great Northern Grain. For wheat, durum and barley, the CWB helps administer the cars by facilitating sales, gaining terminal authorization at port, working with the Canadian Grain Commission to approve applications, and securing car supplies from the railways.

It's a different world – and a much more convenient world – than when Sutherland's grandfather first homesteaded 100 years ago. Back then, Sutherland's ancestor moved 60-bushel loads by horse and wagon to a station more than 30 kilometres away.

"He'd haul the grain out, spend the night in a hotel, then turn around and come back the next day."

Rob Lobdell and Rob Myers of West Central Road & Rail.

CANADIAN WHEAT MAKES IT GOOD

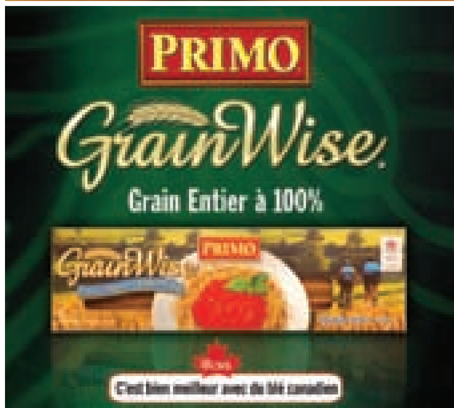
From cooking schools in Tokyo to grocery stores on the Prairies, the CWB's product branding strategy is making consumers aware that Canadian Wheat Makes it Good.

"**THE STRATEGY** is not about us, it's not about the CWB. It's all about farmers and the product they grow, and linking what they grow to the foods consumers buy," says Dave Burrows, CWB vice-president of corporate communications and government relations.

Branding of Prairie wheat is carried out through cost-effective alliances with key millers and bakers – a grassroots alternative to multi-million-dollar advertising campaigns.

The most visible element of the strategy is the brand logo: Canadian Wheat Makes it Good. This logo states, in the simplest terms possible, that Prairie wheat provides added value – it's the key ingredient in quality baking.

The brand strategy is paying dividends around the world, most notably in Ecuador, where Moderna Alimentos, a leading miller and flour marketer, is actively promoting its premium flour brands as being made from western Canadian wheat. Moderna is rebranding its premium flour bags using the CWB's brand logo in Spanish: El Trigo Canadiense lo hace bueno – Canadian Wheat Makes it Good.



Theresa Le Sliworsky at the Tsuji Wellness Cooking Academy in Nara, Japan.

OUR CUSTOMERS EXPECT THE BEST

This comes on the heels of a series of earlier CWB-Moderna co-branding activities promoting the high quality of Moderna brands because of the superior baking results delivered by western Canadian wheat. This activity has included a technical seminar for bakers and a contest that rewards bakers for using multiple 50-kg bags of flour in their baking operations.

"We are proud to partner with the farmers of Western Canada to let our customers know that the flour they are buying is made with the best wheat in the world," says Moderna Alimentos President Gonzalo Correa.

On the other side of the world, 2008-09 saw the launch of several major campaigns in Asia. In Japan, consumers are receiving a taste of the Prairies at cooking school demonstrations where they are shown how to make non-traditional foods such as pasta and perogies.

In China, a unique initiative showcased Prairie flour to Beijing consumers. The Guchuan Food Company, official supplier to the 2008 Olympic Games, marketed a high-end flour made entirely from Prairie wheat. The flour was milled on the Prairies but packaged in China, and its packaging emphasized the expertise of Prairie farmers. Dumplings and other products made with Canadian flour have been widely consumed in China, but this initiative marked the first time that western Canadian wheat has been branded and marketed directly to consumers in the world's most populous country.

Here in our own backyard, domestic branding activities were being noticed by shoppers from coast to coast. The CWB and Primo Foods, one of Canada's largest and most trusted pasta makers, partnered to launch a national initiative to promote Prairie durum to Canadian consumers.

"Our customers trust us to provide only the best-quality products," says Primo Foods chief operating officer John Porco. "And the best pasta is made from 100-per-cent durum wheat grown by western Canadian farmers."

The Primo campaign included television ads broadcast across the country, a billboard campaign in Montreal seen by one million residents each day, and new packaging for Primo GrainWise brands that includes the Canadian Wheat Makes it Good logo.

The CWB also initiated a contest, linked to World Pasta Day in October, asking kids across the country to submit drawings of what they envision a "spaghetti farmer" looks like or to write a short blurb on what makes their pasta perfect. The popular contest drew entries from seven provinces. The contest was promoted through www.prairiewheat.ca, a consumer Web site developed by the CWB. Prairiewheat.ca uses games, puzzles, recipes and fun facts to educate all members of the family about the nutrition and good taste of western Canadian wheat, and the expertise of Prairie farmers.

The first major domestic branding campaign undertaken by the CWB was with Robin Hood flour. This relationship continued to flourish throughout the 2008-09 crop year, as the CWB participated with the nation's largest consumer flour maker on two Simply Homemade recipe booklets. About 3.6 million copies of the fall booklet were distributed through national magazines and in-store promotions, while 1.5 million copies of a spring booklet were likewise distributed to Canadian consumers.

Prairie farmers, the focus of all this activity, are overwhelmingly supportive of activities that brand and promote their grain. In the CWB's 2009 producer survey, 94 per cent of respondents said international branding is important or very important, while 89 per cent said that domestic campaigns are very important or important.

"The support of farmers is the foundation of all our branding activities," Burrows says. "It's all about linking, in the consumer's mind, the high-quality grain grown by Prairie farmers with the food families eat at mealtime."

Canadian Wheat Makes it Good

CELEBRATING A DECADE OF FARMER CONTROL

Western Canadian wheat and barley producers marked a significant anniversary in 2008-09: the 10th anniversary of farmer control of the CWB.

ON JAN. 1, 1999, the first producer-controlled board of directors assumed leadership of the CWB. Ten farmer representatives, chosen through democratic elections in districts across the Prairies, were the first farmer representatives on the 15-member board. The organization ceased to be a federal crown corporation run by appointed commissioners and became the world's largest farmer-controlled grain marketing company.

Far from just an administrative change, this direct farmer representation has ushered in a new era of flexibility, choice, accountability and control.

Jack Moser produces mainly wheat, canola and barley on 4,000 acres near Killam, AB. A veteran farmer with more than 30 years experience under his belt, Moser says producers have seen an increase in program options in the decade of farmer control.

"There is quite a lot of choice right now, and that is what farmers have been looking for," Moser says. "The biggest improvements have been the new programs – I really like the storage programs that have come into place."

THE BIGGEST IMPROVEMENTS HAVE BEEN THE NEW PROGRAMS

Dwayne Marshman farms 1,800 acres near Rockyford, AB. He agrees that the number of producer options have increased dramatically under farmer control.

"New programs such as PPOs have given us the opportunity to hedge production while still maintaining pooling. I feel producers have the best of both worlds now," says Marshman, who frequently uses PPOs. Moreover, Marshman says, the director elections keep the CWB accountable to farmers.

"We have had the opportunity to hold the CWB accountable for adding value through director elections. It has become our responsibility as producers to find and elect quality producers to these positions," he says.

Farmers across the Prairies know they are in control. The CWB's 2009 producer survey found that 83 per cent of farmers believe the CWB is run by the board, not by government – a number that has climbed from 57 per cent in 2000. Seventy-two per cent of respondents agreed the CWB is controlled by farmers, and 61 per cent said they feel as though they are the owners.

By any measure, the years of farmer control have seen a dramatic evolution in the way the CWB operates and interacts with farmers. Prior to farmer control, there was one marketing option available to all producers – pooling. While pooling remains an extremely popular risk-management choice, there is now a series of pricing, delivery and storage programs available.

CWB board of directors, 1999.

THE CWB COMMITTED TO AN ACTION PLAN FOR IMPROVEMENTS IN PERFORMANCE

The creation of these programs began soon after farmer-elected directors first sat at the board table. In 1999, consultations with farmers began over new payment options that would provide greater pricing flexibility and improved cash flow. In 2000, these talks led to the creation of the forerunners of the current Fixed Price Contract (FPC) and Basis Price Contract (BPC), which for the first time enabled farmers to choose their own wheat price outside of the pool.

The farmer-controlled board also took steps to enhance value-added processing in Western Canada. A New Generation Co-operatives policy was created in 1999, and subsequent years saw the creation of three significant programs to encourage value-added processing: the Value-added Incentive Program, Field to Plate, and a revised New Generation Co-operative program.

The Early Payment Option followed in 2001, offering farmers access to a greater percentage of their grain's value at delivery. Guaranteed Delivery Contracts were introduced for feed barley in 2004, providing timely delivery opportunities that coincide with sales opportunities.

In 2007, the Wheat Storage Program was initiated, paying farmers to store their highest-quality wheat on-farm for premium customers. The following year saw the introduction of Cash*Plus*, a malting barley program that offers a cash-price contract while retaining the marketing clout the CWB has as the only source for western Canadian malting barley. The same year saw the creation of FlexPro, a year-round wheat pricing option; GrainFlo, a program that allows farmers greater control over the timing of their deliveries; and the Churchill Storage Program. FPC*Plus* arrived in 2009 to provide an enhanced pricing option for durum producers.

While all this was going on, the farmer-controlled board was also busy ramping up accountability and transparency. In the first year of farmer control, the auditor general of Canada was invited to review the CWB's operations and governance. The auditor general's report, released in 2002, found the financial accounting and reporting systems of the CWB to be well-managed, economical and efficient; the CWB committed to an action plan for improvements in performance measurement, governance, strategic planning and information technology.

Elected directors first held accountability meetings with farmers in their districts in 2000, and these annual Farmer Forums continue today. Corporate performance was initially measured in 2002 and relayed to farmers through the annual report. Precise, quantifiable annual measures were implemented in 2003 and continued to evolve in coming years. By 2005, direct links were established between the measures, employee performance and remuneration. In 2009, the CWB established an internal Farmer First mandate that ensures farmer interests are considered in all aspects of CWB operations.

"We have made an incredible amount of progress since 1999, but we have to be careful not to rest on our laurels," says Larry Hill, the board's current chairman, himself an elected member who farms 4,200 acres near Swift Current, SK. "We must continue to demonstrate the value that the CWB adds to farmers' businesses, further improve our interactions and communication with farmers, and build upon our programming options and accountability to ensure we continue to meet the business needs of western Canadian farmers."

CORPORATE GOVERNANCE

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

CWB PERFORMANCE HIGHLIGHTS

The CWB's performance is measured in terms of its achievements in two distinct areas: "Improving Farmer Returns" 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
- Implement a corporate brand strategy
- Enhance logistics operations and policies
- Supply Chain Transformation (SCT) project
- Increase market demand for CWB wheat and durum
- Increase market demand for CWB designated and feed barley
- Engage, strengthen and grow our human resources capabilities

Achievements

- Established a laboratory in Saskatoon to receive grain samples, conduct quality tests and deliver results in a timely manner; it will enhance CWB marketing and lower costs.
- In a cooperative venture with WeatherBug, expanded weather station network in western Canada and developed software tools to use weather data to provide new agronomic and other services to farmers under the WeatherFarm banner.
- Continued a national domestic marketing campaign with Smucker Foods of Canada that included online recipe sponsorship and fall and spring consumer promotions, to increase overall sales of Robin Hood flour and encourage consumption of flour-based foods made with 100 per cent Canadian wheat.
- Developed a branding partnership with Primo Pasta GrainWise whole grain pasta products, targeted to domestic consumers and the retail trade. Activity included broadcast and outdoor billboard advertising, placing the CWB brand logo on GrainWise packaging, chain store point of sale material, and sponsorship opportunities on CBC television.

ENHANCED BASIC AND APPLIED GRAIN RESEARCH FUNDING THAT IS THE CORNERSTONE OF STRONG CANADIAN GRAIN VARIETIES.

- Initiated branding work in Japan to educate consumers on the high quality of flour products made primarily with Canadian wheat. This included participation and demonstrations in high-profile cooking schools and establishing customer partnerships to supply flour.
- Launched a major trade campaign in Ecuador with Moderna Alimentos to re-brand and position their premium flour brands as superior quality because they are made with a majority of Canadian wheat. This included a trade contest, promotional material, launch event, and packaging featuring the CWB brand logo. This is the first of several branding activities with this customer.
- 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.
- Re-engineered our supply approach by developing an origin plan that optimizes the volume and quality available to market. This is an on-going process aimed at achieving the most efficient and cost-effective handling and transportation system to meet farmers' business needs.
- Expanded both tactical and strategic pipeline plans to improve miller and farmer service. This also allowed the CWB to more effectively leverage volume and lower farmer supply chain costs.
- Expanded strategic supply-sourcing with selected suppliers and developed a strategic partnership approach with key suppliers. This will ensure capacity to support the CWB sales program, improve handling and transportation service and reduce cost to farmers.
- Completed the implementation of the CWB SCT project. The project has now moved to sustainment phase with a focus on resolving any remaining issues or problems and on improving system performance. The project will allow the organization to position for the future, ensuring the competitiveness of the CWB and western Canadian farmers in the marketplace.
- As a member of a Canada Grains Council committee on alternative research funding systems, continued to push for enhanced basic and applied grain research funding that is the cornerstone of strong Canadian grain varieties.

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

- Shared cost with the Canadian International Grains Institute (CIGI) to hire a manager of milling technology to expand CIGI's milling capability and to increase knowledge exchange with CWB customers, with the objective of improving the CWB's value proposition to key markets.
- Continued initiative to work more closely with major bakery companies (through CIGI programs and CWB visits to bakery customers) to increase demand for flour made from Canadian wheat.

- Worked with customers to evaluate samples of two new Canada Western Amber Durum (CWAD) varieties.
- Worked with designated producer car-loading groups to select and ship malting barley for CWB direct shipments. This program provides the producer car-loading 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 and began implementation of a talent management strategy for the CWB, which involves new programs and program enhancements that will ensure the CWB has the right people in the right place at the right time and at the right cost; it will also enable the CWB's workforce to meet the objectives of the corporate long-term plan.
- Initiated several workforce planning initiatives to identify opportunities to streamline business processes, increase employee engagement and ensure the ongoing efficiency of CWB operations.
- Initiated a Management Development and Support Program, which will ensure CWB managers have the competencies, support and tools they need to engage and develop their employees. Creating a foundation of manager and employee engagement has a positive impact on the achievement of corporate goals and objectives.
- The CWB was recently selected as one of Manitoba's Top Employers for 2010, 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.

SELECTED AS ONE OF MANITOBA'S TOP EMPLOYERS

Improving overall farmer satisfaction

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

Initiatives

- Strengthen the CWB's trade position in international agreements
- Pricing and delivery redesign

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 is beneficial for 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. Exploratory discussions were launched on the possibility of free trade agreement negotiations with Morocco, Canada's second largest market for durum. Supported the signing of bilateral trade agreements with Colombia and Peru and worked collaboratively with the Government of Canada to advocate ratification of the Colombian agreement.
- Focused on enhancing offerings to farmers in 2008-09, following the introduction of a number of new pricing and delivery programs in 2007-08. GrainFlo was expanded and improved in response to strong farmer interest while the Delivery Exchange contract was discontinued, based on minimal usage by farmers. In addition, the FPC program for durum was replaced with an enhanced program called FPC*Plus* for 2009-10.
- Introduced the weekly PPO Updater and added a Program Service Representative for each province to enhance farmers' access to on-the-ground expertise on Producer Payment Options (PPOs). These changes are examples of the commitment and ongoing efforts aimed at renewing the CWB's business relationship with farmers and strengthening farmer satisfaction with the programs and service offered by the CWB.

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. The CWB makes a recommendation to the government on the CEO appointment. 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

1. Henry Vos (District 1)

Henry has a degree in agriculture from the University of Alberta. Henry and his wife Anne farm 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.

2. Jeff Nielsen (District 2)

Jeff operates J.E. Nielsen Farms Inc., near Olds, AB, a 1,350-acre grain and oilseed family farm. Jeff has previously been elected to the boards of directors of United Grain Growers and Agricore United. During his time with Agricore United, Jeff received his designation as a chartered director (C. Dir.). Jeff served as president of the Western Barley Growers Association from 2006 to 2008, and has been a director of Grain Growers of Canada, serving as vice-president in 2008. He currently serves as a member of the Canada Grains Council On-Farm Food Safety Committee.

3. 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. He previously chaired the CWB Audit, Finance and Risk Committee and the Ad Hoc Trade Committee. He is serving his third term as a CWB director.

4. Bill Woods (District 4)

Bill was born and raised on the family farm near Eston, SK, where he and his wife Cindy still reside. He was a key organizer of the first-ever producer car unit train and a founding member of West Central Road & Rail Ltd. He is currently a member of the Western Grains Research Foundation Wheat Advisory Committee.

5. Allen Oberg (District 5)

Allen and his brother John run a grain and cattle operation near Forestburg, AB. Allen has served on the boards of numerous organizations throughout his career, including Alberta Wheat Pool, Agricore and the Canadian Cooperative Association. He is past chairman of the Western Grains Research Foundation. Allen also serves as chair of the CWB Farmer Relations Committee.

6. Cam Goff (District 6)

Cam and his brothers run a family operation of 5,000 acres near Hanley, SK and grow spring, winter and durum wheat, malting barley, peas, flax, mustard, lentils, chickpeas and oats. He and his wife Beverley also operate a gas station and agriculture chemical business in Hanley. He is currently a board member of the Western Grains Research Foundation.

7. 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 Bachelor of Science in chemistry. He has been involved in numerous farm and community organizations, including Saskatchewan Wheat Pool, Borage Growers Group and Prairie Alliance for the Future. In addition to Kyle's farming experience, he has been employed in the mining industry and in government. He has represented both provincial and federal governments on national agriculture and environment committees. He currently serves on the Western Grains Research Foundation Barley Advisory Committee and on the Western Grain Standards Committee Wheat Subcommittee.

8. Rod Flaman (District 8)

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

9. William Nicholson (District 9)

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

10. 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, a post-graduate degree in soil science and a chartered director designation from the Directors College. 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 a former chair of the Canadian International Grains Institute board. Bill currently serves on a local credit union board. He is serving his second term as an elected CWB director and chairs the Strategic Issues Committee.

Appointed directors

11. David Carefoot

David has a strong background in agribusiness. He 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, and 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 the Audit and Business Advisory as well as the Financial Advisory Services practices. He is currently chief financial officer of Empire Industries Ltd., a TSX Venture-listed company located in Winnipeg, MB and involved in steel fabrication and the manufacturing of specialized engineered products. He holds a bachelors degree in commerce from the University of Manitoba, and is a chartered accountant and chartered business valuator. David is a past director of the Canadian Institute of Chartered Business Valuators and is currently a member of the By-Laws Advisory Committee for the Institute of Chartered Accountants of Manitoba.

12. Glen Findlay

Glen and his wife Kay, along with son Gary and his family, operate a 5,000-acre, 300-head beef farm at Shoal Lake, MB. Glen holds bachelors and masters 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.

13. 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. He has provided consulting services to a broad range of clients in transportation, food and agriculture and government. He holds a Bachelor of Arts from the University of Manitoba and recently received his chartered director designation from the Directors College. He currently chairs the Audit, Finance and Risk Committee, and served previously as co-chair of the Governance and Management Resources Committee.

14. Ken Motiuk

Ken has extensive experience in agribusiness and owns and operates grain and livestock operations near Mundare, AB. He holds a Bachelor of Science in agricultural economics from the University of Alberta. Ken currently serves as chair of the Alberta Credit Union Deposit Guarantee Corporation. Ken is a chartered director and graduate of the Directors College. Previously, he served as a governor of the Winnipeg Commodity Exchange, a member of the Alberta Grain Commission and a director of Agricore United.

15. 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 (Hons.) degree from Sydney University, is a member of the Australian Society of CPAs, and is 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. He currently serves as a board member of the Canada Grains Council.

10 6 7 2 13 12 1 4 15 11 9 5 3 8 14

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

Ian White, the CWB's president and CEO, and Larry Hill, chair of the board of directors, can reflect upon 2008-09 as a year of high returns for farmers and a year in which the CWB exported approximately 2.4 million tonnes of grain more than its 10-year average. The strength of that performance is coupled with the board's renewed and ongoing commitment to a CWB that adds value for all farmers. This "Farmer First" priority drives the decision-making process of the board.

The board continues to work together to provide strategic leadership to the CWB. This year the board laid the foundation for a new strategic plan and provided input on further development of corporate performance measures. The board also focused on the CWB's financial risk-management methodologies and the implementation of the information technology SCT project.

Following the 2008 director elections, the board welcomed three new farmer-directors: Cam Goff, Jeff Nielsen and Bill Woods. Directors Rod Flaman and Bill Toews returned to the board for another term.

WORK TOGETHER TO PROVIDE STRATEGIC LEADERSHIP

Commitment to good governance

The board has taken a proactive approach to its governance philosophy and framework. 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 internal and external risks and opportunities.

During the 2008-09 crop year, the board continued to provide strong governance and leadership. Specifically, it provided oversight on the employee pension plan, gave direction on the employee compensation program, reviewed director compensation, provided input on issues related to director elections, and hosted numerous accountability and farmer liaison meetings across the Prairies to ensure accurate and transparent communication with farmers. A number of directors attended and successfully completed additional learning modules at the Directors 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.

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, Rod Flaman, Cam Goff, Ken Motiuk, Bill Nicholson and Henry Vos.

Governance and Management Resources Committee

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

Members – Bill Nicholson (chair), David Carefoot, Glen Findlay, Bruce Johnson, Kyle Korneychuk, Henry Vos and Bill Woods.

Strategic Issues Committee

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

Members – Bill Toews (chair), Glen Findlay, Kyle Korneychuk, Jeff Nielsen, Allen Oberg and Bill Woods.

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), Rod Flaman, Cam Goff, Ken Motiuk, Jeff Nielsen and Bill Toews.

REMUNERATION AND MEETING ATTENDANCE, 2008-09 CROP YEAR

Board of Directors

Director	District	Remuneration: Retainer	Per Diems	Total	Attendance: Board Meetings	Committee Meetings	Industry/ Miscellaneous Meetings
Vos, Henry	1	$ 20,000	$ 21,000	$ 41,000	7/7	17/17	13
Chatenay, James[1]	2	8,333	2,000	10,333	2/2	2/4	0
Nielsen, Jeff[2]	2	11,667	14,000	25,667	5/5	7/7	7
Hill, Larry	3	82,500	21,500	104,000	7/7	17/17	35
Ritter, Ken[1]	4	8,333	4,000	12,333	2/2	7/7	1
Woods, Bill[2]	4	11,667	14,250	25,917	5/5	7/7	8
Oberg, Allen	5	24,500	32,625	57,125	7/7	12/12	22
Goff, Cam[2]	6	11,667	18,250	29,917	5/5	9/9	9
McCreary, Ian[1]	6	8,333	4,000	12,333	2/2	8/8	2
Korneychuk, Kyle	7	20,000	23,625	43,625	7/7	13/13	14
Flaman, Rod[3]	8	17,935	16,625	34,560	6/7	10/13	9
Nicholson, William	9	24,500	20,750	45,250	7/7	17/17	17
Toews, Bill	10	24,500	18,000	42,500	7/7	12/12	22
Carefoot, David	A	20,000	16,250	36,250	7/7	17/17	5
Findlay, Glen	A	20,000	11,500	31,500	7/7	11/13	5
Johnson, Bruce	A	25,750	14,950	40,700	7/7	17/17	3
Motiuk, Kenneth	A	20,000	17,500	37,500	7/7	17/17	11
White, Ian	A	N/A	N/A	N/A	7/7	N/A	N/A
TOTAL:		**$ 359,685**	**$ 270,825**	**$ 630,510**			

Notes:

A = Appointed

[1]Term ended December 31, 2008 [2]Took office December 31, 2008 [3]Took leave of absence September to October 2008

The board chair receives an annual fee of $105,000. Other directors are paid an annual retainer of $20,000 and per diem allowances. Regular committee chairs receive a further $5,000 per committee chaired and the Audit, Finance and Risk Committee chair receives $7,500. A per diem of $500 per full regular meeting day is paid to each regular board 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 regular directors.

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 2008-09 crop year, including retainers, per diems and reimbursable expenses, were $917,567.

DIRECTOR REPRESENTATION ON EXTERNAL BOARDS AND COMMITTEES, 2008-09 CROP YEAR

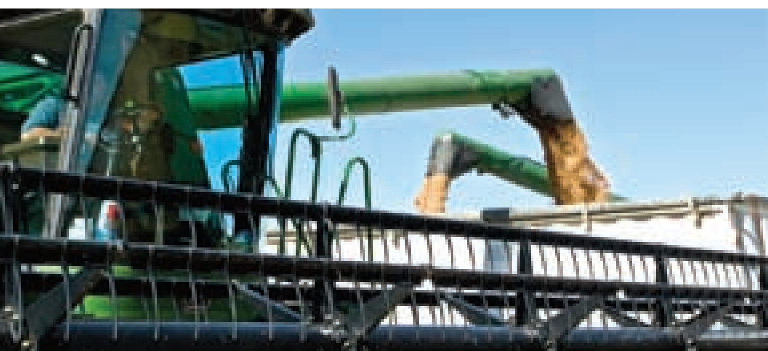
The board of directors is invited to name representatives to serve on external boards and committees related to the Canadian grain industry. The following is a list of directors assigned during the 2008-09 crop year.

External Board or Committee	Position	Director
Canada Grains Council	Board Member	Ian White
Canada Grains Council On-Farm Food Safety Committee	Committee Member	Jeff Nielsen
Canadian Federation of Agriculture	CWB Representative	Allen Oberg
Canadian Federation of Agriculture Grains and Oilseeds Committee	CWB Representative	Allen Oberg
Canadian International Grains Institute	Board Member	Henry Vos
Western Grain Standards Committee	Member, Wheat Subcommittee	Kyle Korneychuk
Western Grains Research Foundation	Board Member	Cam Goff
Western Grains Research Foundation	Member, Wheat Advisory Committee	Bill Woods
Western Grains Research Foundation	Member, Barley Advisory Committee	Kyle Korneychuk

CWB LEADERSHIP TEAM

The 2008-09 crop year marked the first full year with Ian White at the helm as president and CEO. White joined the organization in April 2008, after an extensive search.

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



Compensation

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

The CWB's total compensation program includes base pay and variable pay for all employees. The program targets total compensation at the mid-range of market compensation rates.

Based on the audited financial records, variable pay is scheduled annually in December for the prior crop year. The goal of variable pay is to reward results, high performance and the achievement of corporate targets for a number of corporate performance measures approved by the board of directors.

Eligible permanent employees must achieve individual performance goals and the organization must achieve or surpass corporate performance targets in order for a payout to occur. In a year when variable pay is not paid out because goals and targets are not achieved, total compensation will be below the mid-range of compensation for similar corporate positions.

Summary compensation table, 2008-09

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 the two other highest-paid senior officers of the company for the 2008-09 crop year. These figures reflect base salary (actual earnings) or expense of the Corporation for the duration of time that the individual was on the job during the 2008-09 crop year.

Name	Base pay	Variable Pay*	Bonus**	Benefits***	Total
Ian White	$ 650,299	–	$ 122,720	$ 21,117	$ 794,136
Ward Weisensel	$ 259,535	$ 81,073	–	$ 44,926	$ 385,534
Brita Chell	$ 202,063	$ 63,119	–	$ 39,310	$ 304,492
Graham Paul	$ 194,255	$ 60,678	–	$ 38,541	$ 293,474
Earl Geddes****	$ 193,091	–	–	$ 38,305	$ 231,396

*Based on Variable Pay program results for the 2008-09 crop year and paid out in December 2009.

**As per contract based on the results for the 2008-09 crop year and paid out in December 2009.

***Does not include statutory benefits (i.e., EI and CPP) or The Health and Post Secondary Education Levy.

****Resigned from the CWB to assume a different position prior to the variable payment.

Note: The value of perquisites for eligible officers did not exceed $50,000 per person.

Leadership team, 2008-09 (pictured from left to right)

Ward Weisensel – Chief Operating Officer

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

Diane Wiesenthal – Vice-President, People & Organizational Services

Ian White – President and CEO

Jim McLandress – General Counsel

Deborah Harri – Corporate Secretary

Brita Chell – Chief Financial Officer

Dave Burrows – Vice-President, Communications & Government Relations

Earl Geddes (not pictured) – Vice-President, Farmer Services

MANAGEMENT DISCUSSION & ANALYSIS

Responsibility

The following management discussion and analysis (MD&A) is the responsibility of management as of November 26, 2009. 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.

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OUR BUSINESS

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

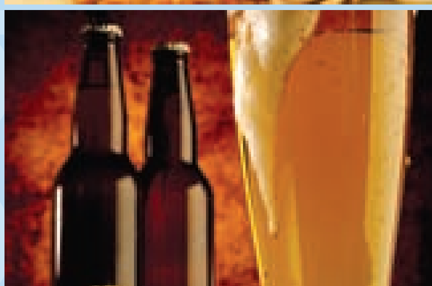
products

Wheat

Western Canadian wheat is marketed to customers in more than 50 countries worldwide. It enjoys an international reputation for consistency and reliability of supply and quality. Flour made from Prairie wheat is the main ingredient in many staple foods, including pan breads, flat breads, steam breads, noodles and other products, such as crackers.

Durum

We market the quality durum wheat grown by western Canadian farmers to more than 20 countries around the world. Semolina is the most common product of 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. Of that, about 25 to 30 per cent meet the strict quality control standards set for malting barley selection. Most of this quality barley is used to make malt for beer, domestically and internationally. Smaller quantities are used for whiskey distillation, confectionary and in various foods.

Feed barley

Most feed barley from Western Canada is formulated into feed for the domestic hog, cattle and poultry industries. Normally, about 95 per cent of feed barley is consumed domestically and is not marketed by the CWB. The CWB markets feed barley overseas when the international price structure presents opportunities to achieve good returns for farmers and attract their deliveries.

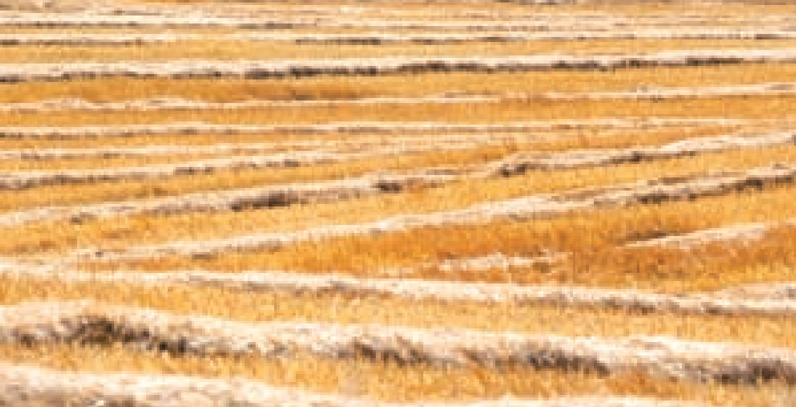
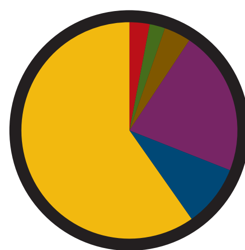


Figure 1: Market shares of production and exports by principal wheat exporting countries

(% of world totals 2004-08)



Major wheat producers

Australia **3.0** EU-27 **21.5**
Argentina **2.3** U.S. **9.2**
Canada **4.0** Others **60.0**

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

Australia **10.5** EU-27 **13.6**
Argentina **8.7** U.S. **23.7**
Canada **14.1** Others **29.4**

* Includes wheat flour and durum; includes Former Soviet Union (FSU) intra-trade.

OPERATIONAL ENVIRONMENT

The vast majority of grain grown in Canada comes from farmers who live and work on the Prairies. The CWB markets 18 to 24 million tonnes of western Canadian wheat, durum and barley each year on behalf of western Canadian farmers. Gross 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, the CWB has sustained and built Western Canada's market presence and strong reputation through branding and customer service. As a result, we have become the largest producer-controlled wheat and barley marketer in the world. However, all competitors are seeking ways to sustain and expand their share of the global market, particularly in premium markets.

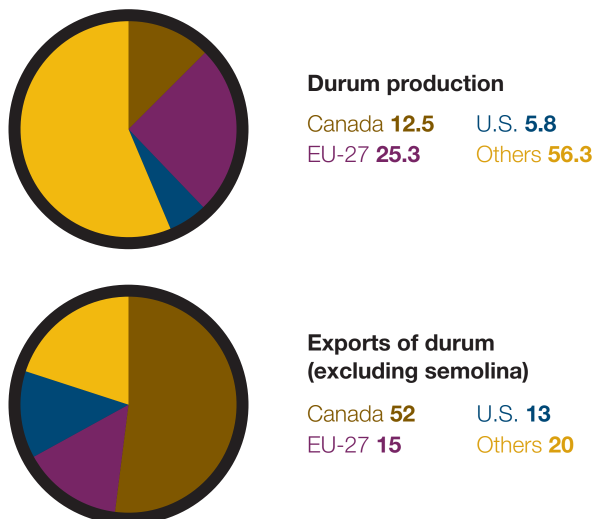
Each year, we market between 12 and 18 million tonnes of milling wheat to customers in Canada and around the world. Our major international customers vary from year to year and include Japan, Sri Lanka, Indonesia, Iran, Saudi Arabia and China. The United States (U.S.) has also traditionally been a key market for Canadian milling wheat.

Together, Canada, Argentina, Australia, the European Union (EU) and the U.S. account for approximately 71 per cent of total wheat traded worldwide, while producing just over 40 per cent of the world supply. This disparity creates the potential for pressure to be exerted on Canada's market share – especially as traditionally "minor" exporting countries (e.g., Russia, Kazakhstan and Ukraine) increase their presence as wheat exporters (see Figure 1). Additional competitors with cost-of-production advantages, such as lower land and input prices, also continue to emerge.

A similar condition exists in the durum market. Canada holds more than 50 per cent of the world trade in the durum market in any given year. The EU, Canada and the U.S. are responsible for approximately 81 per cent of the export market. However, these three countries together produce less than 44 per cent of the world's durum supply, with Canada producing less than 13 per cent. Traditionally, Mexico has not been a major durum exporter. However, with the high durum prices in recent years, it has exported the majority of its crop, targeting price-conscious customers to capture market share of between 10 and 15 per cent of total world trade.

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

(% of world totals 2004-08)

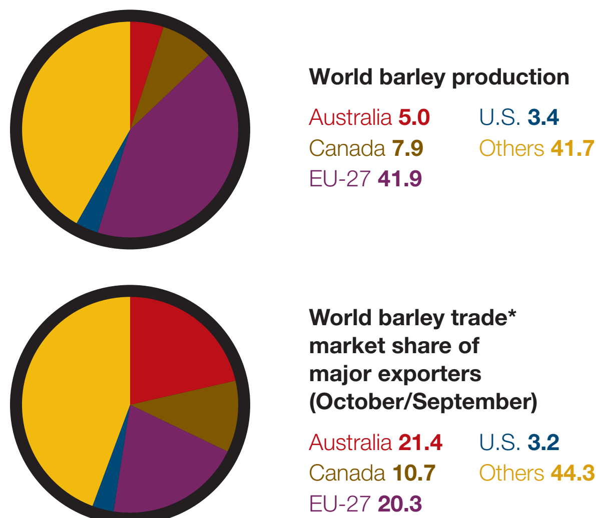


Global buyers value Canadian durum for its consistency, quality and ease of supply, which is ensured by superior marketing and grain-handling systems. Italian pasta makers are among the top buyers of Canadian durum, a group that also includes customers in other European nations, North Africa (Algeria,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

In the barley export markets, the main suppliers are Australia, Canada, the EU and the U.S., which together account for 56 per cent of exports. In most years, Australia and EU-27 dominate the barley market, with each capturing about 20 per cent 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.

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

(% of world totals 2004-08)



* Excludes products

WE HAVE BECOME THE LARGEST PRODUCER-CONTROLLED WHEAT AND BARLEY MARKETER IN THE WORLD.

BUSINESS STRUCTURE

The CWB is a shared-governance corporation created by *The Canadian Wheat Board Act* (*The Act*). Even though the CWB has been created by an act of Parliament, it is not part of the Canadian government. The Corporation is governed by a board of directors that consists of 15 members: 10 are farmers elected by farmers; four are community and business leaders appointed by the Government of Canada; and one is the CWB's president and chief executive officer, who is recommended by the board of directors and appointed by government. Under 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 the western Canadian farmers they represent.

The operations and structure of the CWB – the single desk, pooling and government guarantees – are defined by *The Act*.

The single desk

Pursuant to *The Act*, the CWB is the exclusive – or "single desk" – marketer of wheat and barley produced in Western Canada and destined for domestic human consumption or export.

The single desk enables the CWB to operate an efficient logistical supply chain that extends from farmers' fields to domestic and international grain 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.

Pooling

Pooling is the foundation the CWB uses to manage the risks associated with pricing farmers' grain in complex and volatile markets. Pooling means that all sales revenue earned during the crop year is deposited into one of the following pool accounts: wheat, durum wheat, designated barley and feed barley. All revenue, less marketing costs, is returned to farmers through these pool accounts, except where farmers have chosen to participate in CWB pricing options.

Farmers who choose to be paid through the pooling system are assured that, regardless of the timing of their deliveries or CWB sales activity within the crop year, they will receive the same price for grain, dependent only on grade, class and protein level.

Government guarantees

The Government of Canada guarantees CWB initial payments to farmers, CWB borrowings and credit sales. Guaranteed initial payments provide a minimum price floor, protecting farmers from the volatility of grain markets. Guaranteed borrowings ensure the lowest possible interest rates on CWB borrowings, while the credit-sale guarantee ensures farmers are not out-of-pocket if buyers default on payments owing for grain sales.

Producer Direct Sale (PDS)

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

Beyond price pooling: Producer Payment Options (PPOs) and more

The CWB introduced PPOs in 2000 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 are paid. These options were designed to provide farmers with the ability to manage their own pricing risk without negatively affecting the pool accounts.

The PPOs available to farmers through the CWB in addition to price pooling are:

FlexPro: Offers a daily price for wheat that can be locked in throughout the crop year, provided tonnage is assigned before the year begins.

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

FPC*Plus*: A program for durum wheat. Provides additional potential for participants to receive a rebate of the risk discount at the end of the year.

Basis Price Contract (BPC): Enables farmers to lock in a basis and futures value for their grain at different times. The futures component can be locked in up to a year in advance of harvest.

Early Payment Option (EPO): Intended to improve farmers' options for cash flow. Provides farmers with payments equal to 80, 90 or 100 per cent of the CWB's Pool Return Outlook, minus a discount, within 10 days of delivery. Farmers continue to receive additional payments if returns for their grain exceed the EPO value.

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.

CashPlus: Designed to meet the needs of western Canadian barley farmers by adding flexibility to malting barley pricing and by establishing an upfront, guaranteed cash price that reflects market values.

GrainFlo: 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 enabling farmers to commit grain among four defined delivery periods.

Value-added Incentive Program (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 Canadian 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): 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 farmers' premium customers.

Churchill Storage Program: Offers farmers a premium for storing their Nos. 1 and 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 July. The Churchill Storage Program is designed to ensure this grain is on hand.

People

The CWB has a diverse and highly skilled workforce that is an essential component of our success. The CWB's human-resources strategy leverages talent management, workforce planning and learning and development to ensure resource requirements maximize the organization's ability to meet its strategic plan. One-third of our workforce speaks two or more languages, enhancing our ability to maintain strong working relationships with international customers. More than 40 per cent of our staff also have agricultural and farming backgrounds, with family ties to farming communities across the Prairies.

The CWB's headquarters are in Winnipeg, MB. Sales satellite offices are located in Beijing and Tokyo. We also operate an office at the Port of Vancouver and regional offices in Saskatoon, SK and in Airdrie, AB.

The majority of our 460 employees are based in Winnipeg. Sixteen Farm Business Representatives (FBRs) work in the field, covering large districts across Western Canada. They are responsible for serving the business needs of farmers and maintaining contact with grain-handling facilities within their districts.

OUR VISION AND STRATEGIES

Over the course of the 2008-09 crop year, the CWB board of directors, management and staff were engaged in an extensive process to re-establish a long-term direction and strategic plan for the CWB. The strategic plan received approval from the board in early 2009-10 and is now being implemented across the organization. Fundamental to this plan is a strong commitment to add value for all farmers, financial and otherwise, while building upon the strong and important relationships the CWB has with its customers around the world.

The CWB is a marketing organization that belongs to Prairie farmers, enabling 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 apply innovative solutions to the challenges they face.

Our main strategy identifies and innovatively responds to a wide range of challenges and opportunities. It is rooted in a spirit of collaboration with farmers and a commitment to listen to, serve, and add value for all farmers in Western Canada.

We have identified five strategic areas that drive our success:

Farmers: As the most important stakeholders of the organization, farmers are the ultimate recipients of our services. Our commitment to them is central to our strategy. Farmer support and satisfaction with our services is critical. To be successful, farmers must consider the CWB to be an organization that understands and meets their business needs. Our strategy is designed to ensure farmers have a strong sense of ownership of the CWB and feel engaged in its work.

Customers: Understanding and meeting customers' needs and expectations is critical to the success of western Canadian farmers. We want to ensure we generate maximum financial value to farmers by providing a world-class service package, as well as innovation in the products and services we offer to customers. We strive to continue to deliver these services in a reliable and consistent way.

Financial: The CWB is focused on achieving the highest possible returns for farmers through grain sales. Success in managing our administration costs, direct costs and financial risk adds stability to the business, ensuring superior value is delivered to all farmers.

Strategic actions: Achieving our overall goal to serve and add value to all farmers requires the organization to focus its efforts on four strategic priorities:

1. We must be operationally efficient and effective – continually improving and optimizing our processes and systems so we can provide responsive service and meet our service commitments to both farmers and customers. We must do this in a cost-effective way.
2. We must deliver the right services to farmers – by clearly understanding the distinct needs of the many segments of farmers we deal with and by developing closer business relationships with farmers.
3. We must manage our customer base – ensuring deeper and more profitable relationships with our customers. We must explore new and innovative ways to partner with customers in initiatives that ultimately benefit farmers.
4. We need to grow as an organization in ways that will add more value to all farmers – seeking and developing opportunities to strategically position farmers for the future. We will seek opportunities that are profitable, have high growth potential, enhance our core marketing business and deliver a competitive advantage for farmers.

Resources and culture: To achieve our goals, we must ensure the entire organization is aligned with our "Farmer First" culture. Our people must be engaged with and proud of the work they do for farmers. We must ensure the right tools are in place to facilitate our internal processes. Hiring and retaining the right people and developing their capabilities are critical to our overall success.

We aim to achieve higher levels of satisfaction among farmers by tackling potential causes of dissatisfaction and improving our programs, services and information in every way we can. We have established aggressive targets for this. We are fully focused on improving performance, while at the same time increasing transparency and accountability in everything we do. This means establishing clear performance objectives and measures that will drive the types of behaviour and actions needed to achieve our goals.

As we look towards the future, our commitment to Farmer First, a strong CWB brand and an intense focus on adding value to all farmers will contribute to the growth and sustainment of our overall business.

HOW THE FINANCIAL STATEMENTS CAPTURE THE BUSINESS

The Act requires that we establish a separate pool account each crop year (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 net earnings by pool are distributed. It reflects initial, adjustment, interim and final pool payments to producers as approved by the Government of Canada.

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

In addition, the Corporation has engaged in cash trading of feed and designated barley, as well as organic wheat and durum. Similar to the PPOs, the CWB bears the risk of the programs and retains a portion of the revenue as a contingency to offset ongoing program risk.

A Contingency fund was established and the net surplus or deficit of the PPO programs (the difference between the program sales values and direct program expenses, including the payment to farmers based on contracted values) plus final results of the cash-trading programs are transferred to this fund. The Contingency fund is capped at $60 million and controlled by legislation.

Since the CWB retains no earnings, our operations are financed by borrowings. These borrowings are made in various capital markets and are guaranteed by the Government of Canada.

In preparing financial statements for the Corporation, the challenge is to provide meaningful statements for the readers while complying with generally accepted accounting principles (GAAP) and *The Act*. The primary issue relates to the timing of recording transactions related to the tonnes included in a pool or program period. GAAP requires financial statements to report on the activities and transactions within a fiscal period. *The Act* requires that the financial statements for pool operations capture and report on all activities and transactions attributable to the tonnes purchased within the pool period. The pool accounts remain open until, in management's judgment, marketing activities have been essentially completed and remaining inventories can be fairly valued. The completion of this activity results in the final distribution to producers.

These activities are presented in a combined manner in accordance with Canadian GAAP standards. This captures all aspects of the business – pool, PPOs and cash trading. In addition, there is a separate statement reporting on final distributions to participants by pool. These combined statements, including the statement of distributions to pool participants, are audited by Deloitte & Touche LLP, 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 follow GAAP except where *The Act* may require a different accounting treatment, given the requirement to create separate pool accounts. These pool statements account for and include anticipated revenue, less execution costs, based on sales entered into after the year-end used to satisfy the ending inventory. They exclude the effect of gains and losses from the valuation of financial instruments that do not relate to the current pool operations. These statements provide 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 71 for a reconciliation of the individual statements in the MD&A to the audited financial statements.

The reconciling items between the statement of individual pool accounts and the GAAP financial statements relate to the timing of recognition of certain transactions.

	Financial statements	
	Combined statements	**Individual pool statements**
Period	12-month fiscal period representing August 1 to July 31	No defined period of operations – remain open until all marketing activities have been essentially completed and remaining inventories can be fairly valued
Governing body	GAAP	*The Act*
Application	Application of GAAP	Application of GAAP except as specified by *The Act*
Differences*	• Differences in inventory valuation • Unrealized gains and losses related to recording of fair value of financial instruments	

*Reconciliation of differences is reported on page 71

THE PRODUCER PAYMENT OPTION (PPO) PROGRAMS WERE SET UP TO PROVIDE FARMERS WITH MORE FLEXIBILITY IN PRICING THEIR GRAIN.

THE CWB: ADDING VALUE FOR FARMERS

Adding value for farmers goes beyond how we market grain. We seek ways to manage the job we do in innovative ways. We look for opportunities to expand services that add value for farmers. We are advocates on issues that affect farmers' bottom line, partners in research and development and allies on transportation issues. 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. Unfortunately, the current negotiating text would require western Canadian farmers to give up significant benefits in exchange for few tangible benefits in subsidy reforms and market access. We have supported the federal government's efforts to establish bilateral agreements with key customer countries and focused attention on parts of the globe where agreements are required. In 2009, Canada implemented free trade agreements (FTAs) with Peru and introduced legislation for the Canada-Colombia FTA in Canada's Parliament. Peru and Colombia are important markets for Canadian wheat and barley. An FTA with the European Free Trade Association (Switzerland, Iceland, Norway and Liechtenstein) was also implemented.

The CWB has developed an extensive network of on-farm weather stations. Now the largest weather network in Western Canada, it had grown to 700 stations by the end of 2009. The network consists of weather-monitoring stations linked through the Internet and fed into an online information centre that helps producers with their farm management decisions. The online WeatherFarm centre is offered to all farmers free of charge. It includes pest modelling and weather mapping tools that are useful in pest management, seeding decisions and assessment of crop development. Farmers also value receiving up-to-the-minute live weather data from their own fields and regions, which can also be archived to analyze historic trends.

The WSP and Churchill Storage Program provide financial incentives for farmers to store high-quality, high-protein wheat on farm. The CWB is also committed to ensuring Churchill remains a viable export alternative for Prairie farmers, since it saves farmers money through reduced rail-freight costs and the avoidance of St. Lawrence Seaway charges. The Port of Churchill is a major employer and economic driver for the northern community. In 2008, the CWB shipped 424 000 tonnes through the port, above typical annual levels. In 2009, the CWB shipped 529 000 tonnes through the port, the second-highest volume since 1977.

Both at home and abroad, we promote the goodness of Prairie wheat and the expertise of Prairie farmers, with an eye to increasing consumption of wheat products. Within Canada, we continued a national branding partnership with Robin Hood, the largest consumer flour maker in Canada, in a campaign that includes recipe booklets and CWB quality messages on all bags of Robin Hood flour. We also launched a new initiative with Primo Foods, one of Canada's largest and most trusted pasta makers. Internationally, we created strategic branding partnerships in Latin America, Japan and China. Additional details of CWB branding activities can be found elsewhere in this annual report.

As part of our goal to improve quality control and customer service, the CWB opened its first laboratory for testing and grading Prairie grain in October 2009. The lab, located in Saskatoon, SK adds to the CWB's ability to meet its grading and testing needs, especially before grain reaches ports or North American destinations. In addition, the lab is expected to save farmers money, by reducing expenditures on third-party grain testing.

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 a competitive edge. That is why we are committed to investing in research that

THE CWB WILL CONTINUE TO FACILITATE AND DEFEND THE RIGHTS OF FARMERS TO HAVE THE OPTION OF LOADING GRAIN IN THEIR OWN COMMUNITIES.

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 also committed regular funding to research and market development to strengthen the western Canadian organic grain industry through the Organic Sector Marketing Development Initiative.

An internal change that promises to pay long-term dividends in terms of CWB service to farmers and customers is our Supply Chain Transformation (SCT) project. Launched in 2005, SCT is a comprehensive program designed to improve the systems and processes that directly serve farmers and customers. Our e-Services capability was expanded in 2008-09 to give farmers a tool to manage delivery contracts and payments online. SCT is more than a change in technology; it is a re-organization of the way we do business. As such, it expresses a renewed commitment by 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 from the Prairies to port can be costly and complicated. Limited rail and car capacity creates challenges for moving farmers' grain effectively and efficiently. By marketing as a group through the CWB, farmers have the clout to demand adequate railcar service. When the railways fail to provide adequate service, farmers have been able to challenge them through the CWB. In January 2008, the Canadian Transportation Agency ruled in favour of a level-of-service complaint launched by the CWB and grain shippers over inadequate CN Rail service in moving grain during 2006-07. The decision was another step toward a fair and viable rail system for all stakeholders. An appeal of the agency's decision regarding service failings in 2007-08 is still before the courts. Meanwhile, the CWB continues to lobby for a full costing review, an effort that could benefit all farmers shipping grain for export from Western Canada.

The CWB also supports the use of producer cars by facilitating sales, gaining terminal authorization at port, working with the CGC to approve applications and securing car supply from the railways. Producer cars enable farmers to reduce grain-handling and transportation expenses, putting more money in their pockets. In 2008-09, western Canadian farmers loaded a record number of producer cars, continuing a decade-long trend in increased producer car use. The CWB will continue to facilitate and defend the rights of farmers to have the option of loading grain in their own communities.

CURRENT YEAR RESULTS

Factors that shaped the 2008-09 business conditions

World production

Wheat

World wheat production in 2008-09 hit a record level due to large seeded acreage and high yields. The International Grains Council estimates world wheat production for 2008-09 at 687 million tonnes, 78 million tonnes more than the previous year. World consumption was stronger than the year before, at 640 million tonnes, but ending stocks increased by 47 million tonnes. World wheat ending stocks rebounded from very low levels in 2007-08 to 165 million tonnes in 2008-09. Stocks of the world's five major wheat exporters increased by almost 18 million tonnes to 46 million tonnes. Canada's 2008-09 ending stocks were 6.5 million tonnes, an increase of almost two million tonnes from the previous year. Prices decreased rapidly during the first half of the marketing year, continuing a downward trend from the peak that occurred during late February and early March 2008. The wheat market declined through the summer and fall in response to large global supplies. Wheat prices remained extremely volatile during the last half of the marketing year, rallying in early January and June 2009. The overall trend in the second half of the year was lower, albeit at a slower rate than the first half of the marketing year.

Durum

World durum production in 2008-09 was 38.4 million tonnes, up almost four million tonnes from 2007-08. Durum production in Canada and the European Union increased by 1.8 million tonnes and 1.6 million tonnes respectively from 2007-08. The size of the world durum trade remained almost unchanged at 7.2 million tonnes. Ending stocks of the major durum exporters increased to 3.6 million tonnes, up 2.2 million tonnes from 2007-08. Durum prices plummeted in the first half of the crop year as large production increased supplies, then moved slightly lower throughout the second half of the crop year.

Barley

World barley production in 2008-09 was 153.9 million tonnes, 19 million tonnes higher than 2007-08. Canada's 2008-09 barley production increased to 11.8 million tonnes, 800 000 tonnes higher than the previous year. Barley prices decreased throughout the first half of the year, as supplies were plentiful. Prices rebounded slightly in June and July as the focus shifted to 2009-10 production prospects, which is forecast to decline by over eight million tonnes.

High-quality crop for Canada

Canada's wheat production in 2008-09 was 28.6 million tonnes, well above the five-year average. Seeded acreage area was higher for both winter and spring wheat crops in Canada compared to the 2007-08 crop year. Poor soil-moisture conditions in the southern half of the growing region in Western Canada presented the largest threat to crop production during the early spring of 2008. The early spring was characterized by very cool temperatures which delayed planting in the south and slowed the snowmelt in northern growing areas. A dry trend in the northern growing areas persisted through the first half of the growing season. Precipitation during June was close to normal or above normal, but temperatures were below normal in most of the Prairie region throughout May and June. Growth was 10 days to two weeks behind normal by the end of June, but the crop was in good to excellent condition. Moderate temperatures and dry conditions in the northern growing areas persisted in July, which caused some crop deterioration. Warmer temperatures during August boosted crop development and allowed the harvest of winter wheat to begin by the middle of the month. Persistent rains in the last week of August and the first 10 days of September slowed the harvest. Temperatures remained mild during September, with many areas reporting their first fall frost one to two weeks later than normal, allowing the late developing crops to mature without significant quality damage. The dry weather helped preserve crop quality, which resulted in a higher-than-normal portion of the spring wheat and durum crop falling into the top two grades.

Commodity markets

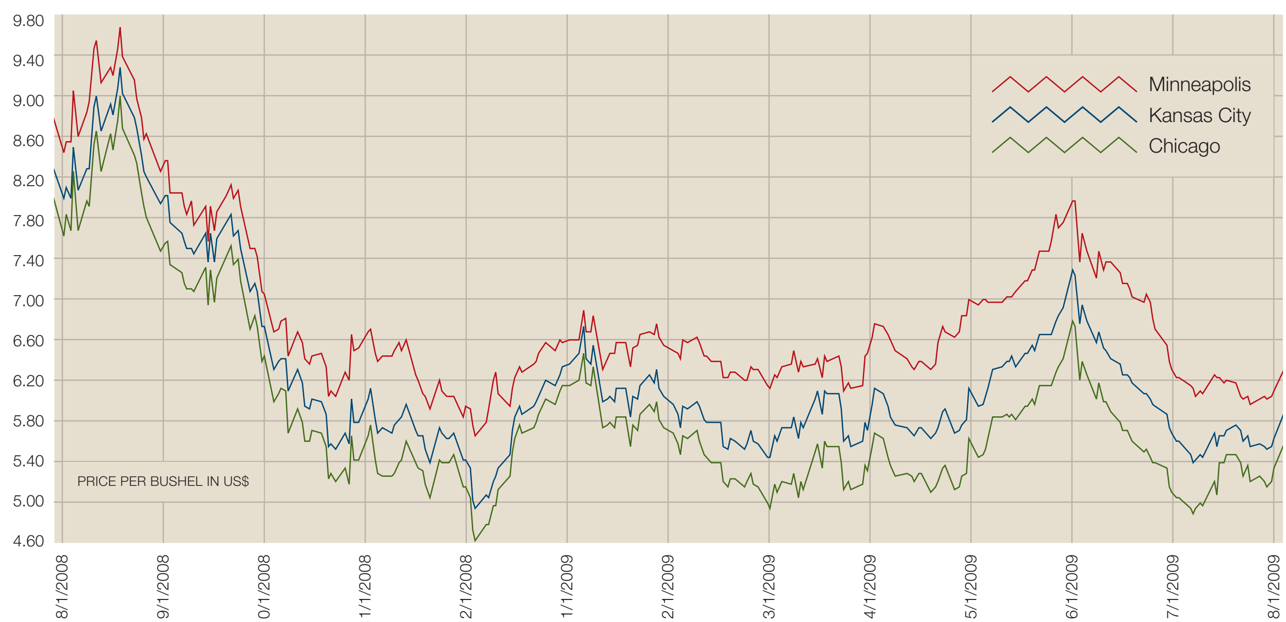
Commodity markets declined steadily from late August through early December 2008, as large global supplies pressured prices. U.S. wheat futures contracts traded much lower in 2008-09 than the record levels of 2007-08. Wheat futures increased in December and January as the U.S. dollar weakened and oilseed prices were supported by strong demand from China and production problems in Argentina. Prices remained extremely volatile on a day-to-day basis, trending lower from January to April. Prices rallied in May as the U.S. dollar weakened against most major currencies. Prices fell off in June as the U.S. dollar strengthened, winter wheat harvest in the U.S. progressed and weather conditions improved for spring cereals.

During the 2008-09 crop year, Chicago wheat traded at a high of US$8.97 per bushel at the end of August 2008, and at a low of US$4.58 per bushel at the beginning of December 2008. Chicago finished the crop year at US$5.28 per bushel. Kansas City wheat futures traded at a high of US$9.28 per bushel at the end of August 2008, and a low of US$4.90 per bushel at the end of December 2008. Kansas City finished the crop year at US$5.59 per bushel.

Minneapolis wheat futures traded a similar pattern with a high of US$9.68 per bushel at the end of August 2008 and a low of US$5.61 per bushel at the beginning of December 2008. Minneapolis finished the crop year at US$6.05 per bushel. The spread between Minneapolis and Kansas City wheat futures remained wider than normal for most of the April through June period, as the outlook for winter wheat supplies was good but spring wheat supplies were forecast much smaller. The price of corn followed a trading pattern similar to wheat and traded at a crop-year low of US$2.94 per bushel in early December. Figure 4 shows the prices of Chicago, Kansas City and Minneapolis wheat throughout the 2008-09 crop year.

The durum wheat market also plummeted in the first four months of the 2008-09 crop year as large global supplies and weak demand pressured prices. High durum prices in 2007-08 had rationed durum demand, pushing some manufacturers to increase spring-wheat content in their pasta. Durum prices traded relatively flat until May as buyers remained in the hand-to-mouth mode and filled only their nearby demand in hopes of lower prices later. In June and July, durum prices moved lower as harvesting in Mexico and the southern U.S. added additional durum supplies to the market.

Figure 4: Chicago, Kansas City and Minneapolis 2008-09 wheat prices



Weaker Canadian dollar

The U.S. dollar saw significant appreciation in late 2008 against most major currencies, including the Canadian dollar. Strong risk aversion attributed to the widening global impact of the credit crisis. The U.S. government responded with measures to stimulate its economy. At the same time, there was an overall flight into U.S. dollars, as many investors saw U.S. dollars as a safe currency. These factors devalued the Canadian dollar and most other world currencies at the beginning of October. The Canadian dollar began to strengthen in February while continuing to experience historic high levels of volatility over the remainder of the crop year.

Because most grain sold by the CWB is priced directly in U.S. dollars, the relatively weaker Canadian dollar in 2008-09 versus the year prior had a positive impact on pool returns. Hedging strategies implemented by the CWB mitigated the overall foreign exchange volatility on the pools. The graph below illustrates the Canadian dollar value versus the U.S. dollar over the 2008-09 crop year.

Financial market conditions

The credit crunch that began in August 2007 in global financial markets spread throughout the world's economy in 2008-09, causing widespread recession and increased market volatility and uncertainty. Credit conditions remained tight, financial institutions struggled to increase capital holdings, the corporate bond market seized and equity markets depreciated at record pace.

As a result of the turmoil, investors sought 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 these very challenging times.

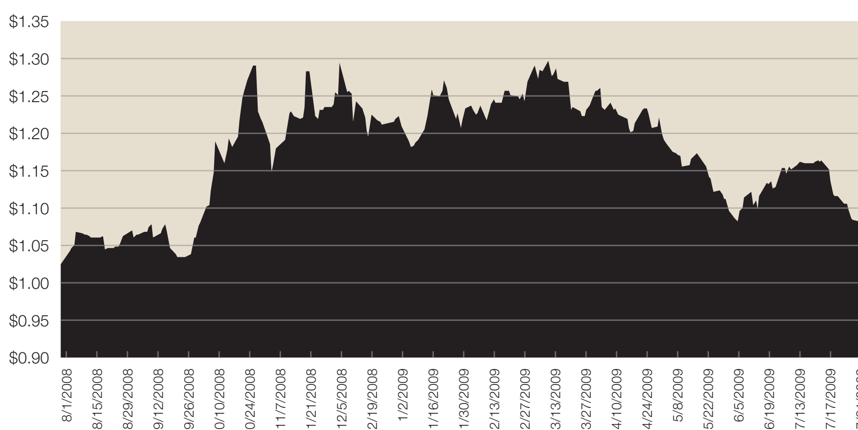
Collapse in ocean freight rates

The first half of the 2008-09 crop year saw a dramatic reversal in the upward trend of ocean freight rates. During the summer of 2008, there was reduced Chinese demand for iron ore, which put pressure on Cape size bulk freight rates. As the economic crisis took hold, global economic growth slowed, in turn reducing demand for finished and raw commodities. Demand for bulk ocean freight, in particular in the iron ore, coking coal and finished steel trades, fell dramatically. The credit crisis compounded the problem by restricting the availability of credit-to-finance purchases (note that 90 per cent of global trade is financed by documentary credit).

Initially, West Coast container freight rates rose as the demand for manufactured goods slowed, which reduced the supply of inbound containers. Container rates subsequently dropped sharply in light of further reductions in demand for container freight, as well as bulk freight rates becoming much more competitive with container freight rates. By December 2008, the Baltic Dry Index, which measures the strength of the dry bulk freight market, had fallen almost 95 per cent from the record peak established in May 2008.

As the global economy started to recover, government stimulus plans were announced and credit began to flow more freely, and bulk freight rates began to recover. Chinese demand for iron ore and coking coal abruptly accelerated in the spring of 2009, placing upward pressure on dry bulk rates, although the recovery in rates for Cape size freight was short-lived. Freight rates in the spring and summer of 2009 were volatile, but freight levels remained far below where they had been trading a year earlier. Therefore, on average, since western Canadian grain has to travel a greater distance on the ocean relative to the grain of our competitors, western Canadian grain was at less of a freight disadvantage than it had been when the freight market was firmer.

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



Measuring success

In November 2009, the CWB's board of directors reviewed the corporate performance measures (CPM) results for 2008-09. The Corporation 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 2008-09 targets and the Corporation's performance for the above measures are summarized below.

Measure	Target for 2008-09	Result for 2008-09
Percentage of grain marketed[1]	Wheat – 95% Durum – 75%	Wheat – 100% Durum – 81%
Sales price comparison[2] (Net per-tonne price spread realized by the CWB compared to competitors' values for wheat, durum and barley sales)	Wheat – $6.80 Durum – $10.21 Designated barley – $11.35	Wheat – $6.65 Durum – $15.37 Designated barley – $14.65
Contribution from other revenue sources[3] (Additional CWB revenue sources other than grain sales)	Total additional revenue – $49.3 million	Total – $57.7 million
Net demurrage/despatch[4]	$4.5 million net despatch	$7.4 million net despatch

1 Stronger-than-expected programs into a number of markets such as Iraq, Saudi Arabia, Bangladesh and Iran for medium-quality, mid-protein wheat made it possible to accept all wheat during the crop year. Durum program acceptance in 2008-09 was over 500 000 tonnes higher than targeted in November 2008. Stronger-than-forecasted demand in the second half of the marketing year facilitated increased acceptance.

2 Sales price comparison targets for 2008-09 were set in November 2008, reflecting anticipated market conditions. These conditions had changed significantly relative to the previous year due to expectations for much larger crops in exporting countries, along with far more aggressive competition. The result for wheat was slightly under target, as farmer deliveries ended up higher than originally projected when the target was set. Marketing this larger volume required a more aggressive approach to pricing the additional tonnage and also meant moving more grain into price-focused, medium-quality markets.

Durum and designated barley results exceeded targets. Durum sales price spreads were extremely volatile in 2008-09, depending on market and primary competition at the time of sale. Stronger-than-expected demand in the last half of the crop year, particularly from European buyers concerned about their own new crop outlook, allowed increased acceptance and larger-than-targeted program size. Relatively tight U.S. supplies and strong demand for North American quality in a number of markets facilitated expanded premiums.

Note that the net price spread is calculated based on the CWB's best knowledge of the relevant competition on every sale it makes. Maximizing 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 exceeded the target for 2008-09. This was the result of targets being exceeded in virtually all aspects of this measure, which include tendering, railway and terminal handling agreements, discretionary foreign exchange trading, hopper car leases, savings from pre-payment of inventory and net interest earnings.

4 The CWB realized higher-than-projected despatch due to an improvement in railway service and capacity. Railway service and capacity objectives were exceeded due to several different factors, the most dominant being the global recession (i.e., lower demand for railway services from other customers).

Combined pool results

The Corporation operates five pool accounts: wheat, durum, designated barley, feed barley A and feed barley B. The next few sections report on the results of operations for each of these pool accounts individually. Below is an account of the combined pool operations, excluding results for PPOs and cash trading.

For the year ended July 31 (dollar amounts in 000s)		**2009** Total		2008 Total
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)		**22 655 170**		**19 849 540**
Revenue	**$**	**7,516,053**	**$**	**8,004,688**
Direct costs				
Freight		298,598		305,653
Terminal handling		189,023		136,706
Inventory storage		86,877		68,958
Country inventory financing		5,967		12,643
Inventory adjustments		(15,349)		11,770
Grain purchases		22,480		30,280
Other direct expenses		30,451		38,567
Total direct costs		**618,047**		**604,577**
Net revenue from operations		**6,898,006**		**7,400,111**
Other income		226,323		224,622
Net interest earnings		11,444		17,505
Administrative expenses		(74,015)		(68,499)
Grain industry organizations		(1,970)		(1,461)
Total pool earnings		**7,059,788**		**7,572,278**
Deduct:				
Sales returns to Producer Payment Options program		626,278		2,304,309
Earnings for distribution	**$**	**6,433,510**	**$**	**5,267,969**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts		**22 655 170**		**19 849 540**
Less: Producer Payment Options program receipts		**2 126 254**		**6 266 633**
Receipts for pool distributions		**20 528 916**		**13 582 907**
Earnings distributed to pool participants				
Initial payments on delivery	$	4,979,692	$	3,671,568
Adjustment payments		664,860		1,226,901
Interim payment		293,221		–
Final payment		494,349		341,868
Total earnings distributed to pool participants		6,432,122		5,240,337
Transferred to Contingency fund				
Undistributed earnings		1,388		27,632
Total distribution	**$**	**6,433,510**	**$**	**5,267,969**

The wheat pool

For the year ended July 31 (dollar amounts in 000s)	2009		2008	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**15 931 542**		**13 368 118**	
Revenue	**$ 5,049,839**	**$ 316.97**	**$ 5,203,943**	**$ 389.28**
Direct costs				
Freight	180,940	11.36	199,904	14.95
Terminal handling	147,738	9.27	103,269	7.73
Inventory storage	49,234	3.09	41,503	3.10
Country inventory financing	4,244	0.27	8,566	0.64
Inventory adjustments	(12,766)	(0.80)	4,891	0.37
Grain purchases	16,694	1.05	14,766	1.10
Other direct expenses	25,625	1.61	29,934	2.24
Total direct costs	**411,709**	**25.85**	**402,833**	**30.13**
Net revenue from operations	**4,638,130**	**291.12**	**4,801,110**	**359.15**
Other income	146,689	9.21	138,347	10.35
Net interest earnings	8,059	0.51	8,910	0.67
Administrative expenses	(52,043)	(3.27)	(46,132)	(3.45)
Grain industry organizations	(1,359)	(0.09)	(957)	(0.07)
Total pool earnings	**4,739,476**	**297.48**	**4,901,278**	**366.65**
Deduct:				
Sales returns to Producer Payment Options program	553,925	291.64	1,846,584	363.91
Earnings for distribution	**$ 4,185,551**	**$ 298.29**	**$ 3,054,694**	**$ 368.31**

	2009 Total	2009 Per tonne	2008 Total	2008 Per tonne
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**15 931 542**		**13 368 118**	
Less: Producer Payment Options program receipts	**1 899 323**		**5 074 311**	
Receipts for pool distributions	**14 032 219**		**8 293 807**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 3,242,963	$ 231.12	$ 2,193,016	$ 264.43
Adjustment payments	381,192	27.17	664,444	80.11
Interim payment	214,768	15.31	–	–
Final payment	346,628	24.69	175,881	21.20
Total earnings distributed to pool participants	4,185,551	298.29	3,033,341	365.74
Transferred to Contingency fund				
Undistributed earnings	–	–	21,353	2.57
Total distribution	**$ 4,185,551**	**$ 298.29**	**$ 3,054,694**	**$ 368.31**

The strategy

Western Canada's wheat production (excluding durum) in 2008-09 was 20 million tonnes, up 5.3 million tonnes from 2007-08 and above the five-year average, following a smaller 2006-07 crop. The harvested quality of the wheat crop was above average, with 75 per cent of the crop grading as Nos. 1 or 2 on the quality scale. Average protein levels in CWRS wheat were in line with the five-year average at 13.4 per cent.

With the large 2008 crop, the CWB faced the challenge of marketing all of the wheat offered into an uncertain market. Post-harvest, the 2008-09 marketing year began with the impacts of the global financial crisis weighing on commodity prices. As the year progressed, commodity prices stayed depressed from the record highs of the 2007-08 year, but the weakening Canadian dollar helped increase Canadian dollar returns. Ocean freight rates, a major competitive determinant in the international grain trade, declined, creating both opportunities and challenges. Logistical capacity was adequate to execute our marketing strategy as competition for rail and lake freight capacity was lessened by the impacts of the global credit crisis.

Production in Australia and from Black Sea competitors rebounded in 2008, pressuring mid- to low-protein competitive markets. In response, a central part of our strategy was to maximize sales and shipments against U.S.-based competition to avoid the most price-aggressive segments of the international wheat market. Production difficulties in Argentina provided additional opportunities for sales into South America, which the CWB was able to leverage to find additional markets for the large Canadian crop.

Producer receipts

Producer receipts of all non-durum wheat totalled 15.9 million tonnes, a 19-per-cent increase from 13.4 million tonnes the previous year. This increase can be attributed to higher production relative to the previous year. Deliveries were accepted into the wheat pool until September 25, 2009. Allowing the pool to remain open beyond July 31 ensured that deliveries could be receipted into the pool and producers could fulfill 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 (by September 30 for Canada Western Red Winter [CWRW] wheat), 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. In the fall of 2008, global markets collapsed and, as a result, the CWB took a staged approach to contract acceptance.

The 2008-09 wheat series contracts had a variety of acceptance levels (see below). The unaccepted portion of a contract offer is "rolled over" into the next series.

2008-09 contract acceptance

	Acceptance	% accepted
Series A	CWRS, CPSR, CWSWS	80%
	CPSW*, CWES**, CWRW	100%
Series B	CWRS, CPSR, CWSWS***	40%
	CPSW, CWES	100%
	CWRW	0%
Series C	All wheat	100%

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

CWRW wheat was the first product called and was followed shortly afterward by the other wheat classes. These calls reflected significant sales of wheat in the fall period. Most of these contract programs saw terminations later in the crop year, the result of an effort to encourage deliveries of those classes into the system to meet sales commitments. Very strong CWRW sign-up resulted in a sales program that extended throughout the crop year, beyond the traditional August to November period. Deliveries of Canada Western Feed wheat were secured through four GDCs, which match farmer deliveries to specific sales.

GrainFlo delivery contracts, introduced in 2008-09, gave producers an opportunity to contract CWRS in one of four guaranteed delivery periods. In 2008-09, Periods 1 and 2 (November to December, January to February) were the most popular. The acceptance level on GrainFlo wheat contracts was 100 per cent.

In 2008-09, the CWB offered programs to assist farmers in marketing fusarium-affected wheat. GDCs were offered that enabled producers to deliver Nos. 2, 3 and 4 CWRS and No. 2 CWRW with higher-than-allowable fusarium levels and still receive the appropriate initial payment. Fusarium above the allowable fusarium levels for these grades was treated as an additional dockage deduction from farmers' net tonnage.

The WSP offered producers a chance to sign up high-quality No. 1 CWRS in the 2007-08 crop year for delivery in 2008-09, to ensure supplies would be available for premium customers. The 2008-09 WSP was called in the first half of the crop year and the stocks were moved to the West Coast and blended with lower protein supplies to increase total supplies of high-protein No. 1 CWRS.

The Churchill Storage Program GDC 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 2008-09 crop year to ensure farmer deliveries in time for the opening of the port.

2008-09 delivery calls

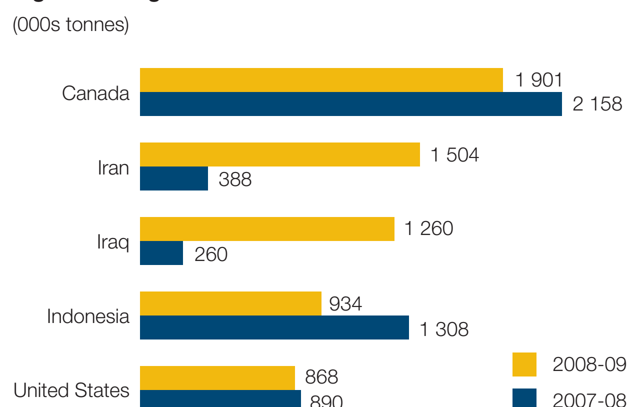
Contract program	Called by	Call volume
Series A Nos. 1 and 2 CWRS	February	80%
Series A No. 3 CWRS	March	80%
Series A CPSR	February	80%
Series A CPSW	August	100%
Series A CWES	August	100%
Series A CWRW	April	100%
Series A CWSWS	March	80%
Series B CWRS	March	40%
Series B CPSR	March	40%
Series B CPSW	March	100%
Series B CWES	March	100%
Series B CWSWS	March	40%
Series C – all classes and contracts	May	100%

Revenue

The domestic market was our single largest wheat market, accounting for 1.9 million tonnes of shipments. The second largest wheat customer in 2008-09 was Iran, with shipments of 1.5 million tonnes. Iraq was the third largest customer for Canadian wheat with 1.3 million tonnes. Iran enters the world market when its domestic production does not meet its domestic needs. With the large Canadian production in 2008, there was an opportunity to serve demand from Iran and Iraq, two large but price-conscious buyers. Indonesia and the U.S. were the fourth and fifth-largest customers, respectively Indonesia purchased 934 000 tonnes, down from 1.3 million tonnes last year. The U.S. purchased 868 000 tonnes, down slightly from 890 000 tonnes purchased in 2007-08.

Figure 6: Largest-volume wheat customers

(000s tonnes)



Total revenue in the wheat pool was $5 billion on 15.9 million tonnes of receipts, representing average gross revenue of $316.97 (2008 – $389.28) per tonne, down $72.31 from the record high returns in the 2007-08 pool account, but still above the levels seen in 2006-07. The decrease in overall revenue reflects the fact that world prices fell from their record highs, as well as the large amount of wheat production accepted and marketed in the 2008-09 pool account. After the unusually low world production of 2007, overall wheat production increased in 2008, keeping a cap on international values. Prices declined through the summer of 2008 but levelled off through the first half of 2009, driven in no small part by demand reduction and deferred buying from customers affected by the credit crisis.

The final pool return for No. 1 CWRS with 13.5 per cent protein (net of all costs) was $311.36 per tonne in store Vancouver/ St. Lawrence, compared to $372.06 per tonne a year earlier. Due to strong demand for high-protein North American milling wheat, the protein spread between 11.5 per cent and 13.5 per cent increased to $18.03 per tonne from $6.44 per tonne one year before. The final pool returns for No. 3 CWRS and No. 2 CPSR were $271.44 and $260.00 per tonne respectively, compared to $351.26 and $337.03 per tonne in 2007-08.

Direct costs decreased $4.28 per tonne. Lower ocean freight costs were the main factor, created by a softening ocean freight market. With the reduced demand for ocean freight, demurrage rates decreased, contributing to lower demurrage charges. More grain was shipped on a FOB basis, increasing terminal handling costs. There were blending demotions by the grain companies, contributing to a decrease in direct costs.

Net revenue from operations was $291.12 per tonne, down $68.03 from the previous year.

Other income of $9.21 per tonne, a decrease of $1.14 per tonne, relates to the recovery of charges deducted by the Corporation's agents. Recovery of freight charges decreased due to a smaller proportion of sales that were sold basis a country position and the freight collected by grain companies being 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.

Included in "other income" is a transfer of $16.2 million from the Contingency fund to the wheat pool. This transfer is consistent with a policy approved by the CWB board of directors which states that, once the Contingency fund is in a positive balance, the Contingency fund will repay the pool accounts for amounts drawn from the pool accounts in 2007-08 (see below).

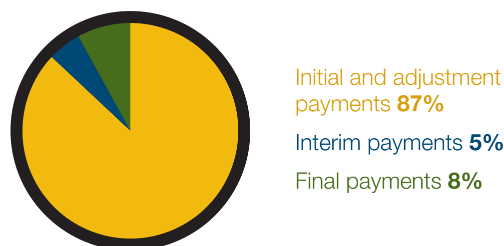
Distribution of earnings

The average sales proceeds available for distribution decreased three per cent from the previous year to $4.7 billion or $297.48 per tonne. Of the $4.7 billion, $4.2 billion was returned to pool participants. Of this amount, 87 per cent was approved by June 25, 2009 for distribution in the form of initial and adjustment payments. A further five per cent was distributed as an interim payment on October 21, 2009.

Approximately $554 million of sales returns was paid from the wheat pool to the PPO programs, representing the return on specific grades and classes of wheat delivered under FPCs, BPCs, DPCs and EPOs. The PPO programs, in turn, paid participating farmers at their respective contract prices. Due to decreased farmer participation in these optional programs, the 2008-09 sales returns paid to the PPO programs were $1.3 billion less than what had been paid to the PPOs the previous year.

In the previous year, the CWB board of directors had approved a $25.5 million transfer to the Contingency fund. Of the total transferred, $21.4 million was from the wheat pool (see reference to "other income" above).

Figure 7: Earnings distributed to farmers



The durum pool

For the year ended July 31 (dollar amounts in 000s)	2009		2008	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**4 281 394**		**3 581 037**	
Revenue	**$ 1,728,084**	**$ 403.63**	**$ 1,976,339**	**$ 551.89**
Direct costs				
Freight	105,501	24.64	89,325	24.94
Terminal handling	35,375	8.26	24,763	6.92
Inventory storage	17,501	4.09	13,006	3.63
Country inventory financing	855	0.20	3,050	0.85
Inventory adjustments	813	0.19	5,318	1.49
Grain purchases	4,836	1.13	12,437	3.47
Other direct expenses	8,898	2.08	6,367	1.78
Total direct costs	**173,779**	**40.59**	**154,266**	**43.08**
Net revenue from operations	**1,554,305**	**363.04**	**1,822,073**	**508.81**
Other income	29,089	6.79	21,939	6.13
Net interest earnings	637	0.15	1,350	0.38
Administrative expenses	(13,986)	(3.27)	(12,358)	(3.45)
Grain industry organizations	(357)	(0.08)	(260)	(0.07)
Total pool earnings	**1,569,688**	**366.63**	**1,832,744**	**511.80**
Deduct:				
Sales returns to Producer Payment Options program	26,995	362.15	266,213	511.43
Earnings for distribution	**$ 1,542,693**	**$ 366.72**	**$ 1,566,531**	**$ 511.85**

For the year ended July 31 (dollar amounts in 000s)	2009 Total	2009 Per tonne	2008 Total	2008 Per tonne
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**4 281 394**		**3 581 037**	
Less: Producer Payment Options program receipts	**74 540**		**520 522**	
Receipts for pool distributions	**4 206 854**		**3 060 515**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 1,126,574	$ 267.80	$ 964,923	$ 315.29
Adjustment payments	238,518	56.70	503,313	164.45
Interim payment	62,643	14.89	–	–
Final payment	114,958	27.33	95,194	31.10
Total earnings distributed to pool participants	1,542,693	366.72	1,563,430	510.84
Transferred to Contingency fund				
Undistributed earnings	–	–	3,101	1.01
Total distribution	**$ 1,542,693**	**$ 366.72**	**$ 1,566,531**	**$ 511.85**

The strategy

Following the record-high returns for durum in 2007-08, durum seeded area in Western Canada increased above the five-year average to over six million acres, up 25 per cent from 2007. Production itself was up 50 per cent from the 2007-08 crop, reaching 5.5 million tonnes in 2008. With a large durum crop grown in Canada and projected world durum trade at seven million tonnes, the CWB was faced with a marketing environment where limits on world demand for durum would be the primary factor affecting our strategy.

The Canadian durum crop was high-quality, with 60 per cent of harvested grain falling in the top two grades.

The level of durum production relative to world demand indicated that the CWB would have difficulty accepting all the durum offered in 2008-09. With this reality in mind, the durum marketing strategy was to maximize durum movement without putting undue pressure on world market prices. Durum demand was weakest early in the pool year as durum importer demand was limited by use of domestic durum production. The CWB was then able to increase sales volumes later in 2008-09 and become the primary durum supplier over this period. The resulting per-tonne returns for durum were the second-highest in history and the CWB was able to accept over 80 per cent of durum offered.

The 2008 crop was also larger in the U.S. and in the EU, typically our two largest durum competitors. Increased production in competing countries, along with availability of new crop domestic supplies in major importing countries, resulted in weak new-crop demand and strong competition early in the crop year. This was particularly true in the Mediterranean region, where the EU had one of its largest durum crops in history and we were competing at a large freight disadvantage. The marketing situation into Europe improved as the year progressed and as ocean freight rates fell. As this happened, the Canadian freight disadvantage decreased and we were also able to ramp up sales volume at good returns into Europe.

The sales program made good progress through early 2009 and durum acceptance was increased on the Series B contract. The CWB maximized durum acceptance into the pools up to the level that could be marketed at reasonable returns without unduly depressing the overall world durum market structure. Additional durum, if it had been accepted into the pool, would have necessitated additional sales to non-durum generic milling and feed-wheat customers at values far below the PRO and lower than the domestic Canadian feed market. Even with the relatively large European and American durum crops and aggressive sales of Mexican durum, the CWB was able to capture 50 per cent of the world durum trade in 2008-09.

The CWB took advantage of logistical and storage capacity in the St. Lawrence to support 2008-09 durum sales. The CWB wanted to position durum in the eastern system to maximize our ability to meet nearby customer demand in a year characterized by hand-to-mouth buying. This position paid off in the ability to supply European and North African customers as well as allowing the CWB to increase durum acceptance.

Producer receipts

Producer receipts of durum wheat totalled 4.3 million tonnes, an increase from 3.6 million tonnes the previous year (up 19 per cent, year-on-year). This increase can be attributed to higher production and increased export sales relative to the previous year. Deliveries were accepted into the durum pool until September 25, 2009. Allowing the pool to remain open beyond July 31 ensured that deliveries could be receipted into the pool and producers could fulfill 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.

Series A durum was accepted 60 per cent and Series B durum was accepted 35 per cent. Unaccepted amounts on Series A offers were "rolled over" to Series B contracts.

2008-09 contract acceptance

	Acceptance	% accepted
Series A	Acceptance for all durum	60%
Series B	Acceptance for all durum	35%

Calls on Canadian Western Amber Durum (CWAD) contracts were evenly spaced throughout the crop year, reflecting a consistent sales pace. Strong contract sign-up relative to demand limited acceptance and call levels. A 45-tonne minimum delivery provision was used to bring in deliveries of Series B CWAD before acceptance was announced due to strong sales in April. Delivery terminations were used late in the year to encourage full delivery compliance in the spring. Nos. 4 and 5 CWAD were sourced through three Guaranteed Delivery Contracts, which match farmer deliveries to specific sales.

The GrainFlo delivery program, introduced in 2008-09, gave producers an opportunity to contract CWAD into one of four delivery periods. In 2008-09, Periods 1 and 2 (November to December, January to February) were the most popular. Acceptance on GrainFlo durum contracts was 70 per cent.

2008-09 delivery calls

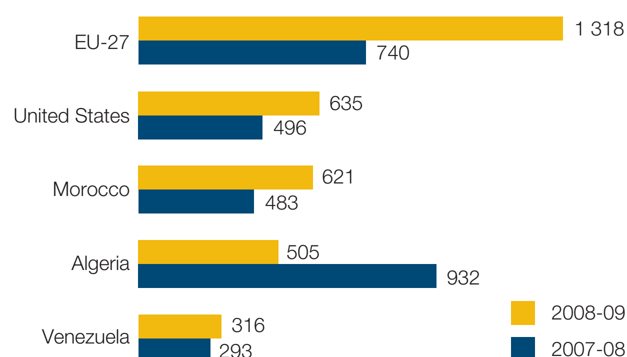
Contract program	Call period	Call volume
Series A – all contracts	February	60%
Series B – all contracts	May	35%

Revenue

Durum sales to a variety of destinations contributed to the revenue in the 2008-09 pool accounts. Pool-year shipments to Algeria decreased from 932 000 tonnes in 2007-08 to just under 505 000 tonnes in 2008-09. Domestic production in Algeria, as well as competition from low-cost durum exporters (Mexico, for example), reduced demand for Canadian durum. Algeria was replaced at the top of the CWB durum single-country customer list by the U.S., which purchased 635 000 tonnes in 2008-09, up from 496 000 tonnes in 2007-08. Canada continued to be the dominant supplier of durum to Morocco, with sales increasing to 621 000 tonnes in the 2008-09 pool year. Durum sales into Europe increased year-over-year as reduced ocean freight rates and the high quality of Canadian supplies supported demand for Canadian durum. Taken as a whole, shipments to European countries totalled over 1.3 million tonnes of Canadian durum in 2008-09.

Figure 8: Largest-volume durum customers

(000s tonnes)



Gross revenues in the durum pool amounted to $1.7 billion on 4.3 million tonnes of receipts for an average of $403.63 per tonne, a decrease from $551.89 per tonne in 2007-08 but still well above longer-term durum values. This was due to price declines caused by a rebound in world durum production. Foreign exchange continued to have a significant impact on pool returns. The weakening of the Canadian dollar compared to the U.S. dollar helped support the Canadian dollar price per tonne.

The final pool return for No. 1 CWAD with 13.0 per cent protein was $375.14 per tonne in store Vancouver/St. Lawrence, compared to record returns in 2007-08 of $511.52 per tonne. The final pool return for No. 3 CWAD was $334.67 per tonne versus $493.09 per tonne in 2007-08.

Direct costs decreased $2.49 per tonne over the prior year. Inventory adjustments and grain purchases were the major contributors to the decline. There were blending promotions by the grain companies during the year, but these were not as significant as the previous year because of the high grade-pattern, which resulted in lower costs. Offsetting a portion of these declines were higher terminal handling costs due to a greater percentage of the pool sales being executed on an FOB basis.

The net revenue from operations was $363.04 per tonne, down $145.77 over the prior year.

Included in “other income” is a transfer of $1.6 million from the Contingency fund to the durum pool. This transfer is consistent with a policy approved by the CWB board of directors which states that, once the Contingency fund is in a positive balance, the Contingency fund will repay the pool accounts for amounts taken from the pool accounts in 2007-08 (see below).

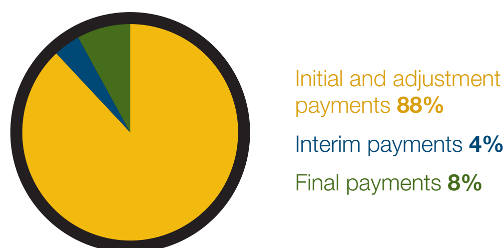
Distribution of earnings

The average sales proceeds available for distribution decreased $145.17 per tonne from the previous year to $366.63. Of the $1.6 billion, $1.5 billion was returned to pool participants. Of this amount, 88 per cent was approved by June 25, 2009 for distribution in the form of initial and adjustment payments. A further four per cent was distributed as an interim payment on October 21, 2009.

For producer receipts delivered under the PPO programs, $27 million of sales returns was paid from the durum pool to the PPO programs, representing the return on the specific grades and classes of durum delivered under FPCs and BPCs. The payment options in turn paid farmers at their respective contract prices.

In the previous year, the board of directors had approved a $25.5 million transfer to the Contingency fund. Of the total transferred, $3.1 million was from the durum pool (see “other income” above).

Figure 9: Earnings distributed to farmers



The designated barley pool

For the year ended July 31 (dollar amounts in 000s)	2009				2008			
		Total		Per tonne		Total		Per tonne
STATEMENT OF POOL OPERATIONS								
Receipts (tonnes)		**2 411 357**				**2 444 897**		
Revenue	**$**	**730,654**	**$**	**303.01**	**$**	**688,227**	**$**	**281.50**
Direct costs								
Freight		12,143		5.04		16,239		6.64
Terminal handling		5,562		2.31		3,361		1.37
Inventory storage		20,004		8.30		13,629		5.57
Country inventory financing		862		0.36		900		0.37
Inventory adjustments		(3,410)		(1.41)		1,480		0.61
Grain purchases		640		0.27		1,309		0.54
Other direct expenses		(4,324)		(1.79)		1,794		0.73
Total direct costs		**31,477**		**13.08**		**38,712**		**15.83**
Net revenue from operations		**699,177**		**289.93**		**649,515**		**265.67**
Other income		49,968		20.72		62,283		25.47
Net interest earnings		2,395		0.99		5,081		2.08
Administrative expenses		(7,877)		(3.27)		(8,437)		(3.45)
Grain industry organizations		(252)		(0.10)		(210)		(0.09)
Total pool earnings		**743,411**		**308.27**		**708,232**		**289.68**
Deduct:								
Sales returns to Producer Payment Options program		42,773		308.91		120,722		287.94
Earnings for distribution	**$**	**700,638**	**$**	**308.26**	**$**	**587,510**	**$**	**290.04**
STATEMENT OF DISTRIBUTION								
Receipts (tonnes)								
Total receipts		**2 411 357**				**2 444 897**		
Less: Producer Payment Options program receipts		**138 464**				**419 257**		
Receipts for pool distributions		**2 272 893**				**2 025 640**		
Earnings distributed to pool participants								
Initial payments on delivery	$	607,624	$	267.34	$	468,948	$	231.51
Adjustment payments		45,150		19.86		58,313		28.79
Interim payment		15,810		6.96		–		–
Final payment		32,054		14.10		59,569		29.41
Total earnings distributed to pool participants		700,638		308.26		586,830		289.71
Transferred to Contingency fund								
Undistributed earnings		–		–		680		0.33
Total distribution	**$**	**700,638**	**$**	**308.26**	**$**	**587,510**	**$**	**290.04**

The strategy

Coming out of the volatile 2007-08 marketing year, the CWB managed forward sales of new-crop designated barley in order to allow for potential price upside, protect against quality risk due to the lateness of the 2008 crop and to mitigate risk around the uncertainty of the CWB's future role in marketing barley.

In addition, the Cash*Plus* program was launched and facilitated sales of malting barley outside the pool account. Combining the designated barley sales made in the pool and those made using Cash*Plus*, the CWB was able to achieve a record designated barley sales program in 2008-09 of more than 2.8 million tonnes.

The CWB's strategy was to maximize sales early in the marketing year. This included making sales in advance of harvest to maximize values in what was predicted to be a declining market, due to forecasts of a record EU barley crop of 65.4 million tonnes and significantly higher Russian-Black Sea production. In executing this strategy, the CWB was able to lock in high-value sales to support malting barley returns. These early sales were made throughout the spring and summer of 2008 and were predominantly sales into the U.S. and Mexico. In September 2008, with good harvest weather and the realization of a good quality crop, the focus moved to China, where the pool was able to capture sales at good premiums to EU competition. Further sales were made later in the year as the CWB capitalized on the excellent quality of the Canadian crop.

The merit of the combined pool and Cash*Plus* approach was demonstrated as malting barley offshore values fell later in the marketing year, but were still sufficiently high to provide acceptable returns in some regions of the western Canadian barley-producing area. The CWB limited additional pool selections and instead offered Cash*Plus*-based delivery and sales opportunities against this incremental business.

The use of Cash*Plus* resulted in a clear price signal to farmers on the value of additional offshore sales relative to their other alternatives. It allowed the CWB to contract and sell additional malting barley at values above domestic feed returns, while limiting the impact on the value of the pool returns for those farmers already in the pool (and who had made their decisions based on the higher prices earlier in the year). This increased the total amount of added value generated through the CWB marketing program for western Canadian barley growers.

Producer receipts

The size of the designated barley pool was roughly equivalent to the 2007-08 volume of 2.4 million tonnes. Compared to historic numbers, and including the portion of designated barley that was sold through the Cash*Plus* program, total designated barley sales reached a record 2.8 million tonnes. That was eight per cent higher than the previous record of 2.6 million tonnes in the 1999-2000 pool year.

Although the summer growing season suggested risk of a late barley harvest, good weather in September allowed for a large Canadian barley crop, with good quality. Despite good European and Black Sea production, opportunities were created when Australian barley production proved smaller than usual due to drought and lower quality due to harvest rain. These opportunities allowed the CWB to make pool sales to allow the good-quality Canadian crop to move.

The domestic malting industry was able to operate at near full capacity, although the negative impact of the economic downturn was felt later in the year. Deliveries into the designated barley pool were completed by September 25, 2009. Allowing the pool to remain open beyond July 31 ensured that deliveries could be receipted into the pool and producers could fulfill their contract requirements regardless of difficulties arising from factors such as transportation or weather.

Revenue

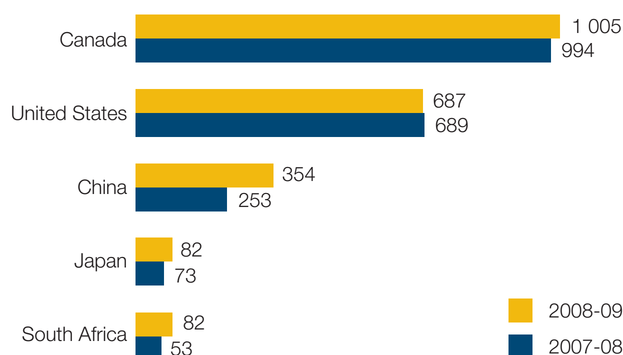
Malting barley sales to the domestic market amounted to just over one million tonnes, up slightly from 994 000 tonnes in 2007-08. The U.S. was the largest bulk export market for Canadian designated barley, with purchases of over 687 000 tonnes. The CWB endeavoured to cover U.S. demand throughout the marketing year. China was the second-largest buyer of bulk designated barley at 354 000 tonnes, up from 253 000 tonnes in 2007-08. China is a price-sensitive market and Canadian sales were competing with barley produced in Europe and Australia. While there has been steady growth in Chinese beer production, there has been slower growth in their malting barley demand. As the year progressed, reduced international malting barley prices stimulated Chinese malting barley import demand and, in response, Chinese buyers reduced their dependence on low-quality domestic barley and increased their imports accordingly. Japan and South Africa were the two other largest destinations for designated barley pool sales at just over 82 000 tonnes each.

Gross returns in the designated barley pool were $731 million on 2.4 million tonnes of receipts, up $43 million from the previous year on a similar volume of receipts. This translated into average gross revenue of $303.01 per tonne, versus $281.50 per tonne in 2007-08.

The final pool return for Select two-row barley in store Vancouver/St. Lawrence was $314.05 per tonne, compared to $297.09 per tonne a year earlier. The final pool return for Select six-row barley was $294.33 per tonne, compared to $270.11 per tonne in 2007-08. The spread between Select two-row and Select six-row barley narrowed to $19.72 per tonne from $26.98 per tonne, reflecting the relative value of the two products in the market.

Figure 10: Largest-volume designated barley customers

(000s tonnes)



Direct costs decreased $2.75 per tonne. Ocean freight costs were a contributor as a result of the softening ocean freight market. There were blending demotions from straight to tough grades by the grain companies during the year, which resulted in lower costs. In addition, as a result of the increased volume sold to China, selection fees earned on this business also increased. Partially offsetting these decreases was an increase in producer storage.

The net result is that net revenue from operations was $289.93 per tonne, a $24.26 per tonne increase over the prior year.

Other income decreased $4.75 per tonne to $20.72 per tonne. Recovery of freight charges decreased because a lower proportion of sales was made basis a country position. This recovery is included in "other income."

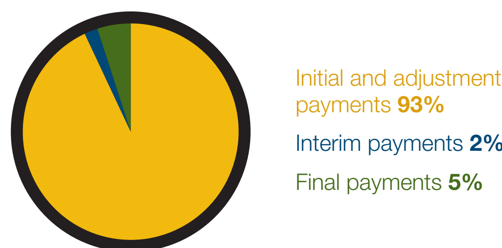
Distribution of earnings

The average sales proceeds available for distribution increased six per cent or $18.59 per tonne to $308.27 for a total of $743 million. Of this amount, $701 million was returned to pool participants. Ninety-three per cent was approved by February 19, 2009 for distribution in the form of initial and adjustment payments. A further two per cent was distributed as an interim payment on October 21, 2009.

Just under $43 million in sales returns was paid from the designated barley pool to the PPO programs, representing the return on the specific grades and classes of designated barley delivered under FPCs and BPCs. The payment options in turn paid farmers at their respective contract prices.

In the previous year, the board of directors had approved a $25.5 million transfer to the Contingency fund. Of the total transferred, $0.7 million was from the designated barley pool. This represented the total of the 2005 transfer from the Contingency fund to the designated barley pool when the Contingency fund's surplus exceeded its maximum regulated limit. Hence, no further repayments from this pool to the Contingency fund are required.

Figure 11: Earnings distributed to farmers



The feed barley pool A

For the six months ended January 31 (dollar amounts in 000s)	**2009**				2008			
		Total		Per tonne		Total		Per tonne
STATEMENT OF POOL OPERATIONS								
Receipts (tonnes)		**19 322**				**37 474**		
Revenue	**$**	**5,352**	**$**	**276.98**	**$**	**11,120**	**$**	**296.73**
Direct costs								
Freight		14		0.73		7		0.18
Terminal handling		189		9.76		306		8.17
Inventory storage		128		6.66		184		4.91
Country inventory financing		6		0.31		13		0.35
Inventory adjustments		14		0.73		35		0.94
Grain purchases		310		16.05		243		6.48
Other direct expenses		(357)		(18.50)		(53)		(1.41)
Total direct costs		**304**		**15.74**		**735**		**19.62**
Net revenue from operations		**5,048**		**261.24**		**10,385**		**277.11**
Other income		390		20.17		516		13.76
Net interest earnings		313		16.19		948		25.31
Administrative expenses		(72)		(3.71)		(129)		(3.45)
Grain industry organizations		(2)		(0.09)		(4)		(0.10)
Total pool earnings		**5,677**		**293.80**		**11,716**		**312.63**
Gross recoveries (transfers) to Contingency fund		(1,974)		(102.17)		(1,236)		(33.00)
		3,703		**191.63**		**10,480**		**279.63**
Deduct:								
Sales returns to Producer Payment Options program		476		194.93		3,824		280.01
Earnings for distribution	**$**	**3,227**	**$**	**191.18**	**$**	**6,656**	**$**	**279.41**
STATEMENT OF DISTRIBUTION								
Receipts (tonnes)								
Total receipts		**19 322**				**37 474**		
Less: Producer Payment Options program receipts		**2 444**				**13 655**		
Receipts for pool distributions		**16 878**				**23 819**		
Earnings distributed to pool participants								
Initial payments on delivery	$	2,524	$	149.54	$	5,247	$	220.28
Adjustment payments		–		–		199		8.35
Interim payment		–		–		–		–
Final payment		703		41.64		1,210		50.78
Total earnings distributed to pool participants		3,227		191.18		6,656		279.41
Total distribution	**$**	**3,227**	**$**	**191.18**	**$**	**6,656**	**$**	**279.41**

The strategy

A sharp rise in feed barley supplies among competitors resulted in depressed world prices, leaving Canadian supplies generally uncompetitive in export markets. For the duration of the Pool A period, farmers focused on the domestic market or held onto their barley instead of selling at the prevailing offshore feed market prices. As a result, the CWB implemented a straight-forward marketing strategy to take advantage of niche marketing opportunities as they arose, to the extent farmer deliveries enabled. Pool A was relatively small.

Producer receipts

Total feed barley receipts for pool A were 19 300 tonnes. The majority of feed barley was originated using Guaranteed Delivery Contracts. Deliveries were accepted into Pool A until February 19, 2009. Allowing the pool to remain open beyond January 31 ensured that deliveries could be receipted into the pool and producers could fulfill their contract requirements regardless of difficulties arising from factors such as transportation or weather.

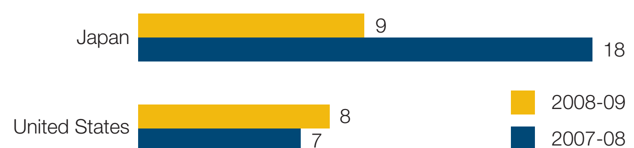
Revenue

Gross revenue in feed barley Pool A was $5.4 million on 19 300 tonnes of receipts, representing an average of $276.98 per tonne, versus $296.73 per tonne in the previous year.

Gross revenue was high in relation to sales revenue as a direct result of foreign exchange revaluations of $1.3 million, or $69.58 per tonne. These revaluations are related to U.S. dollar-denominated assets and liabilities at the balance sheet date, which must be converted to Canadian dollars. These revaluations are consistently applied across all pools, but are not material in the other pools given the volume receipted. Please see further comments under the distribution of earnings.

The majority of the feed barley in Pool A was marketed to Japan (9 500 tonnes) and the number of trades in the pool was very limited. Selling feed barley to the Japanese market represented the best return to pool compared to alternatives.

Figure 12: Largest-volume feed barley Pool A customers
(000s tonnes)



Direct costs decreased $3.88 per tonne over the previous year. Higher inventory storage due to longer storage periods was partially offset by lower stock levels at country and terminal locations. A smaller tonnage of 2007-08 late receipts entered the 2008-09 pool at a higher rate per tonne, and a terminal overage resulted in an increase to direct costs under "grain purchases." A proportionate increase in FOB contracts and higher FOB rates led to higher terminal handling costs. Decreases in other direct expenses reflect accrual differences from pool B at July 31, 2008 which impacted Pool A.

The net result is net revenue from operations was $261.24 per tonne, down $15.87 over the prior year.

Other income increases of $6.41 per tonne were offset by lower net interest earnings due to declines in the average receivable balance and overall interest rates.

Distribution of earnings

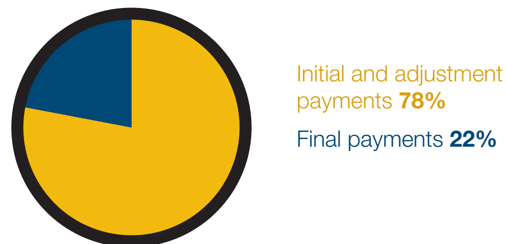
The total pool earnings decreased six per cent, or $18.83 per tonne, to $293.80 per tonne for a total of $5.7 million. This includes the foreign exchange revaluation mentioned in the revenue section. The $5.7 million was distributed as follows: $2.0 million was transferred to the Contingency fund, $0.5 million was paid to the PPO programs and $3.2 million was returned to pool participants (78 per cent as initial payments).

The $2.0 million (or $102.17 per tonne) gross transfer to the Contingency fund is consistent with a policy approved by the CWB board of directors, designed to ensure that a fair amount of interest earnings from long-term receivables of previous years is allocated to the barley pools. This mitigates the distorting effects of certain costs in years when pool volumes are unusually low. The vast majority of this transfer relates to the revaluation gains. The remaining amounts relate to various elements, including material estimate differences and fixed costs that exceed the five-year average. The net transfer from feed barley Pools A and B was $1.4 million, shown in the statement of transfers to Contingency fund on page 70 of the Financial Statements.

The $0.5 million of sales returns paid from feed barley Pool A to the PPO programs represent the return on specific grades and classes of feed barley delivered under the EPOs. The payment options in turn paid farmers at their respective contract prices.

The final pool return for No. 1 Canada Western feed barley in store Vancouver/St. Lawrence was $191.64 per tonne, compared to $281.28 per tonne in 2007-08.

Figure 13: Earnings distributed to farmers



SELLING FEED BARLEY TO THE JAPANESE MARKET REPRESENTED THE BEST RETURN TO POOL COMPARED TO ALTERNATIVES.

The feed barley pool B

For the six months ended July 31 (dollar amounts in 000s)	2009		2008	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**11 555**		**418 014**	
Revenue	**$ 2,124**	**$ 183.89**	**$ 125,059**	**$ 299.17**
Direct costs				
Freight	–	–	178	0.43
Terminal handling	159	13.78	5,007	11.98
Inventory storage	10	0.82	636	1.52
Country inventory financing	–	–	114	0.27
Inventory adjustments	–	–	46	0.11
Grain purchases	–	–	1,525	3.65
Other direct expenses	609	52.71	525	1.26
Total direct costs	**778**	**67.31**	**8,031**	**19.22**
Net revenue from operations	**1,346**	**116.58**	**117,028**	**279.95**
Other income	187	16.15	1,537	3.68
Net interest earnings	40	3.54	1,216	2.91
Administrative expenses	(37)	(3.27)	(1,443)	(3.45)
Grain industry organizations	–	(0.04)	(30)	(0.07)
Total pool earnings	**1,536**	**132.96**	**118,308**	**283.02**
Gross recoveries (transfers) to Contingency fund	586	50.69	(1,262)	(3.02)
	2,122	**183.65**	**117,046**	**280.00**
Deduct:				
Sales returns to Producer Payment Options program	2,109	183.64	66,966	280.33
Earnings for distribution	**$ 13**	**$ 183.85**	**$ 50,080**	**$ 279.59**

	2009 Total	2009 Per tonne	2008 Total	2008 Per tonne
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**11 555**		**418 014**	
Less: Producer Payment Options program receipts	**11 483**		**238 888**	
Receipts for pool distributions	**72**		**179 126**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 7	$ 103.70	$ 39,434	$ 220.15
Adjustment payments	–	–	632	3.53
Interim payment	–	–	–	–
Final payment	6	80.15	10,014	55.91
Total earnings distributed to pool participants	13	183.85	50,080	279.59
Total distribution	**$ 13**	**$ 183.85**	**$ 50,080**	**$ 279.59**

The strategy

The CWB's strategy was to maximize feed barley sales to export customers who generated returns to farmers greater than the western Canadian domestic market. In parallel with pool sales, sales using cash origination were used to take advantage of spot sales opportunities. There was over 147 000 tonnes of cash-buy export business in 2008-09, primarily to Japan.

Producer receipts

Total feed barley receipts for Pool B were 11 500 tonnes, down significantly from the 418 000 tonnes in 2007-08 Pool B. 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 may be exported from Western Canada. During the course of Pool B in 2008-09, the price relationship between the export and domestic market limited producers' interest in marketing feed barley through the pool, as returns were better in the domestic market. Almost all of the feed barley delivered into Pool B was sourced using a company-specific GDC and producers had the opportunity to take a 100-per-cent EPO.

Revenue

Gross revenue in feed barley Pool B was $2 million on 11 500 tonnes of receipts, representing an average of $183.89 per tonne, versus $299.17 per tonne in the previous year.

With the small pool size in the 2008-09 feed barley Pool B, almost all the barley sales were to Japan with 10 191 tonnes in total. The remaining tonnage was sold into the domestic feed market and to various other destinations. Domestic sales amounted to 796 tonnes and sales to other destinations amounted to 568 tonnes.

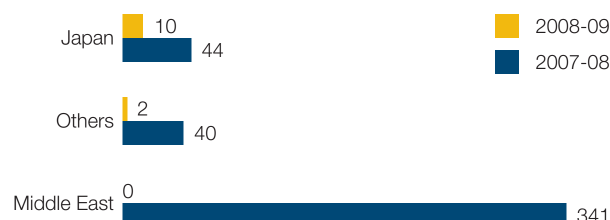
Direct costs increased $48.09 per tonne to $67.31 per tonne. The increase is a result of other direct expenses which reflect differences between prior year estimates and actual results. The differences are offset by a proportionate allocation of interest earnings prior to any net interest transfer to the Contingency fund.

The net result is net revenue from operations was $116.58 per tonne, down $163.37 from the prior year.

Other income increased $12.47 per tonne. Included in "other income" is a transfer of $184,000 from the Contingency fund to the Pool B feed barley pool. This transfer is consistent with a policy approved by the CWB board of directors which states that, once the Contingency fund is in a positive balance, the Contingency fund will repay the pool accounts for amounts drawn from the pool accounts in 2007-08 (see below).

Figure 14: Largest-volume feed barley Pool B customers

(000s tonnes)



Distribution of earnings

The total pool earnings decreased 53 per cent, or $150.06 per tonne, from the previous year to $132.96, for a total of $1.5 million.

Transfers to the Contingency fund are based on a policy approved by the CWB board of directors, designed to ensure that a fair amount of interest earnings are allocated to the barley pools to mitigate the distorting effects of certain costs in years when pool volumes are very low. These costs include such items as foreign exchange revaluations, material estimate differences and fixed costs that exceed the five-year average. With Pool B, a key issue that caused a distortion was the significant increase in direct costs that were directly attributable to differences in Pool A accruals relative to actual outcomes experienced impacting Pool B. As a result, there was a reduction of $0.6 million in the gross transfer from Pool A to the Contingency fund that has been applied to Pool B. The net transfer from feed barley Pools A and B to the Contingency fund was $1.4 million. This net transfer is shown in the statement of transfers to the Contingency fund on pages 95 and 96 of the Financial Statements.

In the previous year, the board of directors had approved a $25.5 million transfer to the Contingency fund. Of the total transferred in the previous year, $0.3 million was from the feed barley B pool (see "other income" above).

Just over $2.1 million in sales returns were paid from the feed barley Pool B to the PPO programs, representing the return on the specific grades and classes of barley delivered under the EPOs. The payment options in turn paid farmers at their respective contract prices.

The final pool return for No. 1 Canada Western feed barley in store Vancouver/St. Lawrence was $183.65 per tonne, compared to $280.67 per tonne in 2007-08.

Figure 15: Earnings distributed to farmers

Indirect income and expenses

Net interest earnings (pool accounts only)

(dollar amounts in 000s)		2008-09		2007-08
Interest on credit sales				
Revenue on credit sales receivable	**$**	21,843	$	60,134
Expense on borrowings used to finance credit sales receivables		12,423		41,589
Net interest on credit sales		**9,420**		18,545
Interest expense on pool account balances		**(6,233)**		**(13,290)**
Other interest				
Revenue		10,865		15,497
Expense		2,608		3,247
Net other interest revenue		**8,257**		12,250
Total net interest earnings	**$**	**11,444**	**$**	**17,505**

Net interest earnings of $11.4 million were earned primarily 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 2008-09, revenue earned was consistent with the credit agreements of customers. The reduction in net interest earned was largely due to the decrease in outstanding balances.

The interest expense on the pool account balances has decreased as a result of reduced requirements for margin financing costs associated with commodity hedging activity given less volatility in the markets and smaller positions compared to the prior year.

Other interest revenue from customers, which includes amounts related to receipt of sales proceeds on non-credit program sales, will fluctuate year-over-year depending on interest rates, grain prices, grain volume, interest occurrence and for the number of days outstanding on these arrangements. 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 by $3.4 million, or four per cent, to $79.1 million. Key drivers of the increase were computer services and human resources. Computer services increased due to the addition of a new Supply Chain Transformation (SCT) system to the business continuity plan and the need to maintain mainframe systems in parallel with new SCT systems. With the implementation of a new computer system, there is a cost "bubble" during the period of transition, when costs of winding down the previous system must be borne alongside the new-system implementation costs. Management will be reviewing this during 2009-10 and forward to ensure a reasonable level of expenses is achieved.

Human resource costs increased modestly due to the first-time inclusion, as required by GAAP, of unused short-term benefit liabilities (e.g., vacation and overtime unused by crop year-end). These costs were partially offset by the discontinuance of deferred pension asset amortization.

Grain industry organizations

The CWB continued to provide support for organizations that benefit western Canadian grain farmers, both directly and indirectly. During 2008-09, the CWB contributed $2 million to the operations of the CIGI and the CMBTC. These two organizations play an integral role in the Corporation's marketing and product development strategies by providing technical information and educational programs to customers.

Producer Payment Options (PPOs)

Financial Results

Statement of PPO program operations

For the year ended July 31 (dollar amounts in 000s)		**2009**		2008
FPC / BPC / FLEXPRO CONTRACTS				
Receipts (tonnes)		**1 808 020**		**4 503 682**
Revenue				
Sales returns paid to program	$	530,348	$	1,642,690
Net hedging activity		94,189		–
Pricing damages		6,151		7,864
Net interest		737		–
		631,425		**1,650,554**
Expense				
Contracted amounts paid to producers		585,406		1,258,809
Net hedging activity		–		466,911
Net interest		–		12,681
Administrative expense		1,989		1,666
		587,395		**1,740,067**
Net surplus (deficit) on program operations		44,030		(89,513)
Transfer to pool participants		16,328		–
Net program surplus (deficit), to Contingency fund	**$**	**27,702**	**$**	**(89,513)**

Fixed Price Contract (FPC)
Basis Price Contract (BPC)
FlexPro

Tonnage contracted to the 2008-09 PPO programs was less than the previous year, as significant market price declines occurred throughout much of the program sign-up period.

The total delivered under this year's FBCs, BPCs and FlexPro was 1.8 million tonnes, compared to the previous year's total of 4.5 million tonnes. This was the first year that the FlexPro program was offered. There were no FPC or BPC programs for barley. See the table below for details on number of contracts, producers enrolled and tonnes delivered.

FPC/BPC

(dollar amounts in 000s)	**2008-09**				2007-08			
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	18,683	9,459	1 562 390	$ 35,766	28,859	16,048	3 754 342	$ (72,182)
Wheat FlexPro	2,011	1,735	182 970	3,436	–	–	–	–
Wheat DPC	–	–	–	70	2,157	1,772	654 479	(18,520)
Durum	273	198	62 660	4,768	339	282	39 805	(102)
Designated barley	–	–	–	–	62	53	11 826	396
Feed barley A	–	–	–	(10)	3	3	223	13
Feed barley B	–	–	–	–	57	49	43 007	882
Total	**20,967**	**11,392**	**1 808 020**	**$ 44,030**	**31,477**	**18,207**	**4 503 682**	**$ (89,513)**

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 $508 million for wheat and $23 million for durum. When other revenues (net hedging results and pricing damages) and program risk and expenses (including interest and administration expenses) are accounted for, less payments to farmers, the programs generated a net $44 million.

The total positive result is largely attributable to the PPO programs for wheat. The 2008-09 programs operated in an environment characterized by greater-than-normal volatility as market prices declined from historic high levels. Higher-than-forecasted world grain production was also a significant factor behind declining grain values. Global financial uncertainty increased through much of 2008. The increased volatility and market uncertainty impacted many elements of the programs, including futures and options prices, FOB export values and the Canadian dollar.

A gain or loss to the Contingency fund will result when the final achieved basis of the pool is greater or less than the values locked in by producers. Basis risk and costs were less than anticipated, given the high volatility relating to elements of the program. Basis values, which can only be hedged as sales are made, exceeded expectations, resulting in basis risk gains. International basis values were stronger than expected as the financial uncertainty stabilized in early 2009. In 2008-09, the DPC program was discontinued and the FlexPro program was introduced.

For durum, the 2008-09 durum programs benefited from positive results in CWB hedging activity. However, hedging durum with wheat is not always effective and carries its own risk, as wheat futures prices do not correlate well with durum prices.

A transfer of $16.3 million was made from the pricing option programs to the pool accounts, consistent with a board-approved policy stating that, once the Contingency fund underwriting these programs was in a positive balance, the pools would be repaid for amounts drawn from the pool accounts in 2007-08. In addition, $1.7 million was transferred to the pools from the EPOs (see below). No balance remains to be repaid. For more details, see the "Contingency fund" section on page 70.

Early Payment Option (EPO)

For the year ended July 31 (dollar amounts in 000s)	**2009**	2008
EPO		
Receipts (tonnes)	**308 044**	**1 762 951**
Revenue		
Sales returns paid to program	$ 92,440	$ 661,619
Program discount	4,641	9,019
Net hedging activity	1,917	–
Pricing damages	394	246
	99,392	**670,884**
Expense		
Contracted amounts paid to producers	93,942	662,275
Net hedging activity	–	4,248
Net interest	22	436
Administrative expense	808	810
	94,772	**667,769**
Net surplus on program operations	4,620	3,115
Transfer to pool participants	1,672	–
Net program surplus, to Contingency fund	**$ 2,948**	**$ 3,115**

In 2008-09, there were 308 000 tonnes delivered to the EPO, compared to 1.8 million tonnes in 2007-08. See the table below for details on number of contracts, producers, and tonnes delivered:

EPO

(dollar amounts in 000s)	2008-09				2007-08			
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	870	663	143 773	$ 3,342	4,896	3,957	665 490	$ 379
Durum	63	58	11 880	440	3,163	2,343	480 717	1,039
Designated barley	620	518	138 464	841	2,210	1,874	407 431	1,007
Feed barley A	21	23	2 444	(1)	109	104	13 432	41
Feed barley B	116	113	11 483	(2)	1,403	1,256	195 881	649
Total	**1,690**	**1,375**	**308 044**	**$ 4,620**	**11,781**	**9,534**	**1 762 951**	**$ 3,115**

The EPO discount charged to farmers for risk, time value of money and program administration costs, was $4.6 million. The increase in the average discount was primarily due to the volatility in the markets and early timing of the program sign-up. After accounting for payments to producers, pricing damages charged for non-delivery, net interest expense, net hedging results and administration, a net surplus of $4.6 million was generated.

A transfer of $1.7 million was made from the EPO program to the pool accounts, consistent with a board-approved policy stating that, once the Contingency fund underwriting these programs was in a positive balance, the pools would be repaid for amounts drawn from the pool accounts in 2007-08. In addition, $16.3 million was transferred to the pools from the pricing option programs (see above). No balance remains to be repaid. For more details, see the “Contingency fund” section on page 70.

Cash trading

Financial results

Statement of Cash Trading Operations

For the year ended July 31 (dollar amounts in 000s)	2009		2008	
	Total	Per tonne	Total	Per tonne
Receipts (tonnes)	**561 105**		**1 206 934**	
Revenue	**$ 155,307**	**$ 276.79**	**$ 297,857**	**$ 246.79**
Direct costs				
Purchase cost	151,770	270.48	271,514	224.96
Freight	2,366	4.22	(211)	(0.18)
Terminal handling	2,100	3.74	2,177	1.80
Inventory storage	2,420	4.31	160	0.13
Country inventory financing	279	0.50	–	–
Inventory adjustments	(241)	(0.43)	(20)	(0.02)
Other direct expenses	(1,037)	(1.85)	344	0.28
Total direct costs	**157,657**	**280.97**	**273,964**	**226.97**
Net (costs) revenue from operations	**(2,350)**	**(4.18)**	**23,893**	**19.82**
Other income	10,800	19.25	91	0.08
Net interest earnings	742	1.32	315	0.26
Administrative expenses	(1,877)	(3.34)	(4,328)	(3.59)
Net surplus on program operations	**7,315**	**13.05**	**19,971**	**16.57**
Cash surplus distributions	**5,177**	**9.23**	**–**	**–**
Net program surplus, to Contingency fund	**$ 2,138**	**$ 3.82**	**$ 19,971**	**$ 16.57**

Cash trading

(dollar amounts in 000s)	2008-09			2007-08	
Program statistics	**Tonnes**	**Surplus, net of risk management cost**	**Surplus distribution**	**Tonnes**	**Net surplus (deficit)**
Organic program	2 295	$ 4	$ 4	2 011	$ (1)
Cash*Plus*	401 360	5,173	5,173	12 278	43
Feed barley program	147 261	1,174	NA	1 192 645	19,938
Pre-delivery Top Up	–	36	NA	–	(9)
Wheat Storage Program	10 189	–	NA	–	–
Total	**561 105**	**$ 6,387**	**$ 5,177**	**1 206 934**	**$ 19,971**

NA = Not applicable

The CWB operated three cash-trading accounts during the 2008-09 marketing year. Cash trading programs were in place, for feed barley, designated barley and organic grain. 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.

The CWB recognizes that the cash trading programs will be exposed to risk over time and, as such, the CWB aims to cover risk by earning a small positive margin on its cash trades. CWB activities will also be exposed to unforeseeable risk (counterparty risk, for example). The CWB uses the Contingency fund to cover any program cost over and above the expected buy-and-sell risk. As such, a risk management cost is included for each of the cash trading programs and transferred to the Contingency fund. Each program, considered individually, is designed to be self-sufficient over time. Therefore, each program's risk management charge is commensurate with the risk of that program. The risk management cost is considered part of the cost of the CWB operating the cash trading program.

Feed barley cash trading

The total volume of feed barley marketed via various cash-related marketing arrangements was 147 000 tonnes, with a net trading margin of $1.2 million. This number is down significantly from the 2007-08 feed barley program of 1.2 million tonnes, which had a net trading margin of $19.9 million. In the 2007-08 marketing year, the majority of cash feed-barley trades were conducted in anticipation of an open market for feed barley. That was not the case in 2008-09 and all cash barley trades were conducted to facilitate transactions where the guaranteed price to farmers generated sufficient supply to meet the demand.

The majority of the 2008-09 feed barley cash sales were to Japan, with small, regular sales to the U.S. comprising the remainder.

Designated barley cash trading (Cash*Plus*)

For 2008-09 marketing year, the Cash*Plus* program enabled farmers to lock in an upfront price for their barley while still maintaining an opportunity for an additional payment at the end of the marketing year. While Cash*Plus* transactions were completed throughout the year, it was of particular importance to many farmers that this program provide priced contracts for malting barley available in advance of harvest. As well, later in the year, in the face of falling barley prices, the CWB was able to use Cash*Plus* to protect the returns in the designated barley pool while still seizing opportunities to market western Canadian selectable barley at values higher than what was available to farmers in the Canadian domestic feed market.

Cash*Plus* was first introduced in January 2008, meaning that 2008-09 marked its first full marketing year. In 2008-09, 401 000 tonnes of designated barley traded using Cash*Plus*, generating an additional surplus of $5.2 million above initial cash payments made to farmers.

Where the Cash*Plus* contracts were signed in advance of harvest, the CWB introduced two types of Cash*Plus* contracts in 2008-09. The "Act of God" contract allowed for producers to cancel contracts if their barley production did not meet the quantity or quality specified. Another contract was also offered that did not allow the producer to cancel the contract without penalty. The majority of pre-harvest Cash*Plus* business was signed up by producers under "Act of God" contracts.

The Cash*Plus* trading program is designed to return an additional payment to producers in the event of a positive surplus position at the end of the yearly program. For 2008-09, the upfront Guaranteed Producer Price was equal to an average of 93 per cent of the revenue earned from sales. An additional payment of $12.89 per tonne was made to producers in the 2008-09 Cash*Plus* trading program. This represented sales values achieved of $352.80 per tonne, less purchases of $333.68 per tonne. After deducting program costs of $6.26 per tonne, which consisted of storage, financing and administrative expenses and risk management costs, a net surplus of $12.89 per tonne was distributed to producers who participated in the program.

Organic cash trading

In 2008-09, the CWB continued the organic cash trading program it initiated in 2007-08. The program was further enhanced for 2008-09 with the introduction of a "basis pooling contract," which offered farmers an upfront cash price and a possible final payment at the end of the year, based on operational experience in selling and executing sales.

The program bought 2 295 tonnes of organic grain, paying farmers on average $650 per tonne at the farm gate. After operating, administration and risk management costs, the CWB earned a margin of $3,900. The additional producer payment for the 2008-09 organic trading program was $1.70 per tonne.

Wheat Storage Program (WSP)

The WSP offers western Canadian farmers a contract premium and storage payment to store their high-quality, high-protein, No. 1 CWRS wheat on farm. It ensures a consistent stock of high-quality, high-protein wheat to satisfy the needs of the CWB's premium customers. During the year, WSP payments were issued to 42 producers for a total of $3.9 million.

THE CWB WAS ABLE TO USE CASH*PLUS* TO
PROTECT THE RETURNS IN THE DESIGNATED BARLEY POOL.

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. Because the Corporation is typically in a net borrowing position, any temporary cash balances are applied to borrowings as soon as possible and are netted against borrowings for reporting purposes. At the end of the year, therefore, there is a zero net cash position.

Cash provided by operations was $6.6 billion, up from the previous year. Financing activities, including cash distributions to farmers, used $7.5 billion and investing activities contributed $0.9 billion.

We issue adjustment and interim payments during the year. After all the accounting has been concluded, we issue a final payment to producers who delivered into the pool accounts. Distributions to pool producers totalled $6.4 billion.

We believe that cash generated from operations supplemented by debt issued will be sufficient to meet anticipated capital expenditures and other cash requirements in 2009-10. The CWB has been able to remain liquid during the credit crisis that began in August 2007 as a result of the Corporation's diversified funding sources, liquidity reserves and top credit rating.

Balance sheet

Overall, the balance sheet at July 31, 2009 was $1.2 billion lower, at $4.3 billion. Credit receivables, short-term investments and inventory of grain were the main contributor to this decrease due to significant repayments of credit receivables during the year and lower grain prices at July 31, 2009 compared to last year.

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 evidence of indebtedness.

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

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 cash-advance programs. We may 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.

Total debt outstanding ranged from $1.3 billion to $3.7 billion (Canadian dollar equivalent) in 2008-09 under the following programs:

- 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 significantly decreased from $3.3 billion at the 2007-08 year-end to $1.8 billion at the close of 2008-09. This decrease is attributed to a significant drop in financing required to fund credit sales and grain inventories.

Contingency fund

The Act provides for the establishment of a contingency fund to be used for certain specified purposes. Currently, the only permissible use for the fund is to provide for potential losses from operations under sections 33.01 or 39.1 of *The Act*. Section 33.01 enables the Corporation 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 Option programs under section 33.01 (see page 65 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 Price Contract and Basis Price Contract programs under section 39.1 (see page 64 under Fixed Price Contract/Basis 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, total program net surpluses were $34.2 million. This consisted of $30.6 million in net surplus generated by the PPO programs, $1.4 million in interest earnings on feed barley and $2.1 million from cash trading revenues.

At the end of the previous crop year on July 31, 2008, the Contingency fund balance was in a deficit of $28.9 million after a transfer of $25.5 million from the pool accounts to the Contingency fund. This transfer represented pool revenue of $18 million deemed to be ancillary to grain sales activities, as well as repatriation of $7.5 million that was allocated from the Contingency fund to the pool accounts in 2005 because the surplus in the Contingency fund in that year had surpassed its legislated maximum ceiling.

To uphold the principle communicated to farmers that the PPO programs will operate independently of the pools, the board of directors had approved a policy providing repayment of the $18 million to the pools. The policy stated that these funds would be repaid as quickly as possible, provided that the Contingency fund balance did not fall below zero.

Accordingly, $18 million in 2008-09 PPO program surpluses were transferred to the pool accounts during 2008-09. There is no balance remaining to be repaid.

Reconciliation of non-GAAP measures

The financial statements are presented on a combined basis. They capture all aspects of the business – pools, PPOs and cash trading combined – 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 LLP, the Corporation'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 are still required for the producer stakeholder group, given the requirement of *The Act* to establish a separate pool account for each crop. We have therefore provided a separate accounting of the pool accounts in the MD&A.

The primary difference between the combined statements and the individual pool accounts is the timing and recognition of recording certain transactions related to the tonnes included in a pool or program period. GAAP requires financial statements to report on the activities and transactions within a fiscal period. *The Act* requires that the financial statements for pool operations capture and report on all activities and transactions attributable to the tonnes purchased within the pool period. The pool accounts remain open until, in management's judgment, marketing activities have been essentially completed and remaining inventories can be fairly valued.

In 2008-09, the Corporation adopted the new Canadian accounting standard for inventory. This standard provides more extensive guidance on the determination of cost or net realizable value, requires impairment testing and expands the disclosure requirements to increase transparency. The adoption of this standard resulted in a change in the measurement of inventory and the recognition of anticipated revenues related to ending inventories for GAAP purposes. The GAAP value of inventory included in the combined statement is the lower of cost or net realizable value. *The Act* requires that all activity related to a sale of grain attributable to the tonnes purchased within the pool period are recorded and distributed for each pool to producers. The pool statements account for and include anticipated revenue less execution costs based on sales entered into after the year-end used to satisfy the ending inventory.

The combined statement also includes gains and losses related to financial instruments that are recorded in income. The result is that the statement of combined operations is affected by the change in fair value of financial instruments which is relevant to a future year. *The Act* statement of pool operations excludes amounts that are not related to the current pool.

Reconciliation of individual statement to the combined statement:

Reconciliation of pool statements to the combined statements

		2009		2008
Pool operations	**$**	**6,433,510**	**$**	**5,267,969**
Cash trading		**7,315**		**19,971**
PPO programs				
Fixed/Basis/Daily Price programs		27,701		(89,513)
Early Payment Option programs		2,948		3,115
		6,471,474		**5,201,542**
Net change in fair value of financial instruments		(32,182)		527,818
Difference in inventory valuation		179,762		–
Net earnings, per combined statement of operations	**$**	**6,619,054**	**$**	**5,729,360**

FINANCIAL RISK MANAGEMENT

The CWB seeks to minimize risks related to the financial operations of the Corporation. 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 Corporation and ensures a proper risk management framework is in place to effectively identify, assess and manage financial risk.

The Financial Risk Management Committee (FRMC) oversees the financial risk management operations. This committee establishes and recommends to the board of directors the financial risk management policies and procedures that ensure the policies are consistent with the goals and objectives of the Corporation and are in compliance with government and regulatory requirements. The FRMC 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 movement in the level of market prices that may adversely affect our financial condition. The market risks we are exposed to include commodity, foreign exchange and interest rate risk.

Commodity price risk is the exposure to reduced revenue due to adverse changes in commodity prices. We use exchange traded futures and option contracts to mitigate commodity price risk inherent in 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 use exchange-traded futures and option contracts to 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 re-pricing dates on interest earning assets and interest-paying liabilities. This risk is managed by the CWB. The spread between the interest earning assets and interest-paying liabilities represents net interest earnings.

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 Agri-food Credit Facility (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 over-the-counter derivative 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 Agri-food Credit Facility (ACF). Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see the Credit Programs 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 the prepayment of credit receivables. 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 and corporate policies. 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 2009-10 crop year is expected to see lower prices amid the second-largest world wheat production on record. The Canadian wheat crop is expected to be slightly below levels produced in 2008-09 levels. The Prairies entered the growing season with extremely low soil moisture levels and did not receive adequate rain in the first two months of development. The dry growing conditions limited yield potential, while the delayed development of the crop increased the risk of having a poorer quality crop.

Manitoba's growing season has been quite different than the Western Prairies. Manitoba started the growing season with excess moisture which delayed seeding. June and July were drier but lacked the heat to advance development. Temperatures across the Prairies consistently remained below normal throughout the 2009 growing season. The primary concern going into the harvest season was the lateness of the crop and the possibility of frost occurring before the crops matured. Fortunately, above normal temperatures in September allowed crops to mature and the harvest to proceed rapidly. First fall frosts occurred in most regions in late September and early October, which is about two to four weeks later than average. Crop quality was greatly improved over mid-season expectations, although protein levels for wheat and durum were slightly below 2008.

In the period between early winter 2007 and spring 2008 (depending on vessel-size category) ocean freight rates were at all-time highs, due to a sharp imbalance between the supply of and demand for dry bulk freight, along with serious port congestion issues. Rates collapsed between the fall of 2008 and the winter of 2009 to levels not seen since the late 1990s due to the global economic downturn. Since then, period rates have recovered to levels profitable for ship owners and operators, although many owners still hold significant time charter commitments on the books at rates that were fixed at the peak of the market last year, leaving many owners and operators in financial trouble.

The ocean freight outlook for the balance of 2009 and 2010 remains uncertain, and market sentiment is mixed, though the market has bounced off historic lows. Expectations are for new builds to continue to enter the market in volume, keeping pressure on rates. The collective recovery of the global steel and construction markets will mark the point at which dry bulk rates will exhibit more strength, as increased demand for iron ore, coking coal, petcoke, steel and steel scrap will support rates.

Total wheat supplies are forecast larger and demand is forecast to contract, increasing world wheat carryout by just under 24 million tonnes. Since the wheat price peak in February 2008, prices have come off substantially. Wheat futures have traded mostly in the $5 to $7 per bushel range since October 2008. Increased supplies in most major exporting countries will intensify export competition in the new crop year. Wheat trade is forecast to drop back to a level comparable to the 2007-08 crop year. Most of the decline comes from lower feed demand and sufficient production in importing countries.

Large durum supplies have pressured the global durum market. The global durum trade is forecast to decrease as production in major importing regions (especially North Africa) increased substantially, reducing the need for durum imports. Although European production is down by close to 20 per cent, U.S. production is forecast to increase by 17 per cent. The U.S. will have sufficient durum supplies for increased exports in the 2009-10 marketing year. Canada's durum supply is expected to grow by 10 per cent in 2009-10, despite a smaller crop. This should help boost Canada's global market share to increase from 48 per cent to 53 per cent in 2009-10.

International barley prices have dropped significantly from the highs set in the 2007-08 marketing year. Large carry-in supplies will offset the forecasted four per cent decline in global barley production. Smaller acreage and lower yields will lower production in Canada, the EU, Russia and Ukraine, but large acreage and improved yield prospects should increase production in Australia. Adding to the weak barley fundamentals is the forecasted largest-ever world corn production and the second-largest U.S. corn production. Significantly lower international corn prices have pressured feed grain prices lower.

In the wake of the credit crisis, economic conditions have begun to improve as government stimulus spending and central bank easing measures have had a positive impact on the affected countries. As global economies recuperate, investors have become less risk-averse, causing significant strengthening of most major currencies versus the U.S. dollar, including the Canadian dollar. Volatility remains high, however, going into 2009-10, with much uncertainty still in the market. In the near term, global economic growth is expected to be slow and fragile as governments and central banks develop strategies to reduce stimulus program within their respective countries. Interest rates are expected to remain low for the CWB well into 2009-10 due to the stated policies of the Bank of Canada and the U.S. Federal Reserve. The CWB is not expected to have any liquidity issues as the Corporation's debt continues to be guaranteed by the Government of Canada.

CROP QUALITY WAS GREATLY IMPROVED OVER MID-SEASON EXPECTATIONS, ALTHOUGH PROTEIN LEVELS FOR WHEAT AND DURUM WERE SLIGHTLY BELOW 2008.

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 Government of Canada guarantees of CWB borrowings and initial payments to farmers, and the monopoly powers of State Trading Enterprises.

As well, the Government of Canada 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 goal for the government. 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 2008-09 pool accounts, Producer Payment Options, cash trading and the financial status of the Corporation at July 31, 2009.

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 fulfills its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk Committee meets with management, 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, 2009

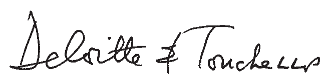
Auditors' report

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, 2009 and the combined statement of operations, cash flows, distributions to pool participants, transfers to Contingency Fund and administrative expenses for the crop year ended July 31, 2009. 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, 2009 and the results of its operations and the cash flow for the periods shown in accordance with Canadian generally accepted accounting principles.



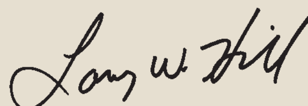
Chartered Accountants

Winnipeg, Manitoba
November 26, 2009

Balance sheet

As at July 31 (dollar amounts in 000s)	2009	2008
ASSETS		
Current Assets		
Short-term investments (Note 3)	$ 767,546	$ 1,130,994
Current portion of credit programs (Note 4)	75,651	692,662
Advance payment programs (Note 5)	503,857	571,852
Prepayment of inventory program	290,288	294,619
Trade accounts receivable	210,019	275,029
Other accounts receivable	54,285	59,833
Derivatives (Note 6)	443,902	370,508
Inventory of grain (Note 8)	1,405,500	1,620,070
Prepaid expenses (Note 9)	23,559	23,591
	3,774,607	5,039,158
Credit programs (Note 4)	230,489	226,475
Investments (Note 10)	176,964	149,162
Capital assets (Note 11)	134,296	105,207
	$ 4,316,356	**$ 5,520,002**
LIABILITIES		
Current Liabilities		
Borrowings (Note 12)	$ 1,011,107	$ 2,265,198
Accounts payable and accrued expenses (Note 13)	166,778	226,086
Liability to agents (Note 14)	1,219,605	1,136,190
Derivatives (Note 6)	52,460	101,228
Liability to producers – outstanding cheques	108,455	227,386
Liability to producers – current earnings (Note 15)	797,897	381,614
Current portion of long-term debt (Note 16)	45,833	29,834
	3,402,135	4,367,536
Long-term debt (Note 16)	731,585	957,594
	4,133,720	5,325,130
UNDISTRIBUTABLE EARNINGS		
Reserve for producer payment expenses (Note 17)	875	1,404
Special account (Note 18)	3,518	3,376
Contingency fund (Note 19)	3,407	(28,942)
Earnings for future allocation (Note 20)	174,836	219,034
	182,636	194,872
	$ 4,316,356	**$ 5,520,002**

Approved by the board of directors:



Larry W. Hill
Chair, board of directors

Ian White
President and Chief Executive Officer

Combined statement of operations

For the year ended July 31 (dollar amounts in 000s)	2009	2008
Revenue	**$ 7,916,508**	**$ 8,418,595**
Direct costs		
Grain purchases (Note 21)	866,138	2,287,630
Freight	300,815	305,381
Terminal handling	178,395	138,884
Inventory storage	83,368	69,119
Country inventory financing	6,646	12,643
Inventory adjustments (Note 22)	(15,589)	11,750
Other direct expenses (Note 23)	31,348	38,911
Total direct costs	1,451,121	2,864,318
Net revenue from operations	6,465,387	5,554,277
Other income (Note 24)	232,250	241,841
Net interest earnings	2,073	10,005
Administrative expenses (Note 25)	(78,689)	(75,303)
Grain industry organizations	(1,967)	(1,460)
Net earnings	**6,619,054**	**5,729,360**
Earnings for future allocation, beginning of year	219,034	–
Transition adjustment	(191,777)	(308,784)
Earnings distributed to pool participants	(6,432,122)	(5,240,337)
Earnings distributed to cash trading participants	(5,177)	–
(Gains) losses transferred to Contingency fund (Note 19)	(34,176)	38,795
Earnings for future allocation, end of year	**$ 174,836**	**$ 219,034**

Statement of cash flow

For the year ended July 31 (dollar amounts in 000s)	2009	2008
Increases (decreases) of cash during the year		
Cash (used in) from operating activities		
Net earnings	$ 6,619,054	$ 5,729,360
Adjustments to determine net cash from (used in) operations		
Net interest	(8,029)	5,398
Depreciation on CWB hopper cars	4,044	4,234
Depreciation on other capital assets	10,148	9,852
Investment fair value adjustment	407	(3,153)
Long term debt fair value adjustment	27,622	41,808
Derivative asset	(61,843)	(268,779)
Derivative liability	(53,795)	(339,600)
	6,537,608	5,179,120
Changes in operations assets and liabilities		
Accounts receivable, excluding credit sales	137,443	(593,681)
Inventory of grain	34,539	(776,724)
Prepaid expenses	(1,041)	236,514
Accounts payable and accrued expenses	(49,983)	(41,116)
Liability to agents	83,415	673,292
Liability to producers for outstanding cheques	(118,930)	201,787
Liability to producers EPO excess payments – interim and final	(35,573)	40,955
Cash generated from operations	6,587,478	4,920,147
Interest received	79,101	177,636
Interest paid	(67,438)	(172,661)
Reserve for producer payment expenses	(954)	(322)
Special account	(311)	(707)
	6,597,876	4,924,093
Cash (used in) from financing activities		
Net increase (decrease) in borrowings	(1,254,091)	527,608
Decrease in long-term debt	(254,659)	(443,561)
Cash distributions		
Prior year undistributed earnings	(340,190)	(324,033)
Current year distributions prior to July 31	(5,645,254)	(4,899,677)
	(7,494,194)	(5,139,663)
Cash (used in) from investing activities		
Accounts receivable – credit programs	605,288	429,196
Net (increase) decrease in short-term investments	371,372	(182,693)
(Increase) decrease in investments	(37,376)	5,885
Purchase of capital assets	(43,467)	(37,189)
Proceeds from sale of capital assets	501	371
	896,318	215,570
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)	2009		2008	
	Total	Per tonne	Total	Per tonne
WHEAT				
Receipts for pool distributions (tonnes)	**14 032 219**		**8 293 807**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 3,242,963	$ 231.12	$ 2,193,016	$ 264.43
Adjustment payments	381,192	27.17	664,444	80.11
Interim payment	214,768	15.31	–	–
Final payment	346,628	24.69	175,881	21.20
Total wheat distribution	4,185,551	298.29	3,033,341	365.74
DURUM				
Receipts for pool distributions (tonnes)	**4 206 854**		**3 060 515**	
Earnings distributed to pool participants				
Initial payments on delivery	1,126,574	267.80	964,923	315.29
Adjustment payments	238,518	56.70	503,313	164.45
Interim payment	62,643	14.89	–	–
Final payment	114,958	27.33	95,194	31.10
Total durum distribution	1,542,693	366.72	1,563,430	510.84
DESIGNATED BARLEY				
Receipts for pool distributions (tonnes)	**2 272 893**		**2 025 640**	
Earnings distributed to pool participants				
Initial payments on delivery	607,624	267.34	468,948	231.51
Adjustment payments	45,150	19.86	58,313	28.79
Interim payment	15,810	6.96	–	–
Final payment	32,054	14.10	59,569	29.41
Total designated barley distribution	700,638	308.26	586,830	289.71
BARLEY A				
Receipts for pool distributions (tonnes)	**16 878**		**23 819**	
Earnings distributed to pool participants				
Initial payments on delivery	2,524	149.54	5,247	220.28
Adjustment payments	–	–	199	8.35
Interim payment	–	–	–	–
Final payment	703	41.64	1,210	50.78
Total barley A distribution	3,227	191.18	6,656	279.41
BARLEY B				
Receipts for pool distributions (tonnes)	**72**		**179 126**	
Earnings distributed to pool participants				
Initial payments on delivery	7	103.70	39,434	220.15
Adjustment payments	–	–	632	3.53
Interim payment	–	–	–	–
Final payment	6	80.15	10,014	55.91
Total barley B distribution	13	183.85	50,080	279.59
Earnings distributed to pool participants	**$ 6,432,122**		**$ 5,240,337**	

Statement of transfers to Contingency fund

For the year ended July 31 (dollar amounts in 000s)		2009		2008
PRODUCER PAYMENT OPTIONS PROGRAM				
FPC program – earnings (losses) on program operations	$	44,030	$	(89,513)
EPO program – earnings on program operations		4,620		3,115
		48,650		(86,398)
Transfer to pool participants		(18,000)		–
		30,650		(86,398)
CASH TRADING OPERATIONS				
Earnings on program operations		2,138		19,971
POOL OPERATIONS				
Wheat		–		21,353
Durum		–		3,101
Designated barley		–		680
Barley		1,388		2,498
		1,388		27,632
Earnings (losses) transferred to Contingency fund (Note 19)	**$**	**34,176**	**$**	**(38,795)**

Statement of administrative expenses

For the year ended July 31 (dollar amounts in 000s)		2009		2008
Human resources	$	43,316	$	42,185
Office services		3,471		3,386
Professional fees		5,853		6,191
Computer services		11,632		8,989
Facilities		1,989		1,919
Travel		1,819		1,880
Advertising and promotion		2,128		1,860
Other		1,410		1,657
Training		398		389
Depreciation		10,148		9,852
Recoveries		(3,099)		(2,646)
Total administrative expenses (Note 25)	**$**	**79,065**	**$**	**75,662**

NOTES TO FINANCIAL STATEMENTS

(dollar amounts in 000s)

1. Act of incorporation and mandate

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

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

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

These financial statements include the following significant accounting policies:

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.

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 lower of cost or net realizable value. Cost is defined as the final return value. Inventory is reviewed at year-end to ensure that the carrying value does not exceed net realizable value.

Cash and cash equivalents

The Corporation does not report cash and cash equivalents on the balance sheet or the statement of cash flows. The cash balances in banks are temporary and are applied to borrowings as soon as possible. As a result, these balances are netted against borrowings.

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 to 20
Office furniture and equipment	7 to 10
Hopper cars	15 to 30
Building	40
Leasehold improvements	Term of lease

Computer equipment is reviewed annually for obsolete equipment.

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, 2009 are $118,970 (2008 – $49,629).

Classification and designation of financial instruments

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 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. The Corporation's grain sales and purchase contracts are derivatives because their price is based on an index.

All derivatives are recognized on the balance sheet at 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.

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

This account represents the difference between earnings calculated for pool distributions and other programs and the earnings calculated under GAAP. This difference includes unrealized gains and losses resulting from adjustments to recognize the fair value of the Corporation's financial instruments including derivatives that are not related to the current year's pool operations, and the difference in the valuation of inventory for distribution purposes from GAAP.

Transition adjustment

A transition adjustment attributable to the following was recognized in the Corporation's opening balance of earnings for future allocation:

	August 1, 2008	August 1, 2007
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 S-3855	–	358,089
Credit risk adjustment for fair value of financial instruments upon adoption of EIC-173	11,746	–
Inventory adjustment to cost upon adoption of S-3031	180,031	–
Total	**191,777**	**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 final distribution of earnings to producers, PPO 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* for employees who choose to transfer past service to the new plan. As at July 31, 2009, all 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 10 years (2008 – 11 years) for defined benefit pension plans and 15 years (2008 – 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.

Changes in accounting standards

Financial instruments – presentation and disclosures

On August 1, 2008, the Corporation adopted CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These sections replace CICA Handbook Section 3861, Financial Instruments – Disclosures and Presentation, and enhance the disclosures about the significance of financial instruments to the Corporation's financial position and performance, the nature and extent of risks arising from financial instruments and how the Corporation manages those risks. See Note 28.

Capital disclosures

On August 1, 2008, the Corporation adopted CICA Handbook Section 1535, Capital Disclosures, which establishes guidelines for the disclosure of information regarding what a Corporation regards as capital, any externally imposed capital requirements and the consequences of non-compliance with such requirements, and its objectives, policies and processes for managing capital. See Note 29.

Inventory

On August 1, 2008, the Corporation adopted CICA Handbook Section 3031, Inventory, which prescribes the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until related revenues are recognized. This section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. This change in accounting policy was adopted prospectively and had no impact on comparative financial statements. A transition adjustment attributable to this change was recognized in the Corporation's earnings for future allocation at August 1, 2008 as a loss of $180,031.

Credit risk and fair value

The Corporation adopted EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, effective August 1, 2008. This abstract clarifies how the Corporation's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. This change in accounting policy was adopted prospectively and had no impact on comparative financial statements. A transition adjustment attributable to this change was recognized in the Corporation's earnings for future allocation at August 1, 2008 as a loss of $11,746.

Future changes in accounting standards

International financial reporting standards

Effective January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises. The Corporation will issue financial statements in accordance with IFRS for the fiscal year commencing August 1, 2011, including the preparation and reporting of one year of comparative figures.

The impact of the adoption of IFRS on the financial statements may be significant and as such, the Corporation has developed its changeover plan. As the Corporation proceeds through the changeover process towards the transition date, more detailed disclosure will be provided.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation will adopt the new standards for its fiscal year beginning August 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation does not expect that the adoption of this new section will have a material impact on its financial statements.

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 CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines.

Short-term investments consist of term deposits, banker's acceptances, certificates of deposit, bearer discount notes, commercial paper and treasury bills with maturities of less than one year. The Corporation uses swap contracts to manage interest rate risk and convert the currency exposure to either Canadian or U.S. dollars. The effective interest rates for these investments ranged from 0.15 per cent to 0.45 per cent during the year (2008 – 2.00 per cent to 3.07 per cent).

Of the total investments at July 31, 2009, $279,441 represents the Canadian equivalent of $259,342 that will be receivable in U.S. funds. 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.

These financial instruments are classified as held for trading. 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	**2009 Total**	2008 Total
Due from foreign customers				
Current	$ –	$ 65,445	**$ 65,445**	$ 58,798
Rescheduled	240,695	–	**240,695**	853,618
	240,695	65,445	**306,140**	912,416
Due from Government of Canada	–	–	**–**	6,721
Total credit program receivables	240,695	65,445	**306,140**	919,137
Current portion	10,206	65,445	**75,651**	692,662
Non-current portion	$ 230,489	$ –	**$ 230,489**	$ 226,475
Credit risk				
Guaranteed by Government of Canada	$ 240,695	$ 64,136	**$ 304,831**	$ 917,961
Assumed by CWB	–	1,309	**1,309**	1,176
	$ 240,695	$ 65,445	**$ 306,140**	$ 919,137

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 and Pakistan. Of the $240,695 principal and accrued interest due from foreign customers at July 31, 2009, $171,863 represents the Canadian equivalent of $159,501 repayable in U.S. funds. Of the $853,618 principal and accrued interest due from customers at July 31, 2008, $508,190 represents the Canadian equivalent of $496,280 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. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

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, 2009 balance of $65,445 principal and accrued interest due under the ACF represents the Canadian equivalent of $60,738 repayable in U.S. funds. The July 31, 2008 balance of $58,798 principal and accrued interest represents the Canadian equivalent of $57,420 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 fair value.

Maturities

These accounts receivable mature as follows:

(000's)		**2009**		2008
Amounts due:				
Within 1 year	**$**	**75,651**	$	692,662
From 1 – 2 years		**11,434**		6,895
From 2 – 3 years		**16,140**		12,367
From 3 – 4 years		**17,227**		17,931
From 4 – 5 years		**18,425**		19,039
Over 5 years		**167,263**		170,243
Overdue		**–**		–
	$	**306,140**	$	919,137

5. Accounts receivable from advance payment programs

	Agricultural Marketing Programs Act	Advance Payment Program After-Harvest	Spring Credit Advance Program	Enhanced Spring Credit Advance Program	Advance Payment Program Pre-Harvest	Unharvested Threshed Grain Advance Program	**2009 Total**	2008 Total
Due from producers	$ 995	$ 59,921	$ (4)	$ 224	$ 422,867	$ –	**$ 484,003**	$ 569,959
Due from (to) Government of Canada	(1,545)	759	(150)	(77)	1,161	(7)	**141**	1,516
Due from (to) agents of the CWB	25	18,803	–	13	872	–	**19,713**	377
	$ (525)	$ 79,483	$ (154)	$ 160	$ 424,900	$ (7)	**$ 503,857**	$ 571,852

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 $50 and the producer pays interest on any amounts in excess of $50.

Cash advances issued during the year by the Corporation under these programs totalled $898,177, including $505,697 issued under the APP-After-Harvest, $392,480 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. The Corporation does 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.

Cross-currency interest rate swap – a contractual agreement for specified parties to exchange principle, fixed and floating interest rate payments in different currencies.

These interest rate contracts have been classified as held for trading and are fair valued at the balance sheet date, with the change 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, Producer Payment Options, cash trading and funding operations.

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.

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 trading and are fair valued at the balance sheet date, with the change 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 trading and are fair valued at the balance sheet date, with the change 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

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 stand-alone derivative.

The fuel surcharges within the transportation contracts and leases on hopper cars have a functional currency embedded derivative. These embedded derivatives have been classified as held for trading and are fair valued at the balance sheet date with change in fair value recorded in the combined statement of operations as a component of freight and other direct expenses, respectively.

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 trading and are fair valued at the balance sheet date with change 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 the 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, 2009, the fair value of outstanding derivative contracts is as follows:

	Assets		Liabilities	
	2009	2008	**2009**	2008
Derivative instrument				
Commodity contracts	**$ 57,336**	$ 66,197	**$ –**	$ –
Foreign exchange contracts	**152,662**	–	**–**	31,827
Swaps – investments	**–**	–	**24,663**	8,725
Swaps – debt	**106,251**	66,589	**–**	–
PPO purchase contracts	**–**	–	**26,102**	60,652
Sales contracts	**127,565**	237,722	**–**	–
Embedded derivatives	**88**	–	**1,695**	24
Total	**$ 443,902**	$ 370,508	**$ 52,460**	$ 101,228

Fair value of derivative instruments by term to maturity

	2009				2008
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Total
Derivative assets	**$ 339,539**	**25,665**	**78,698**	**443,902**	$ 370,508
Derivative liabilities	**$ 43,348**	**1,000**	**8,112**	**52,460**	$ 101,228

The change in fair value of outstanding derivative contracts totals $56,933 net gain. Of the total net gain, $34,795 gain is in revenue, $34,550 gain is in grain purchases, $112 gain is in freight, $1,695 loss is in other direct expenses and $10,829 loss is in net interest earnings. Of the $56,933 net gain, a loss of $32,182 is not related to the current year's pool operations and as a result is included in the earnings for future allocation.

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 close 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. Observable market inputs such as interest rate yield curves, currency rates and price and rate volatilities are used. Option-implied volatilities, an input into the valuation model, are either obtained directly from market sources or calculated from market prices. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates, and as such should not be interpreted as realizable values in an immediate settlement of the instruments. These estimates of fair value may be significantly different when compared to another financial institution's value for a similar contract. The creditworthiness of our counterparties and the effects of credit mitigation tools such as master netting agreements and collateral arrangements are taken into consideration in calculating fair value.

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. Market-observed credit spreads, where available, are used to establish valuation adjustments against the Corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.
- 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. No change was made to fair value in relation to credit risk 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 nature of the programs. No change was made to fair value in relation to credit risk because the credit risk assumed by the Corporation for these credit programs is considered immaterial.
- Fair value for the exchange-traded commodity derivatives is based on the close price quoted on derivative exchanges. Exchange-traded futures and option contracts involve minimal credit risk as the exchanges require daily mark-to-market and settlement on negative exposures; therefore, no change was made to fair value in relation to credit risk.
- 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. Market-observed credit spreads, where available, are used to establish valuation adjustments against the Corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.

- 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. Market-observed credit spreads, where available, are used to establish valuation adjustments against the Corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.
- Fair value for long-term debt is derived using market standard valuation models and techniques as independent market prices for the long-term debt 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 AAA Agency interest rate yield curves and foreign exchange rates. There is no change in fair value related to credit risk because the debt is guaranteed by the government of Canada.
- 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 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. Market-observed credit spreads, where available, are used to establish valuation adjustments against the Corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.
- 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 are not observable. Inputs to these models are market-observable and include interest rate yield curves and foreign exchange rates. The investments are valued using a curve representative of the counterparty's rating to take into consideration their credit worthiness.

8. Inventory of grain

Inventory of grain on hand at July 31, 2009 is valued at the lower of cost or net realizable value. Cost is defined as the final return value. Net realizable value is the estimated amount that is expected to be received as sale proceeds less costs to be incurred to realize these sales values. Inventory is reviewed at year-end to ensure that the carrying value does not exceed net realizable value. July 31, 2008 balances were recorded at net realizable value. At July 31, 2009, the Corporation recorded inventory write-downs of $244,218 (2008 – nil).

	2009		2008	
	Tonnes	**Amount**	Tonnes	Amount
Wheat	**3 620 828**	**$ 914,814**	2 828 248	$ 1,111,156
Durum	**1 166 849**	**330,850**	724 849	451,850
Designated barley	**528 500**	**141,051**	120 084	44,461
Barley	**12 834**	**2,322**	45 713	12,603
Cash trading operations	**86 623**	**16,463**	–	–
	5 415 634	**$ 1,405,500**	3 718 894	$ 1,620,070

9. Prepaid expenses

	2009	2008
Net results of hedging activities applicable to subsequent pool accounts	**$ (13,028)**	$ (19,228)
Prepaid cost of moving inventory to eastern export position	**25,372**	16,494
Deposits on hedging accounts	**(20,321)**	15,100
Deferred pension asset	**29,413**	9,082
Other	**2,123**	2,143
	$ 23,559	$ 23,591

Please refer to Note 27 – Employee future benefits for further information on the deferred pension asset.

10. Investments

The Corporation maintains a long-term investment portfolio, which 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 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 between one and 15 years. These investments mature in 2014.

The Corporation uses swap contracts to manage interest-rate risk and to convert the currency exposure to either the 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 1.00 per cent to 4.56 per cent during the year (2008 – 3.08 per cent to 4.50 per cent).

Of the total investments at July 31, 2009, $75,425 represents the Canadian equivalent of $70,000 that will be receivable in U.S. funds. Of the total investments at July 31, 2008, $71,680 represents the Canadian equivalent of $70,000 receivable in U.S. funds.

These financial instruments are classified as held for trading. As at July 31, 2009, there are C$106,000 notes receivable shown at a fair value of C$110,973 and a US$70,000 note receivable shown at a fair value of C$65,991. As at July 31, 2008, there was a C$75,000 note receivable shown at a fair value of C$77,482 and a US$70,000 note receivable shown at a fair value of C$71,680.

11. Capital assets

	Computer system development	Hopper cars	Computer equipment	Furniture & fixtures	Land, building & improvements	Automobiles	Total
Cost							
Balance August 1, 2007	$ 91,546	$ 105,515	$ 15,413	$ 4,834	$ 15,030	$ 854	$ 233,192
Additions	31,320	–	879	724	4,267	411	37,601
Disposals	(34,082)	(244)	(6,472)	–	–	(368)	(41,166)
Balance August 1, 2008	88,784	105,271	9,820	5,558	19,297	897	229,627
Additions	25,714	9,723	1,043	865	6,122	315	43,782
Disposals	21	(669)	(341)	(3,004)	(3,403)	(326)	(7,722)
Balance July 31, 2009	$ 114,519	$ 114,325	$ 10,522	$ 3,419	$ 22,016	$ 886	$ 265,687
Accumulated depreciation							
Balance August 1, 2007	$ (52,856)	$ (75,643)	$ (11,046)	$ (3,232)	$ (8,044)	$ (307)	$ (151,128)
Depreciation	(6,075)	(4,368)	(1,172)	(161)	(153)	(162)	(12,091)
Disposals	32,130	176	6,315	–	–	178	38,799
Balance August 1, 2008	(26,801)	(79,835)	(5,903)	(3,393)	(8,197)	(291)	(124,420)
Depreciation	(6,929)	(4,346)	(1,455)	(243)	(973)	(163)	(14,109)
Disposals	(19)	613	331	2,702	3,357	154	7,138
Balance July 31, 2009	$ (33,749)	$ (83,568)	$ (7,027)	$ (934)	$ (5,813)	$ (300)	$ (131,391)
Net book value							
July 31, 2008	$ 61,983	$ 25,436	$ 3,917	$ 2,165	$ 11,100	$ 606	$ 105,207
July 31, 2009	$ 80,770	$ 30,757	$ 3,495	$ 2,485	$ 16,203	$ 586	$ 134,296

During the year the Corporation acquired automobiles amounting to $315 (2008 – $411) under capital leases.

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 256 cars have been wrecked and dismantled, leaving 1,744 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, 12 cars have been wrecked and dismantled, leaving 1,651 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 0.14 per cent to 0.55 per cent during the year (2008 – 1.75 per cent to 3.00 per cent).

Of the total borrowings at July 31, 2009, $102,349 represents the Canadian equivalent of $94,988 that will be repayable in U.S. funds. 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.

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

13. Accounts payable and accrued expenses

	2009	2008
Net hedging and foreign exchange applicable to current year	**$ (17,131)**	$ 79,771
Other accounts payable and accrued expenses	**128,539**	115,561
Deferred sales revenue	**55,370**	30,754
	$ 166,778	$ 226,086

14. Liability to agents

	2009	2008
Grain purchased from producer	**$ 980,441**	$ 881,683
Deferred cash tickets	**239,164**	254,507
	$ 1,219,605	$ 1,136,190

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, $797,897 (2008 – $381,614) remains undistributed as at July 31, 2009 of which $293,220 (2008 – nil) was approved as an interim payment on October 8, 2009. All adjustment payments were paid out during the year. Included in the liability to producers – current earnings is a payment of $5,850 (2008 – $40,955) to Early Payment Option participants where the pool price exceeded the contract price. The balance of $498,827 will be distributed to producers through final payments: $493,650 (2008 – $340,659) to pool participants and $5,177 (2008 – nil) to the cash trading program.

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 fifteen 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 0.01 per cent to 1.59 per cent during the year (2008 – 2.13 per cent to 2.88 per cent).

Total by currency (in CAD equivalent)

	Debt currency		CAD equivalent	
	2009	2008	**2009**	2008
Canadian notes	**$ 277,383**	$ 381,124	**$ 277,383**	$ 381,124
U.S. notes	**$ 105,490**	$ 103,913	**113,666**	106,408
Yen notes	**¥ 33,921,789**	¥ 52,665,048	**386,369**	499,896
			777,418	987,428
Current portion long-term debt			**45,833**	29,834
Long-term debt			**$ 731,585**	$ 957,594

These borrowings mature as follows:

	2009	2008
Amounts due:		
Within 1 year	**$ 45,833**	$ 29,834
From 1 – 2 years	**113,666**	55,107
From 2 – 3 years	**33,897**	106,408
From 3 – 4 years	**24,465**	45,641
From 4 – 5 years	**6,762**	31,044
Over 5 years	**552,795**	719,394
	$ 777,418	$ 987,428

These financial instruments were classified as held for trading and have been recorded at fair value.

17. Reserve for producer payment expenses

The amount of $875 (2008 – $1,404) 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:

		2009		2008
Beginning of year	**$**	**3,376**	$	3,177
Transfer from payment accounts		**518**		991
Expenditures		**(370)**		(780)
Payments to producers against old payment accounts		**(6)**		(12)
End of year	**$**	**3,518**	$	3,376
Ending balance comprising:				
Unexpended authorizations	**$**	**655**	$	170
Not designated for expenditure		**2,863**		3,206
	$	**3,518**	$	3,376

During the year-ended July 31, 2009, the balances from payment accounts for 2001 wheat and 2001 durum were transferred to the Special account under Order-in-Council P.C. 2009-503.

Program activity during the 2008-09 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	$	7	$	–	$	(7)	$	–	$	–
Canadian International Grains Institute										
Research and technical equipment		–		150		(118)		(32)		–
Scholarship program		163		237		(245)		–		155
University of Saskatchewan										
Canadian Grain Policy Chair		–		500		–		–		500
	$	170	$	887	$	(370)	$	(32)	$	655

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 the opportunity to lock in a fixed price or basis for all or a portion of their grain by October 31, three months after the beginning of the crop year. FlexPro, new in 2008-09, offers a daily flat price for wheat that can be locked in throughout the crop year, provided that tonnage is assigned before the year begins. These PPOs 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. The Daily Price Contract (DPC) was discontinued for 2008-09.

The 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 2008-09, the Corporation transacted cash trading of barley, designated barley and organic grains under the authority of Section 39.1 of *The Act*. A total of 561 105 (2008 – 1 206 934) tonnes were traded at a profit of $2,102 (2008 – $19,980).

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 producer, in accordance with the producer's deliveries. Producers who participate in the PDT are charged an administration fee, with any surpluses credited to the Contingency fund. PDT payments of $2,943 were issued to 105 producers (compared to $730 of payments to 58 producers in 2007-08). There was a small net surplus of $36 (2007-08 – net deficit of $9) in the program.

The Wheat Storage Program (WSP) provides producers a contract premium and storage payment to store their high-quality, high-protein, No. 1 Canada Western Red Spring wheat on farm. It ensures a consistent stock of high-quality, high-protein wheat to satisfy the needs of farmers' premium customers. During the year, 42 producers delivered 10 189 tonnes for a value of $3,878. The program revenue received from the wheat pool was sufficient to cover this cost.

Pool operations

As provided for under *The Act*, excess interest earnings from the barley pool are 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 2008-09, $1,388 (2008 – $2,498) 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 ($18,000) and to repatriate funds allocated from the Contingency fund to the pool accounts in 2005 ($7,500). 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.

At July 31, 2009, the total program surpluses were $48,650, bringing the Contingency fund to a positive balance. As a result of the policy, there was a transfer of program surpluses to the pool accounts of $18,000. There is no balance remaining to be repaid to the pool accounts.

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, 2009 is detailed as follows:

		2009 Total		2008 Total
Opening surplus (deficit), beginning of year	**$**	**(28,942)**	$	9,226
Transferred from pool accounts		**1,388**		27,632
Current year surplus (deficit)		**32,788**		(66,427)
Interest earned (expensed)		**(1,827)**		627
Closing surplus (deficit), end of year	**$**	**3,407**	$	(28,942)

20. Earnings for future allocation

This account represents the difference between earnings calculated for pool distributions and other programs and the earnings calculated under GAAP. This difference includes unrealized gains and losses resulting from adjustments to recognize the fair value of the Corporation's financial instruments, including derivatives that are not related to the current year's pool operations and the difference in the valuation of inventory for distribution purposes from GAAP.

21. Grain purchases

Grain purchases are primarily made up of purchases under PPO contracts of $679,349 (2008 – $1,921,083), purchases from third-party suppliers of grain in the course of cash trading of grain $151,770 (2008 – $271,516), late receipts, and inventory overages and shortages $22,480 (2008 – $30,280) and other $12,539 (2008 – $64,751). 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.

During the year ended July 31, 2009, the total grain purchases of $866,138 (2008 – $2,287,630) represents the cost of goods sold. Earnings distributed to pool participants of $6,432,122 (2008 – $5,240,337) also represents the cost of grain sold during the year.

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 are to cover a portion of the costs of moving grain to the east coast that are in addition to the rail freight costs of going to Thunder Bay.

25. Administrative expenses

	2009	2008
Allocated as follows:		
Wheat pool	**$ 52,043**	$ 46,132
Durum pool	**13,986**	12,358
Designated barley pool	**7,877**	8,437
Barley pool A	**72**	129
Barley pool B	**37**	1,443
Cash trading	**1,877**	4,328
PPO programs	**2,797**	2,476
Total	**78,689**	75,303
Producer payment accounts	**376**	359
Administrative expenses	**$ 79,065**	$ 75,662

Administrative expenses, less the expenses attributable to the distribution of final payments and costs related to the PPO program and organic programs, 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, 2009 were $725 (2008 – $654).

Lease costs on premises and office equipment are charged to administrative expenses.

Commitments under operating leases are as follows:

	Premises and office equipment
2009-10	569
2010-11	326
2011-12	164
2012-13	41
After 2013	–

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. They have an interest rate of 7 per cent.

Commitments under capital leases are as follows:

	Vehicles
2009-10	209
2010-11	86
2011-12	20

Other

The Corporation has agreed to fund the operations of the Canadian International Grains Institute (CIGI) for a base amount of $1,900 annually, through to 2010.

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 $20,157 (2008 – $4,637).

Expenses

The Corporation's expenses for its defined benefit and other post-employment benefit plans, for the year ended July 31, 2009 was $3,592 (2008 – $7,413).

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, 2008. The next valuation, which is in progress, will be as at July 31, 2009. 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 year.

	2009 Pension benefits	2008 Pension benefits	**2009 Other benefits**	2008 Other benefits
Change in fair value of plan assets				
Balance at beginning of year	$ **63,696**	$ 62,588	**$ –**	$ –
Contributions by Corporation	**20,766**	2,544	**1,521**	1,291
Contributions by employees	**1,137**	1,039	**–**	–
Expected return on plan assets	**4,911**	4,352	**–**	–
Actual return on plan assets	**(5,510)**	(5,419)	**–**	–
Benefits paid	**(1,193)**	(1,408)	**(1,521)**	(1,291)
Fair value, end of year	**$ 83,807**	$ 63,696	**$ –**	$ –
Change in accrued benefit obligation				
Balance at beginning of year	**$ 56,803**	$ 55,110	**$ 28,548**	$ 28,796
Current service cost	**3,725**	4,560	**686**	689
Interest cost on benefit obligation	**3,817**	3,300	**1,780**	1,586
Contribution by employees	**1,137**	1,039	**–**	–
Benefits paid	**(1,193)**	(1,408)	**(1,521)**	(1,291)
Actuarial gain on accrued benefit obligation	**(5,071)**	(5,798)	**(2,379)**	(1,232)
Benefit obligation, end of year	**$ 59,218**	$ 56,803	**$ 27,114**	$ 28,548
Funded status				
Plan surplus (deficit)	**$ 24,589**	$ 6,893	**$ (27,114)**	$ (28,548)
Unamortized net actuarial loss	**8,592**	8,383	**2,634**	5,167
Unamortized transition (asset) obligation	**(3,768)**	(4,332)	**4,056**	4,588
Adjustment to deferred pension asset	**–**	(1,035)	**–**	–
Accrued benefit asset (obligation), end of year	**$ 29,413**[a]	$ 9,909	**$ (20,424)**[b]	$ (18,793)

[a] Recorded in prepaid expenses

[b] Recorded in accounts payable and accrued expenses

Defined benefit costs

	2009 Pension benefits	2008 Pension benefits	**2009 Other benefits**	2008 Other benefits
Defined benefit costs				
Current service cost	**$ 3,725**	$ 4,560	**$ 686**	$ 689
Interest cost on benefit obligation	**3,817**	3,300	**1,780**	1,586
Actual return on plan assets	**(5,510)**	(5,419)	**–**	–
Actuarial (gain) on accrued benefit obligation	**(5,071)**	(5,798)	**(2,379)**	(1,232)
Costs arising in the period	**(3,039)**	(3,357)	**87**	1,043
Adjustments for difference between costs arising in the period and costs recognized in the period in respect of				
Return on plan assets	**599**	1,067	**–**	–
Actuarial gain	**5,420**	6,130	**2,533**	1,526
Transition asset (obligation)	**(564)**	(564)	**533**	533
Adjustment to deferred pension asset	**(1,977)**	1,035	**–**	–
Total expense included in administrative expenses	**$ 439**	$ 4,311	**$ 3,153**	$ 3,102

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:

	2009	2008
Expected Return on plan assets	**7.00%**	7.00%
Discount rate	**6.75%**	6.25%
Rate of compensation increase	**3.00%**	3.00%
Medical cost trend rate	**9.50%**	10.00%
Medical cost trend rate declines to	**5.00%**	5.00%
Medical cost trend rate declines over	**9 years**	10 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 2009:

		Increase		Decrease
Accrued benefit obligation	$	2,286	$	(1,879)
Current service and interest cost	$	215	$	(174)

Plan assets:

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

	2009	2008
Equity securities	**60%**	60%
Debt securities	**39%**	32%
Other	**1%**	8%
	100%	100%

Defined contribution plan:

The Corporation expensed $89 (2008 – $71) to the defined contribution component of the Corporation's pension plan. Employees contributed $355 (2008 – $318) to the defined contribution component of the Corporation's pension plan as at July 31, 2009. Benefits paid from the defined contribution component were $71 (2008 – $238).

28. Financial risk management

In the normal course of operations, the Corporation is exposed to various market risks such as commodity price risk, foreign exchange risk, interest rate risk, as well as credit risk and liquidity risk, which impact its financial performance. To manage these risks, the Corporation utilizes a number of financial instruments. The use of financial instruments is carried out in accordance with approved exposure limits and authorized counterparties and is governed by the board-approved financial risk management policies, which provide written principles on the above-noted risks, including the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Internal monitoring and compliance reporting to senior management and the board is performed on a regular basis. The Corporation's policies and processes are based on industry best practices, the Minister of Finance's risk management guidelines and the requirements of the Corporation's annual borrowing authority. Compliance with policies and exposure limits is periodically reviewed by the internal auditors. The Corporation does not enter into or trade financial instruments, including derivatives, for speculative purposes.

Market risk

Market risk is the potential for loss to the Corporation resulting from adverse changes to commodity prices, foreign exchange rates, and interest rates. The Corporation's market risk exposure is a direct result of the Corporation's core business. The Corporation is required to market all delivered wheat, durum and barley (for export and domestic human consumption), on an annual basis, to a diverse customer group around the world. As part of this marketing effort, the Corporation also provides farmers with options for pricing their wheat, durum and barley production. Due to the nature of its business, the Corporation is at risk from fluctuations in commodity grain prices and foreign exchange rates and fluctuations in interest rates.

The level of market risk to which the Corporation is exposed varies depending on market conditions, in particular, the volatility and liquidity in the markets, expectations of future price and yield movements and the composition of the Corporation's portfolios.

Commodity risk

Commodity-price risk is the exposure to reduced revenue due to adverse changes in commodity prices and volatilities. The Corporation uses exchange-traded futures and options 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. The objectives of commodity risk management for the Corporation are:

- to maintain an appropriate level of pricing for the wheat pool,
- to improve the competitive position of the Corporation by providing services to offer innovative pricing terms to buyers,
- to provide flexible pricing alternatives to western Canadian farmers, and
- to effectively capitalize on opportunities through discretionary trading within set limits.

Exchange-traded futures and option contracts are marked to market daily at the close price quoted on the exchanges. Performance for each strategy is measured on an individual basis through benchmarking and attribution analysis. The Corporation's financial risk management policies provide limits within which management must operate. This is consistent with the prior year's practice of the Corporation.

The Corporation has used one standard deviation of commodity prices over a five-year average as the sensitivity factor to represent management's best estimate of the reasonable range of variation for commodity prices.

Based on outstanding sales, purchase contracts and commodity derivatives held by the Corporation at July 31, 2009, assuming an immediate and sustained $0.90/bushel change in commodity prices occurs across all contract maturities, net earnings would be affected over the next 12 months as follows:

	2009 Increase (Decrease)
$0.90 increase in price per bushel	$ (246,765)
$0.90 decrease in price per bushel	$ 246,775

Foreign exchange risk

Foreign exchange risk is the exposure to changes in foreign-exchange rates that may adversely affect Canadian dollar returns. The Corporation is exposed to currency risk from non-Canadian dollar sales as all revenue distributions to farmers are made in Canadian dollars. The Corporation uses over-the-counter foreign exchange forward and option contracts to hedge foreign-currency revenue values from sales priced either directly or indirectly in U.S. dollars. The Corporation also employs foreign exchange option strategies to limit volatility in foreign exchange returns and mitigate downside risk. The Corporation also uses currency swaps, and cross-currency interest rate swaps to manage the currency risk associated with funding and investing activities. The objectives of foreign exchange risk management for the Corporation are:

- to maintain an appropriate level of foreign exchange pricing for the pools,
- to stabilize earnings and reduce the risk of average foreign exchange returns falling below foreign exchange rates inherent in the initial price,
- to provide flexible pricing alternatives to western Canadian farmers,
- to effectively capitalize on opportunities through discretionary trading within set limits, and
- to minimize foreign exchange risk associated with funding activities and operations.

Foreign exchange forward, swap and option contracts are marked to market daily. Performance for each strategy is measured on an individual basis through benchmarking and attribution analysis. The Corporation's financial risk management policies provide limits within which management must operate. This is consistent with the prior year's practice of the Corporation.

The Corporation has used one standard deviation of exchange rates over a five year average as the sensitivity factor to represent management's best estimate of the reasonable range of variation for exchange rates.

Based on outstanding sales, debt, investments and related derivatives held by the Corporation at July 31, 2009, assuming an immediate and sustained 5.00 per cent change in U.S. exchange rates occurs across all maturities, net earnings would be affected over the next 12 months as follows:

	2009 Increase (Decrease)
5.00% increase in exchange rates	$ (33,980)
5.00% decrease in exchange rates	$ 47,436

Interest rate risk

Interest-rate risk is the exposure to changes in market interest rates that may adversely affect net interest earnings. Net interest earnings flow directly to the producers. The Corporation is exposed to interest-rate risk arising from a mismatch in term and interest rate re-pricing dates on interest-earning assets and interest-paying liabilities. Interest rate risk to the Corporation is considered small in comparison to the other risks. The Corporation's financial assets generally comprise investments and credit receivables arising from sales of grain. In practice, most of the assets re-price in staggered amounts every six months. These financial assets are financed with short-term debt, which re-prices at least once per year or long-term debt, which has been swapped to re-price at least once per year. The Corporation accesses diverse sources of financing and manages borrowings in line with liquidity needs, maturity schedules, and currency and interest rate profiles. The Corporation uses interest rate swaps and cross-currency interest rate swaps, executed concurrently with long term debt or investments, to lock in a floating USD or CAD interest rate exposure to offset the Corporation's financial assets and liabilities. Interest rate swaps and cross-currency interest rate swaps are marked to market using market standard valuation models and techniques. The objective of interest rate risk management for the Corporation is to limit the potential for negative changes in net interest income due to significant changes in the level and term structure of interest rates.

The Corporation has used one standard deviation of interest rates over a five year average as the sensitivity factor to represent management's best estimate of the reasonable range of variation for interest rates.

Based on outstanding debt, investments and related derivatives held by the Corporation at July 31, 2009, assuming an immediate and sustained 0.50 per cent change in interest rates occurs across all maturities and curves, net earnings would be affected over the next 12 months as follows:

	2009 Increase (Decrease)
0.50% increase in interest rates	$ 5,147
0.50% decrease in interest rates	$ (6,238)

The lowest rate on the yield curve used in the model was 0.01 per cent to avoid using negative rates.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its contractual obligations to the Corporation. Exchange-traded futures and option contracts used to hedge the commodity risk involve minimal credit risk as the exchanges require daily mark-to-market and settlement on negative exposures. The Corporation is exposed to credit risk on investments, and over-the-counter derivative transactions that have a positive market value. The full principal of the investment is at risk should the counterparty default and is unable to return the funds invested. The Corporation is not exposed to credit risk for the full notional amount of the over-the-counter derivative transaction but only to the potential replacement cost if the counterparty defaults. Changes in market rates between settlement date and maturity date of the over-the-counter derivative transaction can increase the value of the derivative to the Corporation and make the derivative costly to replace in the current market if the counterparty defaults.

The Corporation manages credit risk by transacting 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 and specify the maximum exposure that the Corporation will accept for each level of credit rating. Per policy, the Corporation must enter into master-netting agreements, in the form of an International Swap and Derivative Association (ISDA) Master Agreement, with all over-the-counter derivative counterparties prior to transacting to minimize credit, legal and settlement risk. The ISDA agreements create the legal right of offset of exposure in the event of default. Collateral agreements have also been negotiated with the majority of the Corporation's counterparties to provide additional credit risk mitigation. The collateral agreements are Credit Support Annexes (CSA) which is an addendum to the ISDA document.

Collateral agreements provide for the posting of collateral by the counterparty when the Corporation's exposure to that entity exceeds a certain threshold. Collateral is held by a third party and at July 31, 2009, $44,948 in U.S. and Canada Government Treasury Bills was posted as collateral by our counterparties. Where the Corporation has a collateral agreement with a counterparty, the counterparty must have a minimum credit rating of A- from an external credit rating agency. Where the Corporation does 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. The Corporation's exposure and the credit ratings of approved counterparties are continuously monitored and counterparty limits provide for diversification of transactions amongst approved counterparties. The Corporation's financial risk management policies provide limits within which management must operate. This is consistent with the prior year's practice of the Corporation.

The Corporation does not anticipate non-performance by the counterparties. The largest cumulative notional amount contracted with any institution as at July 31, 2009, was $1,108,439 (2008 – $1,049,147) and the largest credit risk with any institution as at July 31, 2009, was $65,078 (2008 – $45,403).

As at July 31, 2009 the credit risk of outstanding derivative contracts, before netting and after collateral is considered, is as follows:

	2009			2008		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest rate contracts						
Single-currency interest rate swaps	**$ 178,452**	**$ 18,044**	**$ 18,201**	$ 164,154	$ 15,914	$ 15,914
Cross-currency interest rate swaps	**625,558**	**79,032**	**88,050**	833,946	41,950	74,340
	804,010	**97,076**	**106,251**	998,100	57,864	90,254
Foreign exchange contracts						
Forwards	**2,531,507**	**105,927**	**123,036**	2,351,067	(26,642)	25,831
Currency swaps	**110,150**	**(7,567)**	**–**	28,672	889	889
Options	**1,220,667**	**46,735**	**46,735**	1,562,419	(6,074)	–
	3,862,324	**145,095**	**169,771**	3,942,158	(31,827)	26,720
Derivatives before master netting agreements	**4,666,334**	**242,171**	**276,022**	4,940,258	26,037	116,974
Impact of master netting agreements	**(44,388)**	**(44,948)**	**(44,948)**	–	–	–
Total derivatives after master netting agreements	**$ 4,621,946**	**$ 197,223**	**$ 231,074**	$ 4,940,258	$ 26,037	$ 116,974

The following table provides a breakdown, by credit rating, of our derivative exposure as at July 31, 2009.

Credit rating		**2009**		2008	
Moody's	Standard & Poor's (S&P)	**Notional amounts**	**Fair value**	Notional amounts	Fair value
Aaa	AA+	**$ –**	**$ –**	$ 942,554	$ (7,164)
Aaa	AA	**–**	**–**	85,904	747
Aaa	AA-	**1,647,808**	**87,462**	1,941,045	24,445
Aa1	AA	**–**	**–**	411,663	2,938
Aa1	AA-	**737,448**	**22,437**	404,073	4,989
Aa1	A+	**705,960**	**41,030**	519,711	(5,320)
Aa2	AA-	**320,976**	**15,123**	165,730	11,853
Aa2	A+	**460,385**	**39,639**	469,578	(6,451)
Aa3	AA-	**116,898**	**7,710**	–	–
Aa3	A+	**676,858**	**28,770**	–	–
Total		**$ 4,666,333**	**$ 242,171**	$ 4,940,258	$ 26,037

"Credit rating" means the credit rating of the counterparty's long-term unsecured and unsubordinated debt as determined by two different rating agencies, one of which must be either S&P or Moody's and the other one of which must be selected among the other credit rating agencies, either Dominion Bond Rating Service or Fitch.

The following table provides a breakdown, by credit rating, of our notional short-term and long-term investments as at July 31, 2009.

Credit rating		**2009**		2008	
Moody's	Standard & Poor's (S&P)	**Short-term**	**Long-term**	Short-term	Long-term
Aaa	AAA	**$ 124,988**	**$ 75,000**	$ 511,602	$ 146,680
Aaa	AA-	**161,370**	**–**	115,221	–
Aaa		**37,996**	**–**	–	–
Aa1	AA	**–**	**31,000**	61,838	–
Aa1	AA-	**46,389**	**–**	125,467	–
Aa1	A+	**137,927**	**–**	–	–
Aa2	AA+	**–**	**75,425**	–	–
Aa2	A+	**61,127**	**–**	46,991	–
Aa2	A	**75,000**	**–**	66,000	–
Aa3	AA-	**–**	**–**	80,704	–
	AA	**122,749**	**–**	81,126	–
A2	A-	**–**	**–**	(315)	–
P-1	A-1	**–**	**–**	42,360	–
Total		**$ 767,546**	**$ 181,425**	$ 1,130,994	$ 146,680

"Credit rating" means the credit rating of the counterparty's long-term unsecured and unsubordinated debt as determined by two different credit rating agencies, one of which must be either S&P or Moody's and the other one of which must be selected among the other credit rating agencies, either Dominion Bond Rating Service or Fitch. If the counterparty has no long-term rating, then for investments or swaps with a term of less than one year, one short-term rating, preferable from either Moody's or S&P, is required, provided that the rating meets the minimum criteria (P1/A1).

Liquidity risk

Liquidity risk is the risk that the Corporation cannot meet its payment obligations on settlement dates or meet its obligations at a reasonable cost as they become due, because of inadequate market depth or disruptions in the market place. The Corporation manages its exposure to funding liquidity risk by pre-funding in advance of maturities through the use of investments and maintaining lines of credit with financial institutions. The Corporation measures, forecasts and manages cash flow as an integral part of liquidity management. The Corporation's objective is to maintain sufficient funds to meet its payment obligations. Liquidity is maintained through:

- a liquid investment portfolio – cash and marketable securities equal to $767,546 were on hand at July 31, 2009 (July 31, 2008 – $1,130,994),
- access to short-term funding – the Corporation's commercial paper program and access to capital markets provides the Corporation with sufficient liquidity to meet daily cash requirements; and
- access to committed and uncommitted lines of credit – committed lines of credit total C$250,000 and US$100,000 and uncommitted lines of credit total C$1,150,000 and US$250,000. These lines were not accessed in the past year.
- access to $100,000 Canadian and U.S. bank operating lines of credit.

The Corporation manages its exposure to market liquidity risk by purchasing liquid, tradable investments and ensuring at least three financial institutions must be prepared to make a price on the same over-the-counter derivative transaction. The Corporation's financial risk management policies provide parameters within which management must operate. This is consistent with the prior year's practice of the Corporation.

29. Capital management

The Contingency fund represents the only capital retained by the Corporation.

The Act stipulates that the Corporation cannot retain capital except for the Contingency fund, which was established to underwrite the risks associated with the PPOs and cash trading activities. *The Act* states that the Contingency fund can be negative; there is no limit specified. The fund, however, cannot exceed $60 million.

The Contingency fund is independent of the pool accounts. The surpluses and deficits of the PPOs and cash trading activities populate the Contingency fund. As the Contingency fund backstops the risks of the programs noted above, it is prudent risk management to recapitalize the fund in the event of a negative balance. In these extraordinary circumstances, funds may be directed from the pool operations to the Contingency fund. Any transfers from the pool operations to the fund will be repatriated as quickly as possible provided the Contingency fund balance does not fall below zero.

30. Comparative figures

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

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.

Embedded derivative – is a financial instrument that is embedded in another contract, called a host contract. The host contract is considered a hybrid contract as it contains both a derivative and a non-derivative component. The characteristics of an embedded derivative are the same as those of a standalone derivative. Embedded derivatives 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.

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.

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