CWB

2009/10 ANNUAL REPORT

Bringing

us all together

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.

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. Headquartered in Winnipeg, the CWB is a shared-governance corporation controlled by a board of directors comprised of 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, selling wheat and barley to more than 70 countries across the globe. With annual sales of $4 billion to $8 billion, it is the largest marketer of wheat and barley in the world.

CONTENTS

Financial highlights

	2009-10	2008-09*	2007-08	2006-07	2005-06**
Combined pool operating results ($millions)					
Revenue	$ 5,151.0	$ 7,828.5	$ 8,418.6	$ 4,945.9	$ 3,498.3
Payments to pool participants	4,278.6	6,432.1	5,240.3	3,497.8	2,623.4
Payments to PPO participants	278.2	679.3	1,921.1	1,060.3	537.2
Payments to cash trading participants	6.1	5.2	–	–	–
Receipts (000 tonnes)					
Wheat	15 603.3	15 931.5	13 368.1	15 516.6	11 971.2
Durum	3 413.5	4 281.4	3 581.0	3 982.7	4 308.9
Designated barley	1 445.0	2 411.4	2 444.9	1 851.3	1 464.7
Barley (pool A)	–	19.3	37.5	147.5	915.8
Barley (pool B)	–	11.6	418.0	19.8	127.5
Cash trading	593.8	561.1	1 206.9	5.9	–
Total	**21 055.6**	**23 216.3**	**21 056.4**	**21 523.8**	**18 788.1**

* 2008-09 results have been re-stated to conform with the current year's presentation, in compliance with current Generally Accepted Accounting Standards.

** 2005-06 excludes the impact of the Canadian accounting standard for financial instruments.

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

November 2010

Working together builds strong relationships.

Ian White and Allen Oberg

Western Canadian farmers, by working together to market their grain, created the Canadian Wheat Board in 1935. On the CWB's 75th anniversary in 2010, the deep-rooted tradition of Prairie cooperation lives on. Today's producers still reap value from joining forces to maximize their returns and their competitive position in a marketplace dominated by bigger and fewer players. As farmers' representatives and their organization, our goal is to make their aspirations a reality.

In 2009-10, farmers received $4.6 billion in returns for the sale of their grain, one of the highest overall returns in history (although significantly lower than the previous two crop years, which saw dramatic rallies in highly volatile global commodity markets). Total CWB exports were 18.7 million tonnes, the highest volume in 10 years, up 300 000 tonnes over the previous year.

The CWB not only brings farmers together as sellers, it is a tool for connecting them with their customers around the world. As the marketer of western Canadian wheat and barley for 75 years, the CWB has built long-standing sales relationships based on reputation, trust and a solid understanding of customer needs.

As a farmer-owned marketing organization, we stand out in a world marketplace dominated by large multinationals, and consistently earn higher prices than our competitors (see "Measuring Success", page 45).

What makes us strong is our single-desk structure, the farmers behind it and the superior product they grow – people like Kerry Maurer and his daughter Amy, who farm together near Yorkton, Saskatchewan (see page 8). The 2009-10 crop year was a good example. Exceptional September weather – along with farmers' perseverance – rescued a large Prairie crop that had faced dismal earlier prospects. The result was a large all-wheat crop (24.6 million tonnes) of very high quality, with 78 per cent of the spring wheat grading Nos. 1 or 2.

The biggest challenge of 2009-10 was the abundant supply of wheat in the international market from most grain-producing regions of the world, creating strong export competition for reduced import demand. Despite this reality, the CWB accepted 100 per cent of the non-durum wheat offered by farmers and greatly surpassed our early expectations for sales of both durum and malting barley.

For durum, exports reached 3.8 million tonnes – the highest in three years. This was especially significant given deep worldwide supplies. For malting barley, the CWB anticipated a year of very aggressive competition and our marketing objective was to maximize sales at reasonable premiums to domestic feed. This strategy meant a trade-off between price and volume, but we were able to achieve better-than-forecast price premiums, netting $9.44 per tonne over competitors' values, and still export 1.2 million tonnes, down just 200 000 tonnes from the previous year's record export levels.

No matter what the year brings, our job is to tie together all the pieces of the grain-marketing supply chain in ways that can best serve farmers. As a result, our people are engaged in a wide range of activities – all aligned under the four pillars of our five-year strategic plan, solidly focused on a "Farmer First" approach that strives to create value for all producers. (see "Our vision and strategies", page 38).

At the root of the supply chain, we keep up an ongoing dialogue with farmers to ensure we stay together and in touch with their needs. This year, we formalized a farmer-engagement strategy to ensure we can connect with our farmer stakeholders in the most meaningful ways.

One of the most exciting new ways we bring farmers together is through WeatherFarm™, the online weather and agronomic information centre launched in December 2009, exclusively designed to serve the needs of Prairie producers. A year later, there are almost 10,000 registered users. This innovative Web tool pulls information from a network of 800 stations across Western Canada, initiated by the CWB and WeatherBug® in 2007.

As grain moves into the handling and transportation system, our work continues. In 2009-10, we introduced a set of significant changes to delivery policies and programs. In transportation, we continually push for good rail service and rates, advocating in court for an improved level of service, in Parliament to support producer-car loading sites, and in public for a full review of railway costs for grain movement.

But it doesn't end at the elevator. The past year also saw the CWB open its first laboratory for testing and grading Prairie grain, improving quality control and customer service while reducing costs to producers. And our branding efforts continued to connect consumers to nutritious and delicious products made from Canadian grain.

We are proud to serve farmers as their representatives and their employees: on the farm, at the board table, in our corporate headquarters and around the world. Together, we are strong.

Allen Oberg
Chair, board of directors

Ian White
President and Chief Executive Officer

Bringing

us all together

Farmers from across the Prairies had their mettle put to the test during the 2009-10 crop year. Less-than-ideal growing conditions, plagued by dry soil and abnormally cool temperatures, had many predicting a disastrous crop yield. But, in a true demonstration of Prairie grit, farmers stood their ground and remained optimistic. In the end, weather in September took an unexpected turn for the best and a successful, high-quality harvest ensued, leading to the highest export volume in over a decade.

A cooperative approach enables family farm businesses to thrive in good times and bad. The following pages feature the stories and the perspectives of individuals – farmers, customers and salespeople – whose livelihoods depend on the success of one another. It is in this light that the theme for 2009-10 emerges: "Bringing us all together".

“All these efforts put a face on western Canadian wheat, and that has tremendous value.”

CLIFFORD ALLEN
LEMBERG, SASKATCHEWAN

From combine to customer: It doesn’t end at the elevator

Three farmers share their views on the global marketplace

Kerry Maurer and his 24-year old daughter, Amy, farm 5,000 acres outside Lemberg, Saskatchewan. Like most Prairie producers, they combine their expertise and energy to grow some of the best crops in the world. Although the last they see of their grain each year is when it is safely delivered to the elevator, the Maurers are keenly aware their business interest doesn’t end at delivery. Unloading at the elevator is only the beginning of a logistical process linking many players together – each with unique business objectives.

Kerry and Amy have both participated in the CWB-organized “Prairie to Port” tour to Vancouver, where they got a behind-the-scenes look at how their grain gets from their local grain elevator in Lemberg all the way to customers overseas.

Amy recalls her experience, stepping on board one of the docked ocean vessels for the first time. “It was jaw dropping. I thought we had a big farm, but you walk onto this ship and you suddenly realize just how little your operation is in the big scheme of things!”

The average bulk ocean vessel can hold up to 500 rail cars of grain. To put that in perspective, it takes over 45,000 acres of arable land to produce enough grain to fill one of the vessels at port. Ensuring that the right class, grade and protein level of grain from various Prairie locations funnels to the right ship compartment is a feat in itself.

“The biggest surprise for me was the transportation logistics – there’s zero room for error,” says Kerry.

As they moved along the supply chain, they realized the industry knowledge of the personnel grew broader. “I couldn’t believe they (port employees) knew as much about our farm businesses as they did. They have to know what grain is out there, how much of it is available and when to bring it in. They have to work with the CWB, the Canadian Grain Commission (CGC), elevators, railways, incoming ships – it’s all very complex.”

There was one moment in particular that stood out for Kerry. A few grain-handling workers came up to personally thank him for boldly growing grain during the recent recession, saying they recognize how their jobs ultimately depend on farmers.

"I almost fell over!" he says. "We never hear that back at the farm – that people are appreciative of the grain we grow. They said that without our grain, they wouldn't have bread on their own tables. I've shared this story with many of my friends."

Clifford Allen farms 4,500 acres a few miles down the road from the Maurers. He's had the opportunity to spend some time in Winnipeg to meet with employees from the CWB, the CGC, the Canadian International Grains Institute (CIGI) and a few grain customers. Getting a sense of the inner workings of the industry – how standards are set, regulations are established, research data is compiled – proved to be a valuable experience.

"Farmers have become a very sophisticated group," Clifford says. "Thirty years ago, it ended at the elevator, but today we access as much information as possible for our decision making."

Buyers of western Canadian wheat, durum and barley frequently participate in courses and tours put on by the CWB, CIGI and CGC, learning how grain grown on the Prairies can meet their specific processing needs.

"I met a customer from China while in Winnipeg. He bought all his grain through COFCO, a central agency – much like how we sell our wheat and barley," explains Kerry. "He preferred dealing with a big player like the CWB, rather than several smaller companies. Then they know things are consistent."

After witnessing some of the forces at work behind the scenes, Clifford has become increasingly confident that prominently branding western Canadian wheat and barley is the most lucrative approach. "Branding is the only way to make things work," he says.

Back home in Lemberg, Amy is beginning to acquire her own land. She's building her own farm operation from the ground up. Between her father's mentoring and the experience of visiting grain-handling and testing facilities, she's now better equipped to continue with the family business for another generation.

"All these efforts (along the supply chain) ultimately put a face on western Canadian wheat and that has tremendous value for me."

Extending the Prairie reach

Putting a face on the CWB in Tokyo and Beijing

“Customers enjoy working with us because we make their lives a bit easier – we’re a one-stop shop.”

Derek Sliworsky, General Manager, CWB Tokyo office

Derek Sliworsky never has a “typical work day” at the office in Tokyo.

For this Prairie farm boy from Manitoba’s Parkland region, life is a little different on the opposite side of the world, where he manages the CWB’s Tokyo office. The only predictable part of his daily schedule is the 15-minute walk from his three-bedroom Higashi Azabu apartment to take his two children to elementary school, before continuing on foot through the pedestrian pandemonium of downtown Tokyo. His apartment sits next door to the Russian embassy, his office is near the American embassy.

Derek, 38, grew up listening to his parents speak Ukrainian. For the past four years, he’s been intensely studying Japanese. His wife speaks fluent Vietnamese. As a CWB sales manager for the Asia Pacific Region for over 10 years, he has also learned basic greetings in Spanish, Mandarin, Korean, Thai and Bahasar. It all helps when you personally meet and interact daily with some of the CWB’s most important customers from across Asia.

“In order to build bonds with our customers, I love to hear of their backgrounds and introduce them to mine,” he says. “I’ve taken several customers to my parent’s farm, which is a difficult but rewarding journey. It’s completely opposite the hustle and bustle of the large cities in Asia where most of them live. While in Japan, I try to involve my family as much as possible in meetings with customers and their families. Some customers have even witnessed my kids’ dance routines.”

Derek says his close proximity to customers is a definite asset.

“For our customers, we’re a one-stop shop,” he says. “The alternative for them is trying to coordinate business with several companies, each with different quality standards, price ideas and positions. That leads to more confusion and more work on their end.”

Since assuming his overseas role in 2006, Derek has learned that his customers in Japan, Sri Lanka, Indonesia, Singapore, South Korea, Malaysia, Vietnam, New Zealand and Thailand all recognize the

DEREK SLIWORSKY
TOKYO

care that is taken by western Canadian farmers and in Canadian handling, storage and inspection.

"They see that Western Canada supplies the cleanest and most consistent product available. There's no doubt they value this."

But he does hear one complaint consistently from his customers – the price.

"We're obviously pushing to get the highest price possible," he says. "But when they recognize the value that is attached, our asking price usually becomes less of a factor."

Selling several classes of grains, all with varying grades and protein levels, to over 70 different countries comes with its share of challenges. Derek works to obtain a good return for western Canadian farmers by taking this very complexity and using it to his advantage as a selling point.

"With many of our competitors, quality and reliability are deteriorating to the point where customers are left crossing their fingers when the shipments arrive," he explains. "That's not the case with Canadian grain sold through a single-desk marketer, and that provides me with a distinct advantage."

Derek's philosophy is simple: Cultivate the relationship, build trust, and the sales will inevitably follow. Being able to meet in person with clients over lunch (he now loves yakitori, a dish of grilled chicken parts) helps foster strong business relationships. Marketing is about more than the wheat and barley – it's also about putting a face on the individuals who grow it.

"I am proud of my simple upbringing and of my hard-working parents back home. I feel honoured to have 75,000 farmers entrust me to go out in distant and unfamiliar regions to build business relationships on their behalf."

From Beijing to Winnipeg and back

As the CWB's vice-president responsible for the Greater China Region, Haiguang Shi is the face of the CWB in the Chinese market. The 2009-10 crop year marked an important milestone in the relationship between China and Prairie farmers, which the CWB helped bring together 50 years ago. The CWB was one of the first foreign businesses to deal with the new People's Republic of China, signing its first long-term trade agreement in 1961.

A number of celebratory events were held in Canada and China this year in honour of this milestone, including a special CWB 75th anniversary event in Shanghai.

From his Beijing office, Haiguang deals with some of the CWB's largest overseas customers. He was instrumental during the crop year in negotiating deals worth over $300 million to Prairie farmers, securing long-term agreements to sell over a million tonnes of western Canadian wheat and malting barley over the next few years to COFCO Ltd., the largest Chinese buyer of Canadian grain. His work also led one of the largest brewers in the world – China's Tsingtao Brewery – to bestow its "Strategic Supplier Award" on the CWB in 2010.

Haiguang is well-equipped to being these two worlds together. Born in Beijing, he served as senior project officer at the National Bureau of State Farms in China, before travelling to study at the University of Manitoba, where he achieved a Masters degree in agricultural economics. He worked for three years at the CWB's Winnipeg office before being appointed to its Beijing bureau in 1996.

HAIGUANG SHI
BEIJING

"The CWB enjoys a great reputation among customers in China," he says. "We're viewed as a reliable supplier with unmatched grain quality. Our long-term commitment, training, and after-sales services set us apart from the competition. Customers know our relationship doesn't end at the time of sale."

Haiguang says face-to-face interaction is very important with Chinese customers.

"I love this challenging work in a fast-growing market," he says. "It's such a big market, so highly competitive and so complex. It's exciting to be able to represent the interests of Canadian farmers where the potential is so huge."

DJAMAL DJOUHRI
CEO, AL GHURARI FOODS,
UNITED ARAB EMIRATES

Shrinking the distance from field to plate

Grain buyers share their perspective

The McLean family has been farming in Manitoba's Pembina Valley for more than a century. Each generation has earned a living growing grain to help meet the world's most basic need.

"The grain we have in storage here is going to Thunder Bay, where it will get put on ships mostly for the European, South American and U.S. markets," explains Don McLean as he and his father, Robert, prepare to turn the spring wheat stored in bins on the family farm.

For over 75 years, the CWB has played the vital role of connecting farmers with grain buyers from the four corners of the globe. Successfully marketing western Canadian wheat and barley requires cutting-edge sales strategies. What sets the CWB apart from its competition is an unbending belief in the importance of building trust and loyalty among customers.

"This 75-year milestone is particularly significant to many international customers who view our longevity as a sign of stability in an often volatile world market environment," says Allen Oberg, a farmer from Forestburg, Alberta who chairs the CWB board of directors.

Al Ghurari Foods in the United Arab Emirates has operations at home and abroad in five overseas locations. Its customer base extends across four continents as one of the largest food manufacturing businesses in the Persian Gulf. CEO Djamal Djouhri faces many daily obstacles, but experience tells him he can rely on the CWB.

Djouhri and his team are in direct contact with Jean-Benoit Gauthier, the CWB's senior manager of marketing and sales for Europe, Africa and the Middle East, on a near-weekly basis. They also meet in person a few times a year to address issues and upcoming opportunities. Having a familiar face goes a long way in establishing trust and superior customer service.

"I've been communicating directly with Jean-Benoit for almost 15 years and I feel that this stability has strengthened our relationship with the CWB," he says.

As part of the CWB's after-sales commitment to its customers, courses and workshops are offered in partnership with organizations such as the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC). Jointly financed by the CWB and the federal government, CIGI runs education programs for customers from around the world, providing support and advice on how to get the most out of western Canadian grain.

"We have sent a lot of people throughout the years to the CIGI courses and that, in turn, has also helped us use more Canadian wheat in our production," Djouhri explains.

As pressure to reduce costs increases, grain companies are increasingly cutting corners, leaving many customers guessing about quality. Scott Syslo, Vice-President of U.S.-based ConAgra Foods, says that's not the case with the western Canadian grain they buy.

"The consistency we get from the CWB is really important. It allows us to operate more efficiently," he says. "Efficiency equals cost savings, which can then be passed on to customers at the retail level."

ConAgra is one of the largest American food producers, with products found in 97 per cent of American households. Maintaining that level of market share doesn't leave much room for error.

"Quality, consistency all those things are very important to our success but, at the end of the day, having that relationship and being able to speak to someone at the CWB about a special request or flexibility in logistics is probably the most important thing for us," Syslo says.

Back at the McLean farm near Manitou, Manitoba, Don and his father breathe a momentary sigh of relief after delivering the grain they have worked so hard to grow. But they know their involvement continues past the elevator, with the CWB working hard to maximize farmers' benefits, right through to the customer and end-user.

For Don, that's what it's all about: "It's really quite amazing to have that feeling that at the end of the day we have something that's going to feed the world."

To view a video featuring Don McLean and the CWB customers in this article, please check www.cwb.ca/youtube and click on the video entitled "Bringing us all together".

"It's as if we're talking directly to the farmers through their CWB representative."

Djamal Djouhri

"This needs to happen if we're going to improve efficiencies and advance our farm businesses."

FRANCK GROENEWEG
EDGELEY, SASKATCHEWAN

A growing network

WeatherFarm gains momentum as producers get on board

While celebrating a friend's birthday over a piece of cake, Franck Groeneweg overhears his neighbours discussing rainfall levels on the surrounding farmland. Listening in, he's surprised to learn the source of their weather data is "Franck's weather station".

Traditional public sources of weather information are often not localized or frequent enough to suit farmers' needs. As a result, Franck uses the information he collects from his personal WeatherFarm™ weather station with great confidence as his main source of data. As he's discovered, that confidence is also shared by others in his community.

Farming 10,000 acres, he's one of hundreds of producers in Western Canada with an on-farm station that feeds the new WeatherFarm network. His station is one of over 800 that streams data back to a free online information centre, providing farmers with real-time, highly localized weather and crop-management information.

Spearheaded by the CWB and its partners in 2007, this initiative's main objective is to arm producers with reliable, timely weather data and agronomic tools. In December of 2009, the online centre was launched and, within a year, had attracted almost 10,000 users.

It's a true collective effort. The strength and reliability of the network exists and can only exist when everyone – farmers, retailers, schools, municipalities and other organizations – understands its value and contributes to the project.

"If my station is down for whatever reason, I can fall back on the network and check another station. Within a 10-mile radius, there are about five other on-farm stations I can link up to online. Before, the nearest weather data I received came from the Regina airport – over 50 kilometers away, " says Franck, a 33-year-old immigrant from rural France, who relocated to Edgeley, Saskatchewan about eight years ago after a short stint farming in Iowa.

Being relatively new to the Prairies, he was unfamiliar with our often unforgiving climate and decided he needed to maintain a reliable record book on weather data in his region to help him make better farm-operation decisions.

"I wanted to have a good record of precipitation and all the different weather variables, so I could compare it with yield data," he says. "Eventually, patterns will begin to emerge. Over the years, what has traditionally been the crop quality when 20 inches of rain fell in a year, for example?"

Franck, along with several other farmers, was specially selected to partake in a fusarium head blight model validation project, supported by the Pest Management Centre of Agriculture and AgriFood Canada and administered by the CWB. As part of the project, CWB agronomist Mike Grenier compares the quality characteristics of wheat from various strips in relation to differing crop-management techniques applied by the farmers, based on modelling tools using environmental data.

"We're looking at ways to integrate meteorological information into decision-support tools to help producers make decisions supported by empirical data," says Grenier. "The degree of precision we're seeking requires that the selected farmers have access to extremely localized weather data, otherwise the results will be inconsistent."

A self-professed "techno-maniac", Franck admits to having a penchant for being on the cutting edge of technology.

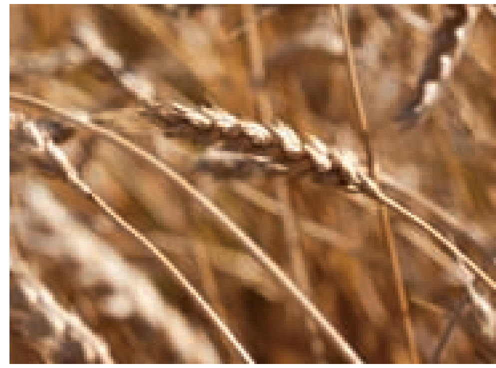
"You can't farm only based on the numbers; you have to ground-truth and see things with your own eyes. But having these tools in your pocket definitely helps confirm your gut feelings.

"There are a lot of advantages and opportunities with this kind of initiative – and all of them trickle down to the rest of the farming community. This needs to happen if we're going to improve efficiencies and advance our farm businesses. If we can improve on the tools available on WeatherFarm, it's a win-win for everybody."

Corporate governa

The following section focuses on the CWB board of directors and executive leadership team. It outlines the role and responsibilities of the board of directors, how it is comprised and how it discharges its duties. The section also highlights the function and composition of the executive leadership team.

nce



Board of directors

The CWB operates as a shared-governance corporation under *The Canadian Wheat Board Act* (the *Act*). The board of directors consists of 15 members: 10 elected farmers and five individuals appointed by the federal government, including the president and chief executive officer. The CWB board of directors recommends to the government the appointment of the CEO. This unique board structure was created in 1998 to reflect the CWB's accountability to farmers and to ensure that farmers direct the corporation.

Farmer directors are elected by producers in 10 electoral districts across the Prairies. 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. During the 2009-10 crop year, directors Glen Findlay, Bruce Johnson and Ken Motiuk were each re-appointed to the board for another term. In June 2010, director Allen Oberg succeeded Larry Hill as CWB board chair.

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 setting the overall strategic direction and by reviewing and approving strategic plans, budgets, financial statements, the annual corporate plan and the borrowing plan. The board oversees the conduct of the business, establishes performance measures against which long-term and annual plans can be evaluated, and routinely monitors management's progress against set business objectives. It also ensures management has appropriate systems in place to identify and mitigate corporate risk, maintain the integrity of financial controls and administer information services.

For purposes of establishing corporate objectives, the board places a high priority on listening to farmers and ensuring that their views are brought forward to the entire board. The most important operating principle for the board is constructive teamwork among all directors in order to maximize returns to Prairie grain producers.

THINKING STRATEGICALLY

The CWB 2009-2014 long-term plan was a focal point for the board of directors during the 2009-10 crop year. After adopting the long-term plan in July 2009 as a guide for strategic decision-making, the board carefully monitored its implementation. It was a regular item on the board agenda, as CWB President and CEO Ian White reported on management's progress at each regular board meeting.

As a result of the new long-term plan, the board placed a renewed emphasis on performance measurement. All regular board meetings during the 2009-10 crop year included updates on corporate performance measurement as new measures were developed and existing measures refined. The new long-term plan embodies "Farmer First" operating principles, which are intended to guide the CWB's operational culture and to serve as a reference point for all decision-making processes.

The board of directors was active on several other fronts, including monitoring the ongoing implementation of the CWB's Supply Chain Transformation initiative, overseeing the implementation of International Financial Reporting Standards, providing oversight of the employee compensation program and ensuring appropriate governance of the employee pension plan. CWB directors hosted numerous accountability and farmer liaison meetings across the Prairies to facilitate accurate and transparent communication with farmers, and they continued to sit on external boards and committees to ensure the CWB's perspective is considered in third-party and stakeholder policy formulation.

COMMITMENT TO GOOD GOVERNANCE

The board has taken a proactive approach to its corporate governance philosophy and framework. With the exception of the president and CEO, all directors are independent of management. The board has a comprehensive governance policy and process framework as part of the CWB's commitment to good governance, comprised of:

- terms of reference for the board of directors, which establish the mandate and responsibilities of the board and delegate responsibility to the CEO for the direction and management of the business and day-to-day operations.
- role and responsibility descriptions for the key players in the CWB's governance framework, including the chair of the board, the CEO, each committee and individual directors
- approved code of conduct and conflict-of-interest guidelines, which include an election-period code of conduct
- internal controls assessed and routinely monitored to ensure integrity and accountability, including a policy defining the delegation of authority
- an integrated risk-management approach that identifies and measures internal and external risks and opportunities
- comprehensive director orientation, ongoing education and professional development
- board performance-assessment tools intended to improve board effectiveness
- a list of significant policies developed and approved by the board to guide corporate conduct
- a formalized strategic-planning process
- a comprehensive communication policy
- regularly scheduled in-camera meetings of non-management directors
- regular performance evaluation of the CEO
- executive succession planning

Key areas of governance focus during the 2009-10 crop year included a formal evaluation of the board and its committees, review of the code of conduct and conflict-of-interest guidelines and oversight of preparations for the 2010 director elections. A renewed emphasis was placed on director education by including a professional-development component in each regular board meeting. In addition, a number of directors attended and successfully completed additional learning modules at the Directors College, which is an accredited corporate director development program. Seven of the CWB's directors have completed the Chartered Director Program offered by the College, based in Ottawa.

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 matters. The board chair is an ex-officio, non-voting member of all committees and the CEO is an ex-officio, non-voting member of all committees except the Audit, Finance and Risk Committee.

AUDIT, FINANCE AND RISK COMMITTEE

Mandate – This committee's primary responsibilities include oversight 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, oversees the annual budget and borrowing plan, and reviews financial and business risk policies and proposals. The committee oversees the internal audit function and ensures the existence of a whistleblower policy.

Members – Bruce Johnson (chair), David Carefoot, Rod Flaman, Kyle Korneychuk[1], Ken Motiuk, Bill Nicholson and Henry Vos.

GOVERNANCE AND MANAGEMENT RESOURCES COMMITTEE

Mandate – This committee focuses on corporate governance to enhance board and organizational effectiveness. It reviews the policies and procedures by which the board operates and provides for regular performance evaluation of the board and its committees. It also assists the board in fulfilling its obligations related to human resource, compensation and pension matters, and facilitates an annual appraisal of the president and CEO.

Members – Kyle Korneychuk (chair)[2], David Carefoot, Glen Findlay, Bruce Johnson, Bill Nicholson[3], Henry Vos and Bill Woods.

Election Subcommittee

Mandate – This subcommittee provides oversight of the conduct of director elections, including proposed amendments to the election regulations.

Members – Larry Hill (chair), David Carefoot, Bill Nicholson and Ian White.

STRATEGIC ISSUES COMMITTEE

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

Members – Bill Toews (chair), Glen Findlay, Cam Goff, Larry Hill[1], Jeff Nielsen 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 – Rod Flaman (chair)[2], Larry Hill[1], Cam Goff, Ken Motiuk, Jeff Nielsen and Bill Toews.

[1] Appointed July 22, 2010

[2] Appointed chair July 22, 2010

[3] Chair until July 22, 2010

KEN MOTIUK CAM GOFF HENRY VOS IAN WHITE ROD FLAMAN LARRY HILL GLEN FINDLAY

Director biographies

Elected directors

HENRY VOS (DISTRICT 1)

Henry has a degree in agriculture from the University of Alberta. Henry and his wife Anne farm at Fairview, Alberta, where they grow canola, wheat, barley and forage seed. 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 the Canadian International Grains Institute, and has served as a committee member with the Agriculture & Food Council.

JEFF NIELSEN (DISTRICT 2)

Jeff operates J.E. Nielsen Farms Inc. near Olds, Alberta, 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. Jeff served as president of the Western Barley Growers Association from 2006 to 2008, and has been a director of the Grain Growers of Canada, serving as vice-president in 2008. He serves as a member of the Canada Grains Council's On-Farm Food Safety Committee and the Barley Advisory Committee of the Western Grains Research Foundation.

LARRY HILL (DISTRICT 3)

Larry served as chair of the CWB board of directors from March 2008 to June 2010. He farms 4,300 acres near Swift Current, Saskatchewan. 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 was serving his third term as a CWB director in 2009-10.

BRUCE JOHNSON BILL WOODS KYLE KORNEYCHUK ALLEN OBERG BILL TOEWS WILLIAM NICHOLSON JEFF NIELSEN

MISSING: DAVID CAREFOOT

BILL WOODS (DISTRICT 4)

Bill was born and raised on the family farm near Eston, Saskatchewan, where he and his wife Cindy still reside. He received a Bachelor of Education from the University of Saskatchewan and taught at Eston High School for 18 years. 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 a member of the Western Grains Research Foundation Wheat Advisory Committee and the Prairie Recommending Committee for Wheat, Rye and Triticale.

ALLEN OBERG (DISTRICT 5)

Allen and his brother, John, run a grain and cattle operation near Forestburg, Alberta. 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 has also served as chair of the CWB Farmer Relations Committee. He was elected chair of the CWB board of directors in June 2010.

CAM GOFF (DISTRICT 6)

Cam and his brothers run a family operation of 4,400 acres near Hanley, Saskatchewan 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 a board member of the Western Grains Research Foundation.

KYLE KORNEYCHUK (DISTRICT 7)

Kyle and his wife Susan operate grain farms near Pelly and Stenen, Saskatchewan. Kyle is a graduate of the University of Saskatchewan and holds a Bachelor of Science degree 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. He has also been employed in the mining industry and in government. Kyle has represented both provincial and federal governments on national agriculture and environment committees. He serves on the Western Grains Research Foundation Barley Advisory Committee, the Western Grain Standards Committee Wheat Subcommittee and the Prairie Recommending Committee for Oats and Barley. He chairs the CWB Governance and Management Resources Committee.

ROD FLAMAN (DISTRICT 8)

Rod farms with his wife Jeanne just south of the Qu'Appelle Valley, near Edenwold, Saskatchewan. 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 degree 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, Saskatchewan. He is a member of the Western Grain Standards Committee Barley Subcommittee and chairs the CWB Farmer Relations Committee. Rod has received his chartered director designation from the Directors College.

WILLIAM NICHOLSON (DISTRICT 9)

Bill and his family operate a grain farm near Shoal Lake, Manitoba. Bill has a degree in agricultural engineering and has worked in the farm machinery industry. He was in his third term as an elected director in 2009-10. 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 serves as a director on his local credit union board. Bill is past chair of the CWB Strategic Issues Committee and Governance and Management Resources Committee.

BILL TOEWS (DISTRICT 10)

Bill and his wife Barbara operate Harambee Farms, a grain and special crops farm at Kane, Manitoba. Bill has a degree in agriculture, a post-graduate degree in soil science and has completed the Directors College Chartered Director Program. 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 a local credit union board. He serves on the Canadian International Grains Institute board and chairs the CWB Strategic Issues Committee.

Appointed directors

DAVID CAREFOOT

David has a strong background in agri-business. He served as the chief financial officer (CFO) for Viterra Inc., and spent 11 years with Agricore United and its predecessor company, United Grain Growers Limited, where he held the positions of CFO, vice-president corporate finance and investor relations, director of finance, and corporate controller. For the 12 years prior to this, David held a series of positions with Price Waterhouse, Chartered Accountants in Audit and Business Advisory as well as Financial Advisory Services. He is CFO of Empire Industries Ltd., a TSX Venture-listed company located in Winnipeg, Manitoba, involved in steel fabrication and the manufacturing of specialized engineered products. He holds a Bachelor of Commerce (Honours) degree 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.

GLEN FINDLAY

Glen and his wife Kay, along with son Gary and family, operate a 5,000-acre, 300-head beef farm at Shoal Lake, Manitoba. Glen holds Bachelors and Masters degrees in animal nutrition from the University of Manitoba and a Doctorate 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.

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 degree from the University of Manitoba and a chartered director designation from the Directors College. He chairs the Audit, Finance and Risk Committee and served previously as co-chair of the Governance and Management Resources Committee.

KEN MOTIUK

Ken owns and operates a 6,300-acre family farm near Mundare, Alberta, growing canola, peas and wheat. He is involved in and has investments in pork farms, feeder cattle and an ethanol plant. Ken currently serves as chair of the Alberta Credit Union Deposit Guarantee Corporation. Previously, he served as a governor of the Winnipeg Commodity Exchange, as a member of the Alberta Grain Commission and as a director of Agricore United. Ken and his wife Wendy are past recipients of the Outstanding Young Farmer award and the Alberta Century Farm award. Ken holds a Bachelor of Science degree in Agriculture from the University of Alberta and is a chartered director graduate of the Directors College.

IAN WHITE, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Ian has extensive senior management, agri-business and commodity marketing experience as a former managing director and CEO of Queensland Sugar Limited, CEO of Grainco Australia Ltd., Defiance Milling Ltd. and Queensland Cotton's U.S. operations. Ian holds a Bachelor of Economics (Honours) degree from Sydney University, 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 serves as a board member of the Canada Grains Council.

Remuneration and meeting attendance, 2009-10 crop year

BOARD OF DIRECTORS

		Remuneration			Attendance		
Director	District	Retainer	Per diems	Total	Board meetings	Committee meetings	Industry/ miscellaneous meetings
Vos, Henry	1	$ 20,000	$ 21,750	$ 41,750	8/8	16/16	12
Nielsen, Jeff	2	20,000	22,750	42,750	8/8	12/12	16
Hill, Larry[1]	3	90,833	7,250	98,083	8/8	17/17	34
Woods, Bill	4	20,000	29,000	49,000	8/8	12/12	14
Oberg, Allen[2]	5	38,333	23,750	62,083	8/8	13/13	21
Goff, Cam	6	20,000	27,500	47,500	8/8	15/15	16
Korneychuk, Kyle	7	20,000	27,000	47,000	8/8	12/12	17
Flaman, Rod	8	20,000	20,500	40,500	8/8	15/15	8
Nicholson, William	9	25,000	20,600	45,600	8/8	20/20	13
Toews, William	10	25,000	20,000	45,000	8/8	12/12	25
Carefoot, David	A	20,000	8,250	28,250	8/8	17/20	1
Findlay, Glen	A	20,000	11,500	31,500	8/8	12/12	4
Johnson, Bruce	A	27,500	9,500	37,000	7/8	13/15	1
Motiuk, Kenneth	A	20,000	16,250	36,250	8/8	15/15	6
White, Ian[3]	A	N/A	N/A	N/A	8/8	20/20	N/A
TOTAL:		**$ 386,667**	**$ 265,600**	**$ 652,267**			

Notes:

A = Appointed

[1]Board chair until June 2, 2010
[2]Board chair effective June 3, 2010
[3]Remuneration for the president and CEO is listed under Leadership Team, page 28

The board chair receives an annual fee of $105,000. Other directors are paid an annual retainer of $20,000 and per-diem allowances. Committee chairs receive a further $5,000 per committee chaired. The Audit, Finance and Risk Committee chair receives a further $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, except for board and committee chairs, who receive additional fees as listed above.

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

Total expenses for the board of directors during the 2009-10 crop year, including retainers, per diems and reimbursable expenses, were $947,081.

DIRECTOR PARTICIPATION IN PRODUCER PAYMENT OPTIONS

CWB directors are permitted to participate in two of the CWB's Producer Payment Options – Cash*Plus* for malting barley and the Early Payment Option. However, no directors participated in either of those PPO programs during the 2009-10 crop year.

DIRECTOR REPRESENTATION ON EXTERNAL BOARDS AND COMMITTEES

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 in July 2010 to serve in external capacities during the subsequent 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	Kyle Korneychuk
Canadian Federation of Agriculture Grains and Oilseeds Committee	CWB representative	Kyle Korneychuk
Canadian International Grains Institute	Board member	Bill Toews
Western Grain Standards Committee	Member, Wheat Subcommittee	Kyle Korneychuk
Western Grain Standards Committee	Member, Barley Subcommittee	Rod Flaman
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	Jeff Nielsen

CWB leadership team

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 goals, as set by its board of directors. This team is also accountable for the successful implementation of the CWB's annual and long-term plans, as well as for leading all operational areas of the organization.

During the 2009-10 crop year, Earl Geddes, Vice-President of Farmer Services, resigned to assume the position of Executive Director of the Canadian International Grains Institute.

Leadership-team compensation is set within a formal corporate compensation structure that is benchmarked to the market and approved 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.

Variable pay is an incentive for performance excellence that encourages employees to achieve results aligned with corporate priorities. Employees must achieve or exceed individual performance goals and the organization must achieve or exceed a number of corporate performance targets in order for a pay-out to occur. In a year when variable pay is not paid out due to goals and targets not being achieved, total compensation will be slightly below mid-range market compensation rates.

SUMMARY COMPENSATION TABLE, 2009-10

Salary disclosure for the top five salaries within the organization is provided in keeping with the CWB's commitment to transparency and accountability to farmers. The following table outlines annual compensation for the president and chief executive officer, chief operating officer, chief financial officer and the two other highest-paid senior officers of the company for the 2009-10 crop year. These figures reflect total compensation during the time that the individual held the position during the 2009-10 crop year.

Name	Base pay	Variable Pay*	Bonus**	Benefits***	Total
Ian White	$ 647,807	–	$ 109,449	$ 20,948	$ 778,204
Ward Weisensel	$ 297,226	$ 78,035	–	$ 47,604	$ 422,865
Brita Chell	$ 237,985	$ 63,468	–	$ 42,332	$ 343,785
Graham Paul	$ 215,075	$ 55,361	–	$ 40,161	$ 310,597
Gord Flaten[1]	$ 185,532	$ 36,498	–	$ 37,507	$ 259,538

*Based on variable pay program results for the 2009-10 crop year, paid out in December 2010.

**As per contract based on the results for the 2009-10 crop year, paid out in December 2010.

***Does not include statutory benefits (ie. EI & CPP) or MB payroll tax.

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

[1] Vice-President, Marketing and Sales

(B) DEBORAH HARRI DAVE BURROWS IAN WHITE JIM MCLANDRESS DIANE WIESENTHAL WARD WEISENSEL (F) GRAHAM PAUL BRITA CHELL

LEADERSHIP TEAM FOR 2009-10

Ian White – President and Chief Executive Officer

Dave Burrows – Vice-President, Communications & Government Relations

Brita Chell – Chief Financial Officer

Deborah Harri – Corporate Secretary

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

Jim McLandress – General Counsel

Ward Weisensel – Chief Operating Officer

Diane Wiesenthal – Vice-President, People and Organizational Services

NOTE: Earl Geddes – Vice-President, Farmer Services, resigned September 2009

Management

discussion & analysis

Responsibility

The following management discussion and analysis (MD&A) is the responsibility of management as of November 25, 2010. The CWB board of directors carries out its responsibility for the review of this disclosure, principally through its Audit, Finance and Risk (AFR) committee. The AFR committee reviews the disclosure and recommends its approval by the board of directors.

CONTENTS

Our business

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

Products

WHEAT

Western Canadian wheat is marketed to customers in about 60 countries. It enjoys an international reputation for consistency and reliability of both 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

The CWB markets quality durum wheat grown by western Canadian farmers to approximately 20 countries. Semolina is the most common product from durum milling. Semolina is primarily used in pasta and couscous, which is a staple dish in North Africa.

DESIGNATED BARLEY

About 65 per cent of Western Canada's barley acres are seeded to malting varieties. Of that, about 25 to 30 per cent meet the strict quality-control standards set for malting-barley selection. Most of the quality barley is used to make malt for beer, both domestically and internationally.

FEED BARLEY

Most feed barley from Western Canada is formulated into feed for the domestic hog, cattle and poultry industries. The CWB markets feed barley overseas when the international price structure presents opportunities to achieve good returns for farmers, relative to the domestic feed market, and attract their deliveries.

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

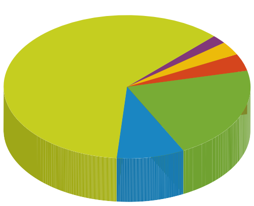
The global market for wheat, durum and barley is highly competitive. For more than 75 years, the CWB has sustained and built Western Canada's market presence and strong reputation through customer service and branding. This has successfully contributed to its role as the largest producer-controlled wheat and barley marketer in the world. All competitors are seeking ways to sustain and expand their share of the global market, particularly in premium markets.

Each year, the CWB markets between 12 and 18 million tonnes of milling wheat to customers in Canada and around the world. Major international customers vary from year to year and include Japan, Sri Lanka, Indonesia, Iran, Saudi Arabia and China. The United States is also typically a key market for Canadian milling wheat.

Together, Canada, Argentina, Australia, the European Union (EU) and the U.S. account for more than two-thirds of total wheat exports traded worldwide, while producing just under 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. Additional competitors with cost-of-production advantages, such as lower land and input prices, also continue to emerge.

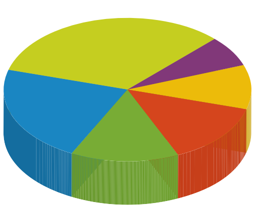
Market share of principal wheat-exporting countries

(% of world totals, 2005-09)



World wheat production

2 → Argentina
3 → Australia
4 → Canada
21 → EU-27
9 → U.S.
61 → Others

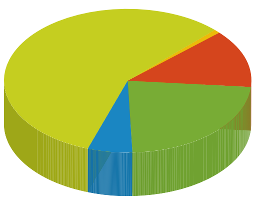


World wheat trade:
Market share of major exporters

7 → Argentina
10 → Australia
14 → Canada
14 → EU-27
22 → U.S.
33 → Others

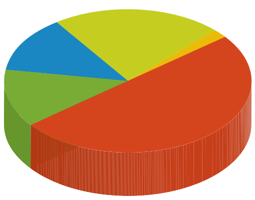
Market share of principal durum-exporting countries

(% of world totals, 2005-09)



World durum production

1 → Australia
13 → Canada
23 → EU-27
6 → U.S.
57 → Others

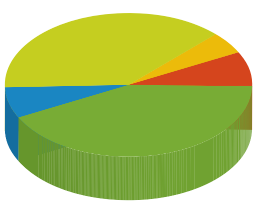


World durum trade: Market share of major exporters

2 → Australia
50 → Canada
13 → EU-27
13 → U.S.
22 → Others

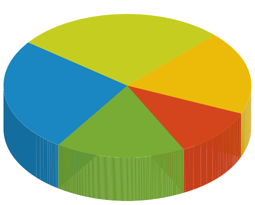
Market share of principal barley-exporting countries

(% of world totals, 2005-09)



World barley production

5 → Australia
8 → Canada
42 → EU-27
7 → Ukraine
38 → Others



World barley trade: Market share of major exporters

19 → Australia
11 → Canada
17 → EU-27
26 → Ukraine
27 → Others

A similar condition exists in the durum market. Canada typically holds approximately 50 per cent of world trade in the durum market in any given year. The EU, Canada and the U.S. are responsible for about three-quarters of the export market. However, these three regions together produce less than 43 per cent of the world's durum supply, with Canada producing less than 15 per cent.

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 200 000 to 300 000 tonnes of durum a year and is usually among the top five buyers.

In barley export markets, the main suppliers are Australia, Canada, the EU and Ukraine, which together account for nearly half of world exports. In recent years, Ukraine has been the largest exporter, followed by Australia and the EU-27. 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 mainly marketed to the malting and brewing industry in Canada and the U.S., with smaller quantities to Mexico.

Business structure

The CWB is a corporation created by the *Canadian Wheat Board Act* (the *Act*). Even though the CWB was 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, whose appointment by the government is made on the basis of a recommendation from the board of directors. 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 core 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 in cases where farmers have chosen to participate in CWB Producer Payment 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, dependant only on grade, class and protein level.

GOVERNMENT GUARANTEES

The Government of Canada guarantees CWB initial payments to farmers, CWB borrowings and certain credit sales. Guaranteed initial payments provide a floor price that protects 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 disadvantaged if buyers default on payment 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- and premium-market opportunities. This program ensures that all western Canadian farmers retain the benefits of single-desk selling while program participants pursue 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 within the single-desk structure. The PPOs available to farmers, in addition to price pooling, are:

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

FPC*Plus*: Enables farmers to lock in a fixed price for durum. 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.

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

Early Payment Option (EPO): Intended to improve farmers' options for cash flow. EPOs provide 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:

Cash*Plus*: Designed to meet the needs of western Canadian malting barley producers. It adds flexibility to pricing and establishes an upfront, guaranteed cash price that reflects market values. An additional payment is made to farmers at the end of the marketing year if surplus earnings surpass program costs, including those related to risk management.

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 defined delivery periods. There were four defined periods in 2009-10. The program was reviewed for the 2010-11 crop year, with a decision made to offer two defined periods.

Guaranteed Delivery Contracts (GDCs): Offers farmers 100-per-cent acceptance within defined delivery periods. GDCs were available in 2009-10 for Canada Western Red Winter Select wheat, Canada Western feed wheat and for Nos. 4 and 5 Canada Western Amber Durum. They were also available for CWRS that graded Nos. 2, 3 or 4 in all respects, but contained high levels of fusarium.

Guaranteed Price Contracts: Provides farmers with a defined delivery period for feed barley, along with an upfront cash price.

New-pool pricing: Enables farmers to designate grain from the current pool into the new-crop pool.

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. 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 carrying costs for the CWB, and has the potential to lower farmers' handling costs.

Wheat Storage Program (WSP): Offers western Canadian farmers contract premiums and storage payments to store their high-quality, high-protein, No.1 CWRS on-farm. It ensures a consistent supply of high-quality, high-protein wheat to satisfy the needs of farmers' premium customers.

Churchill Storage Program: Offers farmers contract premiums and storage payments for storing their Nos. 1 and 2 CWRS wheat on-farm until it is called for shipment to the Port of Churchill. 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 its success. The CWB's "People Vision" leverages talent management, strategic workforce planning, and learning and development to ensure the organization maximizes the skills and talents of its staff to achieve corporate goals and fulfill its strategic plan. One third of the workforce speaks two or more languages, enhancing its ability to maintain strong working relationships with international customers. More than 40 per cent of staff also have agricultural and farming backgrounds, with family ties to farming communities across the Prairies.

The CWB's headquarters are in Winnipeg, Manitoba. Sales satellite offices are also located in Beijing and Tokyo. An office is also maintained at the Port of Vancouver and in Ottawa. The majority of the CWB's 441 employees are based in Winnipeg. Nineteen Farm Business Representatives work in the field, providing farmers with assistance in 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.

How the financial statements capture the business

The *Act* requires the Corporation to establish a separate pool account each crop year (August 1 to July 31) for each of the crops it handles. Currently, five pool accounts are operated each year: one each for wheat, durum and designated barley, and two for feed barley. These pool accounts capture the revenues and expenses for grain 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.

Producer Payment Option (PPO) programs were established to provide farmers with more flexibility and options in pricing their grain. They were designed to operate outside the pool accounts. The CWB bears the risk of the PPO programs and therefore 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, and organic wheat and durum. The CWB bears the risk of these cash trading programs and retains a minimum benefit for risk management purposes, as a contingency against future program losses.

A contingency fund was established for certain specified purposes. Included in the contingency fund are the net surpluses or deficits of the PPO programs, as well as risk management costs of the cash trading programs. Surpluses or deficits represent the difference between program sales values and direct program expenses, including payments to farmers based on contracted values. Final results of the cash trading programs are also transferred to this fund. The contingency fund is capped at $60 million. This cap is controlled by regulation.

Since all earnings are distributed to farmers (except surpluses of the PPO and risk management costs of cash trading programs), the CWB's 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 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.

For GAAP purposes, the financial statements are presented in a combined manner. They capture all aspects of the business – pool, PPOs and cash trading. In addition, there is a separate statement of distributions to pool participants that reports 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.

In order to meet the needs of producers and in the spirit of the *Act*, the CWB provides a separate accounting of 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 the 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 of items between the statement of individual pool accounts and the GAAP financial statements relate to the point in time during which certain transactions are recognized.

	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*	• Recognition of anticipated revenue, less execution costs • Unrealized gains and losses related to recording of fair value of financial instruments • Differences in inventory valuation	

*Reconciliation of differences is reported on page 71

Our vision and strategies

The 2009-10 crop year represented the first full year of execution of the CWB's five-year 2009-14 strategic plan. As the most important stakeholders of the organization, farmers are the ultimate recipients of our services, the CWB's reason for existence and our main priority.

The strategic plan 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.

To achieve our overarching strategic goal of serving and adding value for all western Canadian farmers, we must excel in all we do and be flexible and receptive to changes that will allow us to successfully deliver on our commitments. To this end, we are concentrating on four strategic priorities, which are the "pillars" of our strategic plan:

1. **Operate efficiently and effectively:** continually improve and optimize 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. **Deliver the right services to all farmers:** clearly understand the distinct and diverse needs of the many groups of farmers we deal with and develop closer business relationships with farmers.
3. **Manage the customer base:** ensure deeper and more profitable relationships with our customers. We must explore new and innovative ways to partner with customers through initiatives that ultimately benefit farmers.
4. **Be a growing and thriving organization:** seek out and develop 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.

These strategic priorities are designed to deliver superior value to farmers. To achieve their goals, all organizations require employees who are committed to their jobs, who find their work rewarding and who are proud to be part of the organization's success. We have a highly skilled and diverse workforce, committed to a "Farmer First" culture. Management is committed to leveraging and developing the workforce because we recognize that people form the critical foundation for success.

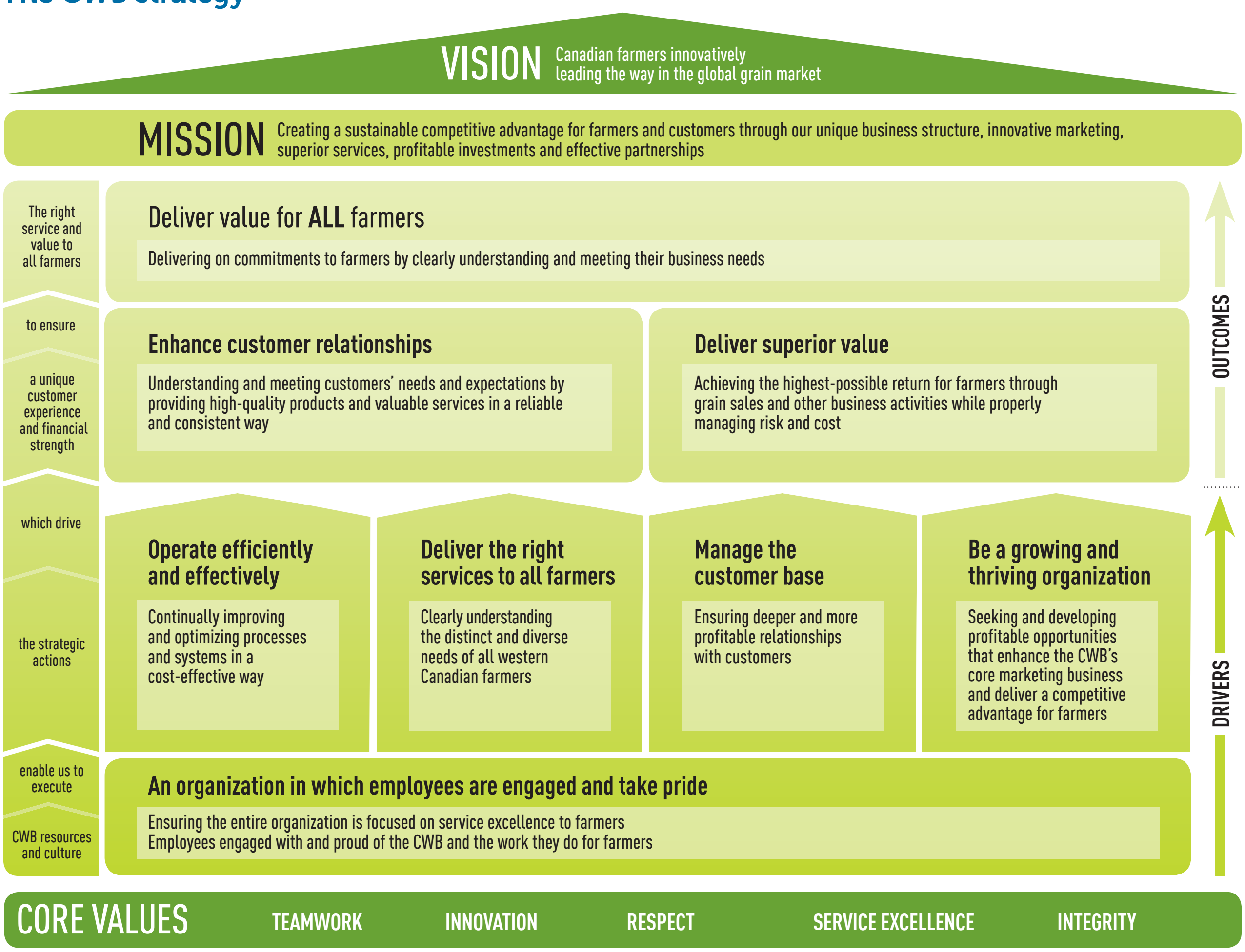
We are also focused on improvements to our processes and systems, to ensure that everything we do results in the most responsive service to farmers. We are doing this while striving for the lowest possible costs throughout the supply chain. In addition, we are managing our customer base in a way that leverages our valuable relationships and allows us to understand our customers' needs and expectations. This, in turn, will lead to deeper and more profitable relationships.

For each strategic priority, we have developed a number of specific initiatives. We are measuring our progress on these initiatives to ensure we are on track to deliver beneficial results. By focusing on the right strategic objectives, we aim to achieve our goal of delivering value to farmers.

We recognize the challenges and work ahead on our journey to achieving the CWB's goals. This is why we are focused on optimizing performance while increasing transparency and accountability in everything we do. We have established clear performance objectives and measures to drive the type of behaviour and actions required. We know that by working together with a strong vision and clear strategy, we are well-placed to accomplish our goals.

As we look towards the future, we are committed to our "Farmer First" principles, to promoting a strong CWB brand and to maintaining focus on adding value to all western Canadian farmers.

The CWB strategy



CWB performance highlights

Highlights of the CWB's performance in 2009-10, measured in terms of its achievements and efforts under the four strategic priority areas, are outlined below. Performance related to the CWB's core grain-marketing function is detailed in sections of this report that describe the results of the pools, cash trading and PPO programs.

1. Operate efficiently and effectively

Continually improve and optimize processes and systems in a cost-effective way

OBJECTIVES

- Improve systems and processes to ensure the CWB meets its service commitments and offers the right services to farmers and customers.
- Establish a performance management system and processes to ensure the CWB is well-positioned to gauge progress and ensure the achievement of the strategic plan over the next five years.
- Provide efficient, cost-effective movement of grain throughout the supply chain.
- Improve financial risk management policies and practices.
- Provide responsive service to farmers and customers in a quick and effective manner.
- Develop the talent of the CWB's workforce in order to achieve the organization's strategic objectives.

ACHIEVEMENTS

Streamlined business processes:

- Continued to implement wide-ranging system improvements created by a major Supply Chain Transformation (SCT) initiative, which has moved into its sustainment phase. This multi-year project has focused on streamlining CWB information technology and business processes used to manage the grain-marketing supply chain (which facilitates sale and delivery of grain from farm to customer). The CWB has begun to realize expected benefits associated with the new integrated system, which creates efficiencies and enables the organization to expand its service offerings to farmers, while improving the flow of information throughout the entire chain.
- Launched a comprehensive review of CWB business processes in order to take full advantage of the system improvements created by the SCT initiative described above. The review identified various strategies and options to modernize all processes with an eye to increasing efficiency and effectiveness, immediately and into the future.

Used foreign exchange options to protect the wheat and durum pools from Canadian dollar strength.

Performance management:

- Worked to enhance and improve key corporate performance measures and indicators as fair and meaningful tools for assessing CWB performance and providing accountability to farmers. This is intended to assist the CWB and its board of directors in driving performance and tracking the successful implementation of the strategic plan throughout the organization.
- Examined service accuracy and timeliness of operational programs that are focused on farmers' business needs (e.g. payments, statements, contracts) and established relevant performance measures to help ensure CWB transactions meet producers' needs and expectations.
- Implemented a set of measures to provide continual improvement throughout the grain supply chain by tracking performance on both quality and service supplied to international customers. This will enhance the CWB's ability to execute business to millers and maltsters around the world.

Grain transportation:

- Generated direct savings of $40.5 million through commercial contracts with shippers and tendering for grain handling.
- Shipped 529 000 tonnes of wheat through the Port of Churchill, the second-highest volume since 1977. The CWB remains committed to use of this port to ensure it remains a viable export alternative for Prairie farmers, as it saves farmers money through reduced rail-freight costs and the avoidance of St. Lawrence Seaway charges.
- Initiated a program to publicly recognize the best grain handlers (on the Prairies and at ports) in order to encourage high performance and establish model practices that benefit farmers in shipping their grain.

Risk management:

- Developed a new corporate price-risk model that will enable the CWB to better understand, quantify and manage risk in the face of ongoing market volatility. Phase I measured the risk of discretionary trading relative to the target pricing pace of the pools, in terms of both commodities and foreign exchange. Phase II is measuring risk associated with the Pool Return Outlook. Phase III is measuring risk associated with activities backstopped by the contingency fund.
- Used foreign exchange options to protect the wheat and durum pools from Canadian dollar strength. In 2009-10, options hedging added net revenue of $16 million to the wheat pool and $4.1 million to the durum pool.

Human resource management:

- Implemented a number of initiatives designed to help the CWB accurately assess the workforce skill sets that are needed to achieve the goals of its strategic plan.
- Aligned the CWB's model for employee learning and development with the strategic plan, as a means of ensuring that a pool of talent is built that can successfully meet current and future needs.
- Launched a comprehensive public campaign focused on "branding" the CWB as a modern and desirable employer among potential recruits and existing staff.
- Selected a new human resource technology system that can improve business effectiveness, support enhanced reporting requirements, and provide the ability to better measure individual, departmental and organizational performance.

2. Deliver the right services to all farmers

Clearly understand the diverse needs of all western Canadian farmers

OBJECTIVES

- Enhance CWB-farmer business relationships by providing more opportunities for farmers to interact directly with the CWB on business dealings and program design.
- Align the CWB's culture with the "Farmer First" strategic direction of the organization.
- Meet farmer business needs by focusing efforts on delivering a slate of cost-effective and easy-to-use programs and services that farmers want and expect.

ACHIEVEMENTS

Flexible producer programs:

- Introduced a set of significant changes to delivery policies and programs. This included a revamped GrainFlo program (which creates flexible farmer delivery opportunities), the introduction of storage payments for Series contracts, a move to handle specialty wheat classes primarily through Guaranteed Delivery Contracts and changes to storage payments under the Churchill and Wheat Storage Programs.
- Reviewed and enhanced PPOs to enable farmers to lock in a futures value up to a year before harvest, using the CWB Basis Price Contract. This enables farmers to take earlier advantage of any market rallies and factor it into their seeding plans for the next year.

A focus on farmers:

- Developed and implemented a "Farmer First" action plan to ensure the CWB workforce culture, structure and values are aligned with the farmer-focused direction outlined in the Corporation's strategic plan.
- Developed a formal farmer-engagement strategy that establishes an enhanced approach to involving farmers in discussions about how the CWB functions and seeking their input. Initiatives will build on the existing core set of farmer-focused activities and events such as Farmer Forums, Prairie to Port tours, Combine to Customer programs and GrowerLink events, local meetings and trade shows events.

Trade policy advocacy:

- Implemented a comprehensive trade strategy focused on World Trade Organization negotiations, aimed at securing western Canadian farmers' right to choose their marketing structure, while ensuring greater market access and reducing trade-distorting domestic support. This included a comprehensive public relations campaign, as well as advocacy activities in Canada, the U.S. and abroad.
- Supported the federal government's efforts to establish bilateral agreements with key customer countries and advocated for free-trade agreements (FTAs) with markets where western Canadian farmers could face a competitive disadvantage. In 2010, Canada ratified an FTA with Colombia which, when implemented, will guarantee Canadian wheat and barley duty-free access to a growing Latin American market. The CWB continues to advocate for a FTA with Morocco, a key customer of western Canadian durum.

Transportation advocacy:

- Continued to actively support and advocate for an efficient rail service system for farmers. This included:
  - arguing a case before the Federal Court of Appeal for an improved level of service from the railways in grain transportation
  - working with farmers to pursue legislative changes that would ensure the retention of producer-car loading sites
- Continued to advocate for a full review of railway costs for grain transportation to ensure farmers' freight rates are being appropriately set under existing regulation.

3. Manage the customer base

Ensure deeper and more profitable relationships with customers

OBJECTIVES

- Enhance customers' long-term relationships and overall experience with the CWB, ensuring consistent and high-quality products and valuable services are delivered.
- Enhance the western Canadian wheat and barley brand in national and international markets to showcase our high-value products, differentiate from competitors and increase value to farmers.

ACHIEVEMENTS

Serve customer needs:

- Conducted, in cooperation with the Canadian International Grains Institute, a comprehensive competitive analysis of the quality and value attributes of the Canada Western Red Spring wheat class. This information aids strategic marketing and communicating value to customers.
- Worked with the Canadian Grain Commission to successfully revise the Canada Western Red Winter wheat class to reflect higher-quality functional attributes that customers expect from a milling wheat. Changes include variety limitations and the tightening of key quality grade-standard components.
- Signed memorandums of agreement with China's largest grain importer for 500 000 tonnes of wheat and at least 500 000 tonnes of malting barley over three years. The agreements were built on a 50-year history of sales and cooperation between Prairie farmers and their valued Chinese partners, an anniversary celebrated in 2009-10.

Branding:

- Launched, in cooperation with Moderna Alimentos of Ecuador, a new promotional campaign to 5,200 artisan bakers in that country, promoting the quality of flour made with Canadian wheat. This included weekly communications about the superior technical baking attributes of premium flours made from Canadian wheat.
- Promoted western Canadian wheat during the 2010 Winter Olympics through a focus on Primo Ltd.'s GrainWise pasta products, which contain high-quality durum wheat from the Prairies.
- Expanded western Canadian farmers' alliance with Robin Hood flour by launching national consumer promotion campaigns in both 2009 and 2010. The campaigns included recipes using Robin Hood flour made from Canadian wheat, consumer information and product coupons.

4. Be a growing and thriving organization

Seek and develop profitable opportunities that enhance the CWB's core marketing business and deliver a competitive advantage for farmers

OBJECTIVES

- Build on existing and establish new strategic relationships that will add value to farmers.
- Expand into other value-added services for farmers that reduce farmer costs, generate revenue and/or increase level of service.

ACHIEVEMENTS

- Opened the first CWB laboratory for testing and grading Prairie grain. More than 19,000 tests were completed at the Saskatoon lab. Testing volume was 45 per cent above expectations for the first year, while maintaining a 24-hour turnaround time for over 99 per cent of samples. The lab saves farmers money by reducing costs and providing benefits that are unavailable from third parties, such as test prioritization and timelier results.
- Introduced a new online WeatherFarm™ centre, designed exclusively for Prairie farmers, providing free agronomic and weather information. Launched in December 2009, the number of registered users had grown to almost 10,000 by the end of 2010. The online centre is fed by an expanding network of 800 on-farm weather stations, launched by the CWB in 2007 to assist farmers and serve its market-intelligence needs.
- Launched an initiative to upgrade the existing fleet of rail hopper cars. This project will result in expanded hopper car capacity, new gates, enforced side sills and upgraded brakes. The net benefit to farmers is estimated at $34 million dollars.

Measuring success

The CWB strives to assess its performance against a set of fair and meaningful measures, in the interests of accountability to its farmer stakeholders. A specific initiative of the new five-year strategic plan (2009-2014), approved by the CWB board of directors, was to review and enhance existing corporate performance measures to ensure they adequately fulfill this important role and align with overall strategic plan objectives.

Significant progress towards this goal was achieved in the 2009-10 crop year, including creation of a new performance measure that reflects the Corporation's focus on striving to effectively manage costs. In November 2010, the CWB board of directors reviewed a number of the corporate performance measures results for 2009-10. Three key indicators of CWB performance results against targets are reported below. Assessment and enhancement of performance measures continues into the 2010-11 crop year and will be reflected in future annual reports.

Measure	Targets for 2009-10	Results for 2009-10
Sales price comparison	Wheat – C$4.72; US$4.50 Durum – C$6.32; US$6.00 Designated barley – C$9.44; US$9.00	Wheat – C$4.90; US$4.66 Durum – C$11.16; US$10.73 Designated barley – C$13.71; US$13.06
Contribution from other revenue sources	$49.34 million	$49.05 million
Cost management	$84.3 million	$85.0 million

SALES PRICE COMPARISON

This measure reflects the net per-tonne price spread realized by the CWB over the course of the crop year, compared to its competitors' values for wheat, durum and barley sales. The net price spread is calculated for every sale made by the CWB, based on its best knowledge of the relevant competition for those sales. The CWB's primary objective is to achieve the highest-possible returns to farmers over the entire sales volume. Once the CWB has decided how best to allocate volumes across markets, the objective becomes maximizing the net price spread on each sale. The targets for wheat, durum and designated barley in 2009-10 were set in November 2009, based on sales already completed during the first three months of the crop year and additional sales projected to be made to July 31, 2010. The additional sales forecast for the balance of the crop year was based on forward projections, including market prices, customer demand, farmer deliveries and currency relationships.

Wheat: In 2009-10, the world wheat crop was the second largest in history, with production exceeding consumption. With larger crops of generally good quality in exporting countries and total world trade projected to decrease year on year, sellers were expected to be aggressive in all markets. In order to achieve sales volume targets, the CWB anticipated that its pricing would need to become more aggressive relative to competitors than in the previous year. Based on this expectation, the target for the wheat sales price comparison was set slightly narrower than the results achieved in 2008-09.

Over the entire selling period, premiums on wheat sales were very close to forecasted levels. Market conditions began to improve late in the crop year, with increased premiums obtained in most regions. These were positive for overall results and the final crop year results for wheat were slightly higher than the November target.

Durum: Prices collapsed in the fall of 2009 under pressure from a North American crop that was much larger than expected, along with weak import demand from North African and European buyers. Given the good crops in major importing regions and more-than-ample supplies in major exporting countries, prices were not expected to recover over the marketing year. Competition to cover global customer demand was expected to be fierce. With a large Canadian crop, the CWB's marketing objective was to aggressively pursue demand that provided reasonable returns and as much delivery opportunity as possible to western Canadian farmers. Given market conditions and the need to push the sales volume higher, the price premiums achievable on Canadian durum were expected to be pressured and the durum target was set considerably lower than the level achieved in 2008-09.

As expected, import demand from traditional durum markets remained weak. Durum prices continued to be pressured until very late in the marketing year when the overall wheat and feed grain complex began to strengthen, mainly on drought concerns in Russia and Ukraine. The CWB was able to extract higher-than-forecast premiums over relevant competition through much of the year. This was particularly true late in the crop year as Moroccan and European buyers locked in new-crop supplies. The CWB actively pushed the durum price structure higher, positively impacting the average premiums achieved over the year. Sales price premiums achieved compared to the relevant competition were above the target levels, although below the level achieved the previous year.

Designated barley: In 2009, the European and Canadian malting barley crops were both large and of good quality. The Australian crop had yet to be harvested when CWB targets were established. However, the Australian crop at that time was in good shape and the CWB anticipated a year of very aggressive competition, with excess supply chasing limited import demand in offshore markets. With a large, high-quality crop, the CWB's overall marketing objective for designated barley was to maximize sales that could be made at reasonable premiums to domestic feed alternatives. Under anticipated market conditions, this strategy meant a trade-off between price and volume, and sales premiums over the competition were expected to be under pressure. Targets were set lower than the level achieved in 2008-09.

The CWB achieved better-than-forecast price premiums. There were a number of factors that contributed to the positive results, most notably a poorer-than-expected Australian barley crop.

CONTRIBUTION FROM OTHER REVENUE SOURCES

This measure reflects the level of revenue that the CWB was able to achieve from sources other than grain sales in areas such as tendering for grain handling, railway and terminal handling agreements, discretionary foreign exchange trading, and net interest earnings. While 2009-10 targets were exceeded for some revenue sources, others were negatively impacted by the strong Canadian dollar, increased financing costs and rising commodity markets.

COST MANAGEMENT

This measure, new for 2009-10, reflects efforts by the CWB to carefully manage and control its administrative costs, while still ensuring the Corporation has sufficient resources to adequately serve farmers through expert grain marketing, innovative delivery and pricing programs, and initiatives that further their grain-marketing needs (e.g. product branding, transportation advocacy, weather/market intelligence and market development). Measurable expenses for this purpose are restricted to those under CWB management's control and therefore do not include costs incurred by the CWB board of directors or items such as employee pension valuation gains (a cost reduction). However, this measure does include costs of depreciation and amortization, which are related to capital decisions made in previous years. This figure is expected to begin to be reduced over the next few years.

In setting this target, it was decided to strive for limiting costs to 1.25 per cent under the actual budget for the 2009-10 year. Although administrative expenses came in under budget, they were slightly over the target by 0.8 per cent.

Current year results

Factors that shaped the 2009-10 business conditions

WORLD PRODUCTION

Wheat

Above-average yields allowed world wheat production to rise to the second-highest level on record in 2009-10. The International Grains Council estimated world wheat production for 2009-10 at 677 million tonnes, a drop of only nine million tonnes from the 2008-09 crop. Consumption was boosted by the larger supplies and lower prices, but ending stocks still increased by 27 million tonnes to 195 million tonnes. At the end of the 2009-10 marketing year, stocks held by the world's eight major wheat exporters increased by six million tonnes to 70 million tonnes. Canada's 2009-10 ending stocks increased to 7.8 million tonnes, up 1.3 million tonnes from the previous year. Prices decreased during the year, as markets continued to move downward from the peak of late February 2008. Wheat prices dropped significantly from August through September as supplies pressured the market. Increased prices from October through January were followed by seasonal lows in early June. The wheat market was quite volatile during the spring months, with a strong rally beginning in late July, in response to a significant Russian drought.

Durum

World durum production in 2009-10 increased to 41 million tonnes, up almost two million tonnes from 2008-09. Durum production in the major exporting countries (Canada, United States and the European Union) increased by 1.4 million tonnes from 2008-09. The size of the world durum trade remained almost unchanged at 7.2 million tonnes. Ending stocks of the major durum exporters increased to 4.5 million tonnes, up one million tonnes from 2008-09. Durum prices continued to be pressured during most of the crop year as increased production and large stocks increased supplies. For the first time in recent history, durum in the United States traded at a discount to high-protein spring wheat during most of the year.

Barley

World barley production in 2009-10 was 149.2 million tonnes, nearly six million tonnes lower than in 2008-09. Canada's 2009-10 barley production decreased to 9.5 million tonnes, 2.3 million tonnes lower than the previous year. Barley prices were pressured throughout the year due to plentiful supplies and a large U.S. corn crop. Prices started to rebound in July as concerns about 2010-11 production prospects in the Black Sea increased.

HIGH-QUALITY CROP IN CANADA

The quality of the 2009-10 crop was excellent, with most of the wheat and durum crops falling into the top two grades. Malting barley selections were high, due to excellent harvest weather. Mostly dry and warm conditions across the entire Prairie region during September led to rapid harvest progress, ending fears that overall quality would suffer from challenging weather conditions experienced earlier in the growing season.

The spring of 2009 saw lower seeded acres than the previous year for both winter- and spring-wheat crops, due to drought and increased competition from oilseeds and special crops. Poor soil-moisture conditions that were present for most of the western half of the Prairies appeared to be the largest threat to crop production. The early spring was characterized by very cool temperatures, and early seeded crops took two to three weeks to germinate. Dry conditions in central Alberta, north eastern Alberta and west central Saskatchewan also slowed planting progress as farmers waited for some starting moisture for the crop. The dry trend in the western growing areas remained persistent through most of the growing season.

For the rest of the Prairies, precipitation during June was close to normal or above normal, but temperatures were well below normal. Precipitation amounts increased during July, which helped boost crop prospects in most regions. However, cool temperatures in August slowed crop development to the point where frost at an average date would have caused considerable yield and quality losses. Crops matured in the southern growing areas in late August and the harvest of winter and spring cereal crops was underway by the last week of the month.

Temperatures were extremely warm during September, which helped push first-frost dates three to four weeks past the long-term averages. September had the distinction of more days above 30 degrees C than occurred in July and August combined. The warm temperatures allowed late-developing crops to mature without significant quality damage. Poor weather in October delayed the completion of harvest, but warm, dry weather in November allowed most regions to complete the harvest by the end of the month.

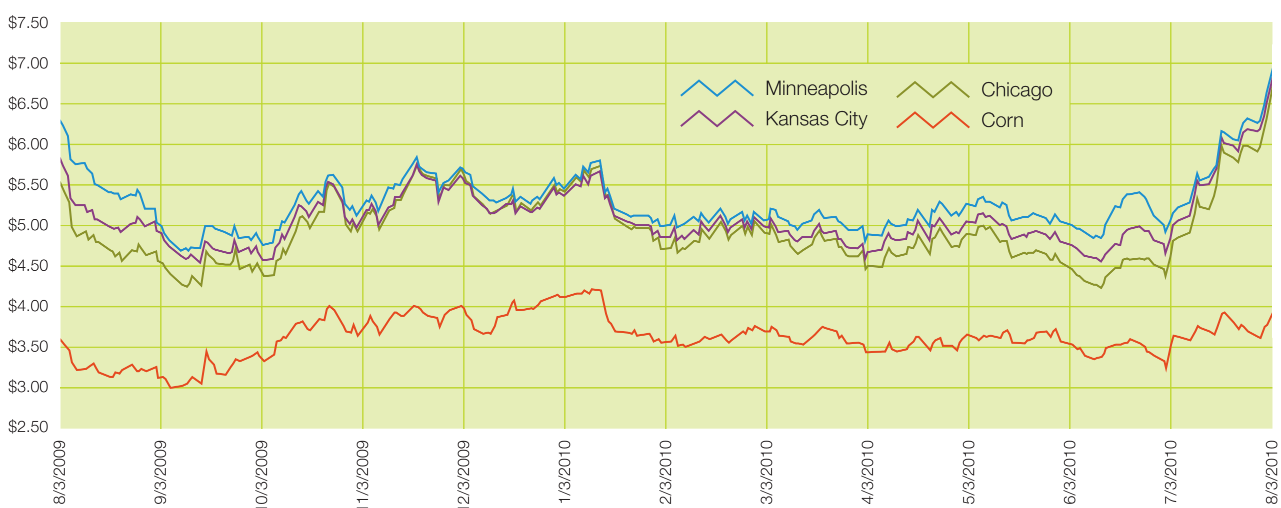
Canada's wheat production in 2009-10 was 26.6 million tonnes, well above the five-year average.

COMMODITY MARKETS

Commodity markets declined steadily through August, but rallied from September through December due to concerns about the late U.S. corn crop and slow harvest. Wheat futures followed this trend until January, when a bearish U.S. Department of Agriculture report pushed the market lower. Prices remained extremely volatile on a day-to-day basis, trending lower from January to March. Prices rallied until May, when fundamentals began to push prices lower. Prices continued to fall into June until planting issues in Western Canada and dryness in Russia and Ukraine pushed markets higher.

During the 2009-10 crop year, Chicago wheat traded at a high of US $6.61 per bushel at the end of July 2010, and at a low of US $4.28 per bushel at the beginning of June 2010. Kansas City wheat futures traded at a high of US $6.74 per bushel at the end of July 2010, and a low of US $4.48 per bushel at the beginning of June, 2010. Minneapolis wheat futures traded in a slightly different pattern, with a high of US $6.87 per bushel at the end of July 2010 and a low of US $4.71 per bushel at the beginning of September 2009.

U.S. futures market values, 2009-10 ($ in USD)



Canada's wheat production in 2009-10 was 26.6 million tonnes, well above the five-year average.

The price of corn followed a different pattern and traded at a crop-year low of US $3.00 per bushel in early September, 2009 then hit a high of US $4.22 per bushel in mid-January 2010. The chart on the preceding page shows the values of Chicago, Kansas City and Minneapolis wheat throughout the 2009-10 crop year. The durum wheat market remained under pressure for the entire year as large global supplies and limited import demand were the dominant driving forces. Durum prices in the United States traded at a significant discount to spring wheat during the entire year – the first year on record that this had ever happened.

STRONGER CANADIAN DOLLAR

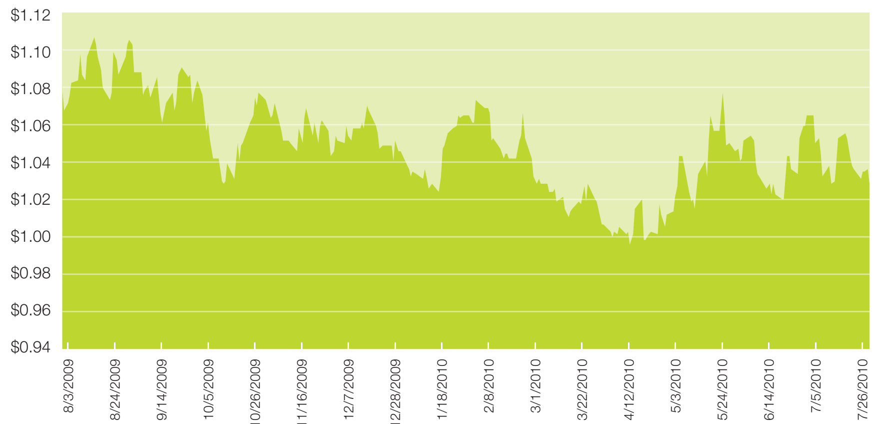
The last half of 2009 saw the Canadian dollar respond to a growing world economy, positive Canadian economic data and rising commodity prices by gradually strengthening throughout the period. In the first few months of 2010, markets began to focus on the imminent withdrawal of fiscal and monetary stimulus measures from global economies and, anticipating potentially slower economic growth, the Canadian dollar began to weaken. In anticipation of higher Canadian interest rates, the Canadian dollar was briefly trading stronger-than-parity with the U.S. dollar in April 2010. However, the Canadian dollar also responded to weaker commodity prices, and overall concerns regarding global economic growth, trading weaker-than-parity with the U.S. dollar throughout most of the first seven months of 2010.

Because most grain sold by the CWB is priced directly in U.S. dollars, the relatively stronger Canadian dollar in 2009-10 versus the year prior had a negative impact on pool returns. Hedging strategies implemented by the CWB mitigated the negative impact of the stronger Canadian dollar on the pools. The chart below illustrates the Canadian dollar value versus the U.S. dollar over the 2009-10 crop year.

FINANCIAL MARKET CONDITIONS

While financial market conditions improved in 2009-10, short-term money markets continued to reflect the impact of events in previous years. Based on the experience of the 2007 credit crunch, corporations and financial institutions continued to maintain high levels of liquidity throughout 2009-10. This development, coupled with low official interest rates designed to stimulate the economy out of the 2008-09 recession, maintained interest rates at near-record low levels for very high-quality money-market investments for most of the year. Because CWB debt is guaranteed by the Government of Canada, farmers benefitted from these low rates.

Bank of Canada CAD/USD Noon Rate



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 each of the individual pools for wheat, durum and designated barley accounts individually. Below is an account of the combined pool operations including feed barley A and feed barley B, excluding results for PPOs and cash trading.

For the year ended July 31 (dollar amounts in 000s)	2010 Total	2009 Total
STATEMENT OF POOL OPERATIONS		
Receipts (tonnes)	**20 461 812**	**22 655 170**
Revenue	**$ 5,037,702**	**$ 7,524,111**
Direct costs		
Freight	292,919	298,598
Terminal handling	166,895	189,023
Inventory storage	76,161	86,877
Country inventory financing	2,814	5,967
Inventory adjustments	32,342	(15,349)
Grain purchases	19,719	22,480
Other direct expenses	43,105	46,874
Total direct costs	**633,955**	**634,470**
Net revenue from operations	**4,403,747**	**6,889,641**
Other income	189,402	239,072
Other expenses	(534)	–
Net interest earnings	9,603	11,104
Administrative expenses	(66,350)	(64,220)
Depreciation and amortization expense	(17,085)	(13,839)
Grain industry organizations	(2,250)	(1,970)
Total pool earnings	**4,516,533**	**7,059,788**
Deduct:		
Sales returns to Producer Payment Options program	278,103	626,278
Earnings for distribution	**$ 4,238,430**	**$ 6,433,510**
STATEMENT OF DISTRIBUTION		
Receipts (tonnes)		
Total receipts	**20 461 812**	**22 655 170**
Less: Producer Payment Options program receipts	**1 143 987**	**2 116 064**
Wheat Storage Program and Churchill Storage Program receipts	**67 858**	**10 189**
Receipts for pool distributions	**19 249 967**	**20 528 916**
Earnings distributed to pool participants		
Initial payments on delivery	$ 3,498,298	$ 4,979,692
Adjustment payments	210,735	664,860
Interim payments	244,877	293,221
Final payments	284,189	494,349
Total earnings distributed to pool participants	4,238,099	6,432,122
Transferred to Contingency fund		
Undistributed earnings	331	1,388
Total distribution	**$ 4,238,430**	**$ 6,433,510**

The wheat pool

For the year ended July 31 (dollar amounts in 000s)	2010		2009	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**15 603 332**		**15 931 542**	
Revenue	**$ 3,905,003**	**$ 250.27**	**$ 5,049,913**	**$ 316.97**
Direct costs				
Freight	196,498	12.59	180,940	11.36
Terminal handling	128,150	8.21	147,738	9.27
Inventory storage	54,755	3.51	49,234	3.09
Country inventory financing	2,324	0.15	4,244	0.27
Inventory adjustments	27,650	1.77	(12,766)	(0.80)
Grain purchases	12,190	0.78	16,694	1.05
Other direct expenses	27,864	1.79	31,587	1.98
Total direct costs	**449,431**	**28.80**	**417,671**	**26.22**
Net revenue from operations	**3,455,572**	**221.47**	**4,632,242**	**290.75**
Other income	133,125	8.53	155,660	9.77
Other expenses	(407)	(0.03)	–	–
Net interest earnings	7,311	0.47	7,820	0.49
Administrative expenses	(50,588)	(3.24)	(45,156)	(2.84)
Depreciation and amortization expense	(13,028)	(0.83)	(9,731)	(0.61)
Grain industry organizations	(1,646)	(0.11)	(1,359)	(0.09)
Total pool earnings	**3,530,339**	**226.26**	**4,739,476**	**297.47**
Deduct:				
Sales returns to Producer Payment Options program	273,953	243.83	553,925	293.22
Earnings for distribution	**$ 3,256,386**	**$ 225.95**	**$ 4,185,551**	**$ 298.29**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**15 603 332**		**15 931 542**	
Less: Producer Payment Options program receipts	**1 123 559**		**1 889 133**	
Wheat Storage Program and Churchill Storage Program receipts	**67 858**		**10 189**	
Receipts for pool distributions	**14 411 915**		**14 032 219**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 2,631,842	$ 182.62	$ 3,242,963	$ 231.12
Adjustment payments	194,016	13.46	381,192	27.17
Interim payments	230,591	16.00	214,768	15.31
Final payments	199,937	13.87	346,628	24.69
Total earnings distributed to pool participants	3,256,386	225.95	4,185,551	298.29
Transferred to contingency fund				
Undistributed earnings	–	–	–	–
Total distribution	**$ 3,256,386**	**$ 225.95**	**$ 4,185,551**	**$ 298.29**

THE STRATEGY

Western Canada's wheat production (excluding durum) in 2009 was 19.3 million tonnes, down approximately 700 000 tonnes from 2008. Due to exceptional harvest weather in the fall of 2009, the harvested quality of the wheat crop was above average, with 78 per cent of the crop grading Nos. 1 or 2 on the quality scale. Average protein levels in Canada Western Red Spring (CWRS) wheat were below the five-year average, at 13.2 per cent. The combination of an excellent grade pattern and below-average protein led the CWB to focus on selling into mid-protein markets that were competitive with grain from the United States.

Lower-than-average protein in North American spring wheat crops supported the value of high-protein wheat. As such, a major focus of the CWB's marketing program was to first satisfy demand for key high-protein markets (e.g. Europe and Japan). With poor harvest quality in Australia, the CWB was also able to increase its market penetration into southeast Asia, with strong sales programs to Bangladesh, Indonesia and Sri Lanka.

PRODUCER RECEIPTS

Producer receipts of all non-durum wheat totalled 15.6 million tonnes, a small decrease from 15.9 million tonnes the previous year. Deliveries were accepted into the wheat pool until August 31, 2010. Keeping the pool open beyond July 31 ensures that deliveries can be receipted into the pool and producers can fulfill their contract requirements regardless of difficulties arising from factors such as transportation and weather.

A delivery contract is a binding agreement between a farmer and the CWB. It specifies the class, grade and quantity of grain a farmer intends to deliver. Farmers have three opportunities to sign wheat delivery contracts: Series A by September 30 for Canada Western Red Winter (CWRW) wheat and by October 31 for all other classes, Series B by January 31, and Series C by May 31. The CWB announces acceptance levels after it has assessed the amount of grain offered under all contracts and the market demand for each type of wheat.

There was a range of acceptance levels for various classes of wheat in the 2009-10 wheat series contracts. The unaccepted portion of a contract is "rolled over" into the next series.

2009-10 contract acceptance

	Acceptance	% accepted
Series A	CWRS	80%
	CPSR, CPSW, CWES, CWRW, CWSWS, CWHWS	100%
Series B	Acceptance for all wheat	100%
Series C	Acceptance for all wheat	100%

CWRS and CWRW were the first products called for delivery, followed by CPSR and CWSWS 10 days later. Most delivery contracts were terminated later in the crop year in an effort to encourage deliveries of these classes into the system to meet sales commitments. Deliveries of Canada Western feed wheat were secured through one Guaranteed Delivery Contract (GDC), which matched farmer deliveries to specific sales.

GrainFlo contracts gave producers the opportunity to contract CWRS into one of four delivery periods. A total of 547 325 tonnes of CWRS was delivered through GrainFlo contracts.

In 2009-10, fusarium was an issue in Manitoba and parts of eastern Saskatchewan. The CWB offered a series of GDCs that enabled producers to deliver Nos. 2, 3 and 4 CWRS containing higher-than-normal levels of fusarium and still receive the appropriate initial payment, less an additional discount for fusarium levels above the grade allowance. The CWB's fusarium program was offered throughout the year as a way to successfully manage blending requirements.

The Wheat Storage Program offered producers an opportunity to receive premiums and storage payments for high-protein No. 1 CWRS, saved from the 2008-09 crop year for delivery in 2009-10. This program was designed to help ensure supplies of top-quality wheat would be available for premium customers.

The Churchill Storage Program offered farmers premiums and storage payments to help ensure stocks of CWRS were available at freight-favourable locations for the sales program conducted through the Port of Churchill. Deliveries through this program were called at the end of the 2009-10 crop year.

2009-10 delivery calls

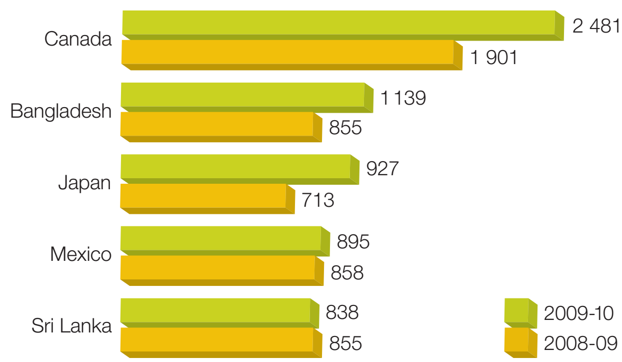
Class called	Called by	Call volume
Series A CPSW	September	100%
Series A CWES	November	100%
Series A CPSR	January	100%
Series A CWRS	February	80%
Series A CWRW	February	100%
Series A CWSWS	April	100%
Series B CWRS	April	100%
Series B CPSR	April	100%
Series B CPSW	April	100%
Series B CWES	April	100%
Series B CWSWS	April	100%
Series C – all classes	June	100%

REVENUE

The domestic market was the CWB's single largest wheat market, accounting for just under 2.5 million tonnes of shipments, up from 1.9 million tonnes in 2008-09. The second-largest wheat customer in 2009-10 was Bangladesh, with shipments of more than 1.1 million tonnes. Bangladesh has been a growing market for Canadian wheat, where below-average protein levels were well-suited to its milling needs. In 2009-10, Japan was the third-largest buyer for Canadian wheat, with 927 000 tonnes of shipments, up from 713 000 tonnes the year before. Mexico was the fourth-largest customer, purchasing just under 900 000 tonnes. Sri Lanka was the fifth-largest customer, purchasing 838 000 tonnes. Canadian supplies of mid-protein CWRS, CPSR and CWRW serve these markets.

Largest-volume wheat customers

(000s tonnes)



Total revenue in the wheat pool was $3.9 billion on 15.6 million tonnes of receipts, representing average gross revenue of $250.27 per tonne (2009 – $316.97), down by $66.70 from the previous year's returns, which were the second-highest on record. The decrease in overall revenue reflects the fact that world prices fell from record-high levels of the previous two years, driven largely by two successive years of near-record world wheat production. Lower-than-average protein, particularly in the CWRS class, meant that a much larger proportion of the CWB sales program was carried out in direct competition with U.S. Hard Red Winter wheat and other medium-protein wheat competitors. When measured in U.S. dollar terms, world wheat prices (while down considerably from recent years) remained above levels seen prior to 2007.

The final pool return for No.1 CWRS with 13.5 per cent protein (net of all costs) was $236.80 per tonne in-store Vancouver/ St. Lawrence, compared to $311.36 per tonne a year earlier. Due to strong demand and limited supplies for high-protein North American milling wheat, the protein spread between 11.5 per cent and 13.5 per cent increased to $31.89 per tonne from $18.03 per tonne one year before. The final pool returns for No. 3 CWRS and No. 2 CPSR were $187.27 and $182.59 per tonne respectively, compared to $271.44 and $260.00 per tonne in 2008-09.

Direct costs increased by $2.58 per tonne. Higher ocean-freight costs and inventory adjustments were the main factors. Due to its destinations, grain movement to customers resulted in higher ocean freight costs, while blending promotions by grain companies contributed to an increase in inventory adjustments.

Net revenue from operations was $221.47 per tonne, down by $69.28 from the previous year.

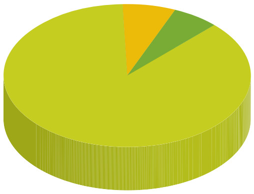
Other income of $8.53 per tonne (a decrease of $1.24 per tonne from the previous year) relates to the prior year's inclusion of a $16.2-million transfer ($1.02 per tonne) from the CWB contingency fund back to the wheat pool. This related to the repayment of a previous transfer from the pool account to the contingency fund.

DISTRIBUTION OF EARNINGS

Average sales proceeds available for distribution decreased $71.21 per tonne from the previous year to $226.26 per tonne, for a total of $3.5 billion. Of this, $3.3 billion was returned to pool participants. Of this amount, 87 per cent was approved by May 27, 2010 for distribution in the form of initial and adjustment payments. A further seven per cent was distributed as an interim payment on October 19, 2010, with the balance distributed as the final payment.

Approximately $274 million of sales returns was paid from the wheat pool to the Producer Payment Option (PPO) programs, representing the pool return on the specific grades and classes of wheat delivered under Fixed and Basis Price Contracts, FlexPro and Early Payment Options. The PPO programs, in turn, paid participating farmers at their respective contract prices. Due to decreased farmer participation in these optional programs, as well as the lower price structure, the 2009-10 sales returns paid to the PPO programs were $280 million less than the previous year.

Earnings distributed to farmers



87% → **Initial and adjustment payments**

7% → **Interim payments**

6% → **Final payments**

The durum pool

For the year ended July 31 (dollar amounts in 000s)	**2010** Total	**2010** Per tonne	2009 Total	2009 Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**3 413 522**		**4 281 394**	
Revenue	**$ 812,433**	**$ 238.00**	**$ 1,728,092**	**$ 403.63**
Direct costs				
Freight	72,577	21.26	105,501	24.64
Terminal handling	30,741	9.01	35,375	8.26
Inventory storage	11,809	3.46	17,501	4.09
Country inventory financing	402	0.12	855	0.20
Inventory adjustments	4,843	1.42	813	0.19
Grain purchases	5,598	1.64	4,836	1.13
Other direct expenses	8,577	2.51	10,488	2.45
Total direct costs	**134,547**	**39.42**	**175,369**	**40.96**
Net revenue from operations	**677,886**	**198.58**	**1,552,723**	**362.67**
Other income	22,114	6.48	31,499	7.36
Other expenses	(89)	(0.03)	–	–
Net interest earnings	923	0.27	573	0.13
Administrative expenses	(11,074)	(3.24)	(12,135)	(2.84)
Depreciation and amortization expense	(2,850)	(0.83)	(2,615)	(0.61)
Grain industry organizations	(360)	(0.11)	(357)	(0.08)
Total pool earnings	**686,550**	**201.12**	**1,569,688**	**366.63**
Deduct:				
Sales returns to Producer Payment Options program	809	197.24	26,995	362.15
Earnings for distribution	**$ 685,741**	**$ 201.13**	**$ 1,542,693**	**$ 366.72**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**3 413 522**		**4 281 394**	
Less: Producer Payment Options program receipts	**4 103**		**74 540**	
Receipts for pool distributions	**3 409 419**		**4 206 854**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 618,720	$ 181.47	$ 1,126,574	$ 267.80
Adjustment payments	–	–	238,518	56.70
Interim payments	–	–	62,643	14.89
Final payments	67,021	19.66	114,958	27.33
Total earnings distributed to pool participants	685,741	201.13	1,542,693	366.72
Transferred to contingency fund				
Undistributed earnings	–	–	–	–
Total distribution	**$ 685,741**	**$ 201.13**	**$ 1,542,693**	**$ 366.72**

THE STRATEGY

For the second year in a row, durum production in Canada was well above the 10-year average of 4.5 million tonnes. Production in 2009 was 5.4 million tonnes, slightly below the 2008 level of 5.5 million tonnes. These two consecutive years of strong production meant that Canada held approximately 7.3 million tonnes of durum stocks at the beginning of the 2009 marketing campaign. Beneficial harvest conditions late in the fall led to a high proportion of high-quality durum, with Nos. 1 and 2 Canada Western Amber Durum (CWAD) as the predominant grades to market. When comparing total Canadian durum stocks with the International Grains Council's October 2009 estimate of anticipated world bulk milling durum trade of 6.8 million tonnes, it was clear that it would not be possible to market all of the western Canadian durum potentially available to the CWB in the 2009 pool. With this in mind, a primary goal in setting the marketing strategy was to maximize market share in traditional durum importing markets, while pursuing non-traditional durum demand to increase overall sales opportunities and off-farm movement for Canadian durum.

The Mediterranean basin region is the primary consumption area for the world's durum production and North African countries are the major durum importers in most years. In 2009, growing conditions in this region were excellent, with strong domestic production that reduced these countries' need for imports from Canada and other suppliers. Ample production in Europe (albeit with some quality concerns), in the United States and in Mexico meant that Canada faced strong competition for durum import demand.

While U.S. domestic durum supplies were more than ample in 2009, there is a segment of American durum millers who value the supply reliability, consistency and quality of Canadian durum. These customers were again an important part of the CWB's 2009-10 marketing program.

Customer demand in the European Union (EU) is always important to the CWB durum marketing program, so capturing this demand was again a major focus in 2009-10. As both a customer and a competitor, the EU was a volatile participant in the durum market. At the beginning of the crop year, Canadian durum faced a high tariff to enter the European market. The tariff was subsequently removed, but it slowed the CWB's sales pace into the EU. Later in the year, the euro weakened, discouraging U.S. dollar-denominated durum imports, leading European millers to increase their focus on domestically produced durum. In markets where the CWB competed with European durum exports, the low euro factored into lower export prices, at times creating major impacts in terms of aggressive competition with Canadian durum into key markets.

The impact of weak import demand and aggressive competitor activity was most evident in the first part of the CWB's marketing year, which saw North American durum prices collapse to historically wide discounts to spring wheat. With strong farmer deliveries at the end of the 2008-09 crop year, carry-in supplies of western Canadian durum in commercial facilities were relatively high. Together with weaker demand, this meant new-crop supplies did not move quickly off the farm and into export channels.

PRODUCER RECEIPTS

Producer receipts of durum wheat totalled 3.4 million tonnes in 2009-10, a decrease from 4.3 million tonnes the previous year. Abundant world supplies, reduced demand in major importing countries and strong international competition diminished export sales opportunities for much of the marketing year. Given reduced international price levels from the previous year, 2009-10 saw lower-than-expected farmer deliveries against Series delivery contracts, and an increase in the number of farmers who chose to deliver 2009-10 durum into the 2010-11 pool. These were additional factors contributing to a smaller pool size. Deliveries were accepted into the durum pool up until August 31, 2010. Keeping the pool open beyond July 31 ensures that deliveries can be receipted into the pool and producers can fulfill their contract requirements regardless of difficulties arising from factors such as transportation or weather.

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. Farmers have two opportunities to sign up durum delivery contracts: Series A by October 31 and Series B by March 31.

The CWB announces acceptance levels after it has assessed the amount of grain offered under all contracts and the market demand for that grain. Durum acceptance varied by contract series and market potential.

2009-10 contract acceptance

	Acceptance	% accepted
Series A	Acceptance for all durum	40%
Series B	Acceptance for all durum	20%

Delivery calls for CWAD were evenly spaced throughout the crop year, reflecting a consistent sales plan. Strong contract sign-up and lower acceptance levels kept call percentages relatively low. Deliveries were terminated in the middle of the year to encourage full delivery compliance. Nos. 4 and 5 CWAD were sourced through one Guaranteed Delivery Contract (GDC), which matched farmer deliveries to specific sales.

GrainFlo contracts gave producers an opportunity to contract CWAD into one of four delivery periods. A total of 183 946 tonnes of CWAD were delivered through GrainFlo contracts.

2009-10 delivery calls

Class called	Call period	Call volume
Series A – all grades	December	40%
Series B – all grades	April	20%

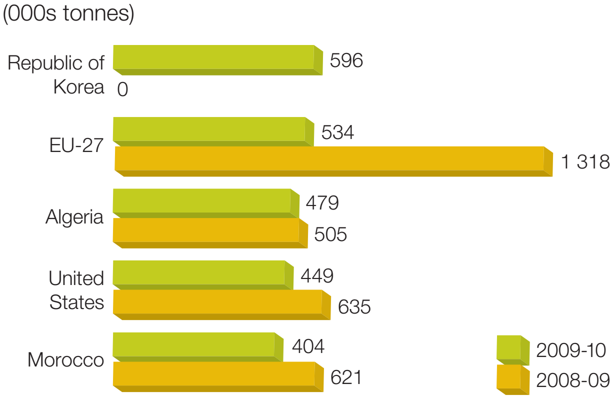
REVENUE

The EU remained the largest traditional milling-durum market for Canadian durum in 2009-10, albeit at lower volumes than 2008-09, when a large sales volume of 1.3 million tonnes was executed to the EU. During the 2009-10 year, 534 000 tonnes of Canadian durum were shipped into the EU. European demand for durum imports was reduced in 2009-10 due to availability of better-quality European durum and a weaker euro, which made U.S. dollar-denominated imports relatively more expensive. Sales to the U.S. were also down year-over-year to just under 449 000 tonnes in 2009-10, compared to 635 000 tonnes the year before. The CWB continued to participate in its traditional durum markets, selling approximately 479 000 tonnes into Algeria, 404 000 tonnes into Morocco and 246 000 tonnes to the Canadian domestic durum millers. Sales volumes to Morocco and Algeria were both down from 2008-09 due to large domestic durum production in these countries. Sales to the domestic Canadian milling industry were down from the prior year's total of 309 000 tonnes.

Due to large durum stocks throughout the world, including very large Canadian supplies (more than seven million tonnes), the CWB was forced to look beyond its traditional durum markets in order to increase durum sales. To do this, the CWB took advantage of sales opportunities into the lower-quality South Korean market, selling 596 000 tonnes. This allowed the CWB to access additional demand where a combination of relatively low internal freight values and favourable returns when compared to milling quality durum sales allowed the CWB to sell without unduly affecting durum pool returns from other markets.

Largest-volume durum customers

(000s tonnes)



Gross revenues in the durum pool amounted to $812 million on 3.4 million tonnes of receipts for an average of $238 per tonne, a decrease of $165.63 per tonne to a level approximating longer-term durum values. This was due to price declines caused by continued large world durum production in both importing and exporting countries.

The final pool return for No. 1 CWAD with 13.0 per cent protein was $205.65 per tonne in-store Vancouver/St. Lawrence, compared to returns in 2008-09 of $375.14 per tonne. The final pool return for No. 3 CWAD was $172.62 per tonne versus $334.67 tonne in 2008-09.

Direct costs decreased by $1.54 per tonne over the prior year. A higher proportion of durum moved through the West Coast due to sales destinations, resulting in lower freight costs compared to East Coast shipments. This was somewhat offset by a slight increase in West Coast terminal handling costs and by blending promotions undertaken by the grain companies.

Other income of $6.48 per tonne represented a decrease of $0.88 per tonne over the prior year. This decrease relates mainly to recovery of charges deducted by the Corporation's agents. Recovery of freight changes 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. As well, the previous year had included a $1.6-million transfer ($0.38 per tonne) from the contingency fund to the durum pool, related to the repayment of a previous transfer to the contingency fund. Somewhat offsetting these decreases were increases in pool-transfer fees, as many producers opted to switch their durum deliveries into the following crop year.

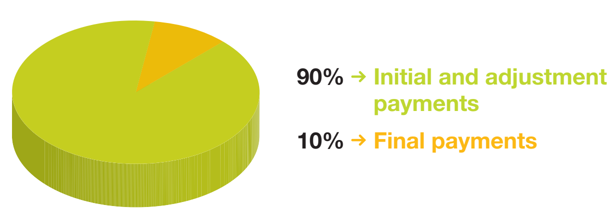
Net revenue from operations was $198.58 per tonne, down $164.09 from the prior year.

DISTRIBUTION OF EARNINGS

Average sales proceeds available for distribution decreased by $165.59 per tonne from the previous year to $201.13. Of the $687 million available for distribution, $686 million was returned to pool participants. Of this amount, 90 per cent was distributed in the form of initial payments.

For producer receipts delivered under the Producer Payment Option (PPOs), $809,000 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 Fixed and Basis Price Contracts. The PPOs, in turn, paid farmers at their respective contract prices.

Earnings distributed to farmers



The designated barley pool

For the year ended July 31 (dollar amounts in 000s)	2010 Total	2010 Per tonne	2009 Total	2009 Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**1 444 958**		**2 411 357**	
Revenue	**$ 320,266**	**$ 221.64**	**$ 738,352**	**$ 306.20**
Direct costs				
Freight	23,844	16.50	12,143	5.04
Terminal handling	8,004	5.54	5,562	2.31
Inventory storage	9,597	6.64	20,004	8.30
Country inventory financing	88	0.06	862	0.36
Inventory adjustments	(151)	(0.10)	(3,410)	(1.41)
Grain purchases	1,931	1.34	640	0.27
Other direct expenses	6,783	4.69	4,265	1.77
Total direct costs	**50,096**	**34.67**	**40,066**	**16.64**
Net revenue from operations	**270,170**	**186.97**	**698,286**	**289.56**
Other income	34,163	23.64	51,326	21.29
Other expenses	(38)	(0.03)	–	–
Net interest earnings	1,157	0.80	2,358	0.97
Administrative expenses	(4,688)	(3.24)	(6,834)	(2.84)
Depreciation and amortization expense	(1,207)	(0.83)	(1,473)	(0.61)
Grain industry organizations	(244)	(0.17)	(252)	(0.10)
Total pool earnings	**299,313**	**207.14**	**743,411**	**308.27**
Deduct:				
Sales returns to Producer Payment Options program	3,341	204.63	42,773	308.91
Earnings for distribution	**$ 295,972**	**$ 207.17**	**$ 700,638**	**$ 308.26**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**1 444 958**		**2 411 357**	
Less: Producer Payment Options program receipts	**16 325**		**138 464**	
Receipts for pool distributions	**1 428 633**		**2 272 893**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 247,736	$ 173.41	$ 607,624	$ 267.34
Adjustment payments	16,719	11.70	45,150	19.86
Interim payments	14,286	10.00	15,810	6.96
Final payments	17,231	12.06	32,054	14.10
Total earnings distributed to pool participants	295,972	207.17	700,638	308.26
Transferred to contingency fund				
Undistributed earnings	–	–	–	–
Total distribution	**$ 295,972**	**$ 207.17**	**$ 700,638**	**$ 308.26**

THE STRATEGY

Following the CWB's record-high malting barley marketing program in 2008-09, many customers (including those in the domestic malting industry) were holding high stock levels at the beginning of the 2009 marketing year. The 2009-10 malting barley marketing program continued where the previous year left off, characterized by ample supplies and limited demand growth. The good quality and availability of the European crop put the EU in a position to set the international market for offshore sales, including high-volume Chinese business. Lingering effects of the global economic downturn also had a direct impact on the malting barley market, as beer consumption in Europe and North America declined from previous years, with several maltsters and brewers reporting disappointing sales. A large Australian barley crop was affected by harvest rains, mitigating its impact on malting barley prices throughout the spring of 2010.

Early in the selling period, designated barley sales were made through the CWB's Cash*Plus* program to allow producers an opportunity to lock in prices for their malting barley prior to harvest. Producer sign-up for the pre-harvest cash program was large. In total, approximately 370 000 tonnes of Cash*Plus* sales were made.

With adequate supplies of malting-quality barley and with price pressure from Europe and Australia throughout the selling period, the CWB needed to monitor the amount of selected barley in order to match supply against sales opportunities that could be settled at reasonable premiums over domestic feed alternatives. Allowing excessive barley to be selected in an over-supplied market would have forced adoption of a more aggressive pricing strategy. Such an approach, in all likelihood, would have pushed down the price structure for all Canadian malting barley sales, while adding little value in terms of sales volume. In other words, this would have reduced pool returns to producers with negligible positive impact on their selection opportunities.

PRODUCER RECEIPTS

The size of the designated barley pool, at 1.4 million tonnes, was down significantly from 2008-09, when 2.4 million tonnes were marketed through this pool. Lower offshore demand due to large American and European crops limited sales opportunities. Combining pool receipts with malting barley sold through the Cash*Plus* program, total designated barley sales reached 1.8 million tonnes during the 2009-10 marketing year.

A delayed summer growing season increased the risk of downgrading in the barley crop but beneficial weather through the harvest period resulted in a good-quality barley crop overall.

Deliveries into the designated barley pool were completed by August 31, 2010. Allowing the pool to remain open beyond July 31 ensures that deliveries can be receipted into the pool and producers can fulfill their contract requirements regardless of difficulties arising from factors such as transportation and weather.

REVENUE

Malting barley sales to the domestic market in 2009-10 were just under 675 000 tonnes, down from over one million tonnes sold in the 2008-09 year. The year-on-year differential was caused, in part, by large maltster barley inventories from 2008-09 carried into the next crop year, as well as the later harvest slowing purchases.

For bulk barley exports, China was again the largest market for Canadian designated barley, with purchases of over 539 000 tonnes. China has continued to experience increased beer consumption and its demand for Canadian malting barley rebounded from 2008-09 volumes of 354 000 tonnes. China is a very price-sensitive market, so one reason that Chinese demand was higher was because lower international prices encouraged maltsters to use imported barley instead of lower-quality Chinese barley.

Japan was the CWB's third-largest bulk customer for pool-sourced designated barley, with purchases of just over 75 000 tonnes, down slightly from 82 000 tonnes in 2008-09. The CWB's fourth- and fifth-largest customers for pooled designated barley were from South America, with Colombia purchasing 57 000 tonnes, down from 69 000 the year before, and Peru importing 43 000 tonnes, up from 12 000 in 2008-09. South American countries were an area of demand growth for sales in 2009.

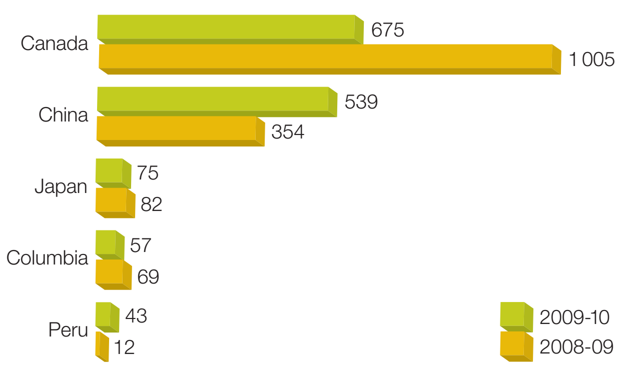
The U.S. market remained important for Canadian malting barley, but U.S. bulk buyers purchased their requirements in 2009-10 through the Cash*Plus* program. Bulk barley sales to the U.S. totalled 155 000 tonnes in 2009-10. Two years of excellent-quality barley crops in the U.S. limited its demand for imports from Canada.

Gross returns in the designated barley pool were $320 million on 1.4 million tonnes of receipts, down from $418 million on 2.4 million tonnes of receipts the previous year. This translated into average gross revenue of $221.64 per tonne, versus $306.20 per tonne in 2008-09.

The final pool return for Select Two-Row barley in-store Vancouver/St. Lawrence was $208.42 per tonne, compared to $314.05 per tonne the year before. The final pool return for Select Six-Row barley was $190.64 per tonne, compared to $294.33 per tonne in 2008-09. The spread between Select Two-Row and Select Six-Row barley narrowed to $17.78 per tonne from $19.72 per tonne the previous year, reflecting the relative value of the two products in the market.

Largest-volume designated barley customers

(000s tonnes)



Direct costs increased by $18.03 per tonne. Freight and terminal handling costs were the main contributors as a greater percentage of the pool moved through terminals and onto ocean vessels. Other direct costs increased due to demand for lower-protein stocks, resulting in a higher premium rate being paid to producers.

The net result was that net revenue from operations was $186.97 per tonne, a decrease of $102.59 per tonne from the prior year.

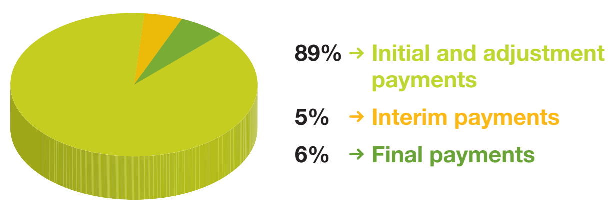
Other income increased by $2.35 per tonne to $23.64 per tonne. Recovery of freight charges increased because a higher proportion of sales was made basis a country position. This recovery is included in "other income".

DISTRIBUTION OF EARNINGS

Average sales proceeds available for distribution decreased $101.14 per tonne from 2008-09 to $207.14, for a total of $299 million. Of this amount, $296 million was returned to pool participants. Eighty-nine per cent was approved by March 11, 2010 for distribution in the form of initial and adjustment payments. A further five per cent was distributed as an interim payment on October 19, 2010.

Just over $3 million in sales returns were paid from the designated barley pool to the Producer Payment Options (PPOs), representing the return on the specific grades and classes of designated barley delivered under Fixed Price and Basis Price Contracts. The PPOs, in turn, paid farmers at their respective contract prices.

Earnings distributed to farmers



THE FEED BARLEY POOLS

During the course of the crop year, the domestic feed market continued to be strong and farmers focused on delivering feed barley to this market, resulting in no deliveries to the CWB feed barley pools. The CWB did see opportunities where offshore sales for feed barley could be made at values above the domestic feed market. Because of the relatively small volumes of demand, and due to the volatility of prices, these opportunities were covered by the CWB through the use of cash buying.

Some activity in the barley pools was related to net interest earnings of $212,000 and to differences between estimates and actual results of $119,000. Because this was unrelated to farmer deliveries during 2009-10 and consistent with the treatment of these credits and charges in previous pool years, a total of $331,000 was transferred to the contingency fund. (See Note 20 – Contingency Fund on pages 97 and 98).

Indirect income and expenses

NET INTEREST EARNINGS

Interest revenues and expenses are allocated throughout the year based on the value of underlying interest-bearing assets and liabilities in each of the pools and programs, with any residual amounts allocated to the pools monthly on the basis of relative tonnage.

Allocations for the current and prior year are as follows:

(dollar amounts in 000s)	2010	2009
Wheat pool	$ 7,311	$ 7,820
Durum pool	923	573
Designated barley pool	1,157	2,358
Barley pool A	115	313
Barley pool B	97	40
Combined pool	9,603	11,104
Cash trading	332	742
PPO programs	15	715
Earnings for future allocation	33	(10,828)
Net interest earnings	**$ 9,983**	**$ 1,733**

Net interest earnings of $10.0 million were comprised of gross interest earnings of $18.1 million minus gross interest expenses of $8.1 million. The interest allocated to earnings for future allocation relates to the fair-value change of financial assets and liabilities on which interest is earned or incurred.

(dollar amounts in 000s)	2010	2009
Interest on credit sales		
Revenue on credit sales receivable	$ 5,218	$ 21,843
Expense on borrowings used to finance credit sales receivables	831	12,423
Net interest on credit sales	**4,387**	9,420
Interest revenue (expense) on pool account balances	**1,077**	**(6,233)**
Other interest		
Revenue	7,483	10,865
Expense	3,344	2,948
Net "other interest" revenue	**4,139**	7,917
Total net interest earnings	**$ 9,603**	**$ 11,104**

Net interest of $9.6 million was earned primarily on amounts owed to the CWB on credit grain sales made under the federal government Credit Grain Sales Program (CGSP) and 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 the rates that the CWB receives from credit customers. As a result, the CWB earns an interest spread. In 2009-10, 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 net interest on pool account balances increased, resulting in net interest earnings in 2009-10 (compared to net interest expenses in 2008-09) due to decreases in interest rates and smaller outstanding notional balances, particularly on U.S. dollar debt, as compared to the prior year. The decrease in rates magnifies the decrease in loan principal, resulting in a reduction of interest on debt in excess of the reduction of interest on investments. This, in turn, resulted in a positive net interest result on pool account balances.

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 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 $1.6 million, or 2.4 per cent, to $70.5 million (compared to $68.9 million in 2008-09). A key driver was professional fees, mainly due to the requirements of a major business process modernization initiative, designed to create long-term efficiencies and cost savings by streamlining CWB processes. This initiative aligns with the Corporation's long-term strategic plan, which envisions improved operational effectiveness and efficiency, as well as enhanced risk-management activities. Branding and advertising expenditures increased due to the need for enhanced advocacy in support of farmer-focused trade policy, and increased international product branding activity. In addition, there was a decrease in recoveries of funds from the Government of Canada for administering its cash-advance programs due to the CWB system improvements which have created greater cost savings and efficiencies in that role.

The reporting of administrative expenses in the 2009-10 annual report no longer includes costs of depreciation and amortization related to previously capitalized expenditures. Depreciation and amortization expenses are now stated separately in conformity with commonly accepted corporate financial reporting practices. In 2009-10, depreciation and amortization increased due to a major CWB systems improvement initiative, referred to as Supply Chain Transformation. This multi-year project is focused on streamlining CWB information technology and business processes used to manage the grain-marketing supply chain.

GRAIN INDUSTRY ORGANIZATIONS

Research and development have high value for Prairie grain farmers. Whether the outcome is improving farmers' income and operational success, increasing sales in high-value markets or developing relationships with new customers, research and development are key to maintaining a competitive edge. That is why the CWB is committed to investing in research that yields new varieties of disease-resistant wheat and barley, as well as those with specific end-use qualities that customers demand. The CWB's strategic partnerships with centres such the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC) help ensure the CWB maintains and builds on its reputation for unparalleled customer service.

The CWB continued to provide support for organizations that benefit western Canadian grain farmers, both directly and indirectly. During 2009-10, the CWB contributed $2.3 million to the operations of 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)	2010	2009
FIXED / BASIS / FLEXPRO CONTRACTS		
Receipts (tonnes)	**949 224**	**1 808 020**
Revenue		
Sales returns paid to program	$ 217,984	$ 530,348
Net hedging activity	34,832	94,189
Pricing damages	720	6,151
Net interest	–	737
	253,536	**631,425**
Expense		
Contracted amounts paid to producers	234,370	585,406
Net interest	24	–
Administrative expenses	1,604	1,881
Depreciation and amortization expenses	55	108
	236,053	**587,395**
Net surplus on program operations	17,483	44,030
Transfer to pool participants	–	16,328
Net program surplus, to contingency fund	**$ 17,483**	**$ 27,702**

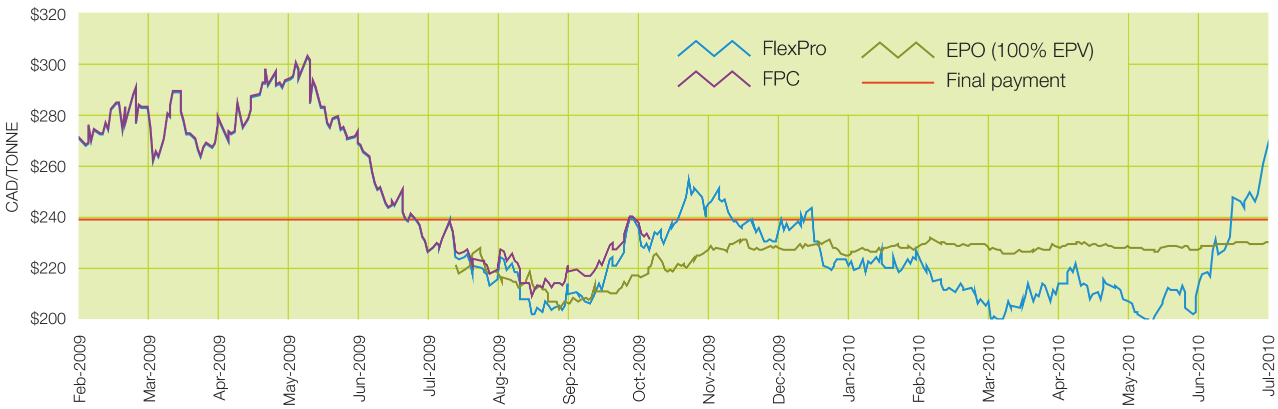
FIXED PRICE CONTRACT (FPC)
BASIS PRICE CONTRACT (BPC)
FLEXPRO

Tonnage contracted to the 2009-10 FPC, BPC and FlexPro programs was less than the previous year. The total delivered under this year's program was 949 000 tonnes, compared to the previous year's total of 1.8 million tonnes. One of the reasons for reduced participation relates to lower commodity-market prices, which declined through much of the 2009-10 crop year. World wheat stocks were expected to be burdensome across all wheat classes during the year. International prices were significantly below prices in the previous two crop years, as world wheat production was expected to be the third-largest on record. 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 / FLEXPRO

(dollar amounts in 000s)	2009-10				2008-09			
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 FPC & BPC	7,117	4,293	935 082	$ 17,469	18,683	9,459	1 562 390	$ 35,766
Wheat FlexPro	103	93	10 814	$ 80	2,011	1,735	182 970	$ 3,436
Wheat DPC	–	–	–	$ –	–	–	–	$ 70
Durum FPC*Plus*	20	18	3 328	$ (66)	273	198	62 660	$ 4,768
Feed barley A	–	–	–	$ –	–	–	–	$ (10)
Total	**7,240**	**4,404**	**949 224**	**$ 17,483**	**20,967**	**11,392**	**1 808 020**	**$ 44,030**

2009-10 FPC, EPO(epv), and FlexPro Prices for CWRS



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 $217 million for wheat and $648,000 for durum. When other revenues (net hedging results and pricing damages) and program risk and expenses (including interest and administration expenses) are accounted for, minus payments to farmers, the programs generated a net surplus of $17 million.

The total positive result is largely attributable to wheat. At the beginning of 2009, wheat prices were at lower levels than they were at the start of the previous year (although still very strong from a historical perspective). The spring price rally in 2009 was largely related to excess moisture conditions in the U.S. Corn Belt, which resulted in delayed seeding, and to a cool spring in the North American spring-wheat producing area that delayed crop development. Prices then eased throughout the summer of 2009, trading in a long sideways trend between August 2009 and June 2010, as ample worldwide supplies pressured prices.

Sign-up and pricing under these programs occurred early in the year when international prices were weak relative to U.S. futures prices, causing weak basis levels. Risks and necessary levels of protection associated with the PPO prices early in the year are much higher. As the year progressed, the market improved and basis levels achieved on customer sales were higher than the levels early in the year, when much of the program sign-up occurred.

The 2009-10 durum program was suspended on September 24, 2009. Sign-up that occurred prior to the suspension was limited and resulted in a small negative impact to the contingency fund.

EARLY PAYMENT OPTION (EPO)

For the year ended July 31 (dollar amounts in 000s)	2010	2009
EPO		
Receipts (tonnes)	**194 763**	**308 044**
Revenue		
Sales returns paid to program	$ 43,648	$ 92,440
Program discount	672	4,641
Net hedging activity	–	1,917
Pricing damages	–	394
Net interest	39	–
	44,359	**99,392**
Expense		
Contracted amounts paid to producers	43,859	93,942
Net hedging activity	332	–
Pricing damages	11	–
Net interest	–	22
Administrative expenses	452	784
Depreciation and amortization expenses	15	24
	44,669	**94,772**
Net (deficit) surplus on program operations	(310)	4,620
Transfer to pool participants	–	1,672
Net program (deficit) surplus, to contingency fund	**$ (310)**	**$ 2,948**

In 2009-10, there were 195 000 tonnes delivered to the EPO program, compared to 308 000 tonnes in 2008-09. See the table below for details on number of contracts, producers, and tonnes delivered.

The total EPO discount charged to farmers for risk, time value of money and program administration costs was $672,000. The decrease in program discount from the previous year resulted from farmers choosing to commit a higher percentage of tonnage to a 90-per-cent EPO versus 2008-09, when a larger percentage of farmers chose the 100-per-cent EPO, which draws a higher risk discount. After accounting for payments to producers, pricing damages charged for non-delivery, net interest expenses, net hedging results and administration, a net deficit of $310,000 was generated.

EPO

(dollar amounts in 000s)	2009-10				2008-09			
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	912	603	177 663	$ (294)	870	663	143 773	$ 3,342
Durum	2	2	775	$ (2)	63	58	11 880	$ 440
Designated barley	49	44	16 325	$ (1)	620	518	138 464	$ 841
Feed barley A	–	–	–	$ (12)	21	23	2 444	$ (1)
Feed barley B	–	–	–	$ (1)	116	113	11 483	$ (2)
Total	**963**	**649**	**194 763**	**$ (310)**	**1,690**	**1,375**	**308 044**	**$ 4,620**

Cash trading

FINANCIAL RESULTS

Statement of cash trading operations

For the year ended July 31 (dollar amounts in 000s)	2010		2009	
	Total	Per tonne	Total	Per tonne
Receipts (tonnes)	**593 802**		**561 105**	
Revenue	**$ 161,761**	**$ 272.42**	**$ 155,307**	**$ 276.79**
Direct costs				
Purchase cost	155,604	262.05	151,770	270.48
Freight	1,139	1.92	2,366	4.22
Terminal handling	3,370	5.68	2,100	3.74
Inventory storage	2,592	4.37	2,420	4.31
Country inventory financing	31	0.05	279	0.50
Inventory adjustments	39	0.07	(241)	(0.43)
Other direct expenses	169	0.28	(1,037)	(1.85)
Total direct costs	**162,944**	**274.42**	**157,657**	**280.97**
Net loss from operations	**(1,183)**	**(2.00)**	**(2,350)**	**(4.18)**
Other income	10,379	17.48	10,800	19.25
Net interest earnings	332	0.56	742	1.32
Administrative expenses	(1,881)	(3.17)	(1,661)	(2.95)
Depreciation and amortization expenses	(436)	(0.73)	(216)	(0.39)
Net surplus on program operations	**7,211**	**12.14**	**7,315**	**13.05**
Cash surplus distributions	**6,107**	**10.29**	**5,177**	**9.23**
Net program surplus, to contingency fund	**$ 1,104**	**$ 1.85**	**$ 2,138**	**$ 3.82**

CASH TRADING

(dollar amounts in 000s)	2010			2009		
Program statistics	**Tonnes**	**Surplus, net of risk management cost**	**Surplus distribution**	**Tonnes**	**Surplus, net of risk management (deficit)**	**Surplus distribution**
Organic program	4 272	$ –	$ –	2 295	$ 4	$ 4
Cash*Plus*	369 051	6,107	6,107	401 360	5,173	$ 5,173
Feed barley program	152 502	47	NA	147 261	1,174	NA
Pre-delivery Top Up	–	(47)	NA	–	36	NA
Wheat Storage Program	7 702	–	NA	10 189	–	NA
Churchill Storage Program	60 275	–	NA	–	–	NA
Total	**593 802**	**$ 6,107**	**$ 6,107**	**561 105**	**$ 6,387**	**$ 5,177**

NA = Not applicable

The CWB operated three cash trading accounts during the 2009-10 marketing year: 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 farmers.

The CWB recognizes that 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 costs that are 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 to be part of the cost of the CWB operating the cash trading program.

FEED BARLEY CASH TRADING

In 2009-10, over 152 000 tonnes of feed barley was marketed through various cash-related approaches, in line with the 147 000 tonnes traded in 2008-09. The 2009 cash trading program earned a net trading margin of approximately $47,000, down significantly from almost $1.2 million achieved in 2008-09. The lower trading margin was due to the relationship between offshore barley prices and Canadian domestic barley prices in 2009-10. For a cash trade of feed barley to break even, the sales price must be relative to the CWB's offshore competition. It must also be able to support a guaranteed price to the Canadian farmer that is high enough to provide a superior return to their domestic feed sales alternatives. In 2009-10, the relationship between achievable offshore price levels and the western Canadian domestic market meant that each trade was made with a very narrow trading margin.

As was the case in 2008-09, the majority of the 2009-10 feed barley cash sales were to Japan, with the remaining smaller quantities sold to Saudi Arabia.

DESIGNATED BARLEY CASH TRADING (CASH*PLUS*)

The Cash*Plus* program purchased a total of 369 000 tonnes of designated barley from producers in 2009-10, compared to 401 000 tonnes the previous year. The program enables farmers to lock in an upfront price for their barley. Farmers who use the Cash*Plus* program receive a guaranteed price at time of delivery and may receive an additional payment at the end of the trading year if the CWB's Cash*Plus* trading margin is positive. For 2009-10, the upfront guaranteed producer price was equal to an average of 94 per cent of the revenue earned from sales. An additional payment of $16.55 per tonne was made to producers in the program.

In 2009-10, a large proportion of Cash*Plus* transactions were made prior to harvest, which enabled producers to lock in a return for a portion of their crop and allowed customers to guarantee supply. In addition to the Cash*Plus* sales prior to harvest, the CWB offered a limited number of other Cash*Plus* sales opportunities later in the marketing year.

The 2009-10 Cash*Plus* program represented sales values achieved of $316.70 per tonne, down from $352.80 per tonne the previous year, less purchases of $292.74 per tonne, down from $333.68 per tonne in 2008-09. After deducting program costs of $7.42 per tonne (up from $6.26 per tonne in 2008-09) a net surplus of $16.55 per tonne was distributed to producers who participated in the program.

ORGANIC CASH TRADING

The 2009-10 crop year was the third year of the CWB's organic cash trading program. The program bought 4 272 tonnes of organic grain (compared to 2 295 in 2008-09), paying farmers, on average, $458 per tonne at the farm gate. While the CWB increased the volume purchased over the previous year, the average price to farmers was lower than the $650 per tonne paid in 2008-09, reflecting reduced demand in the organic sector during that time period, as well as lower prices in the overall wheat price structure.

WHEAT STORAGE PROGRAM (WSP)

The WSP offers western Canadian farmers a contract premium and storage payments (in addition to contract values) to store their high-quality, high-protein, No.1 Canada Western Red Spring (CWRS) wheat on-farm. It ensures a consistent stock of high-quality, high-protein wheat to satisfy the needs of the CWB's premium customers. During the year, WSP payments were issued to 28 producers for a total of $2.5 million (2009 – $3.9 million). Program participants also received premium and storage payments totalling $217,000 (2009 – $248,000).

CHURCHILL STORAGE PROGRAM

The Churchill Storage Program is designed to ensure that grain is on hand to meet customer demand during the Port of Churchill's short operating season. The Churchill Storage Program provides farmers contract premiums and storage payments to store Nos. 1 and 2 CWRS (all protein ranges) on-farm until the grain is called for delivery. During the 2009-10 crop year, Churchill Storage Program payments were issued to 356 producers for a total of $18.4 million. Program participants also received premium and storage payments totalling $656,000.

Liquidity and capital resources

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

CASH FLOW – SOURCES AND USES

Since the Corporation distributes all pool-account earnings to farmers, its operations are almost entirely financed by debt. During the year, cash from operations may also be available. The CWB's 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 generated by operations was $4.3 billion. Financing activities, including cash distributions to farmers, used $4.5 billion and investing activities contributed $0.1 billion.

The Corporation issues adjustment and interim payments during the year. After annual accounting has been concluded, the Corporation issues a final payment to the producers who delivered grain through the pool accounts. Distributions to producers participating in the pools totalled $4.2 billion.

Cash generated from operations, supplemented by debt issued, is believed to be sufficient to meet the Corporation's anticipated capital expenditures and other cash requirements in 2010-11. The Corporation has remained liquid during the credit crisis that began in August 2007 due to its diversified funding sources, liquidity reserves and top credit rating.

BALANCE SHEET

Overall, the balance sheet at July 31, 2010 was $1.0 billion lower than the previous crop year, at $3.3 billion. Inventory of grain, liability to producers and reduced derivative values were the main contributors to this decrease due to lower grain prices at July 31, 2010 compared to the 2008-09 crop 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 evidences of indebtedness. All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the Minister of Finance from the time of issuance to the date of maturity. Therefore, the credit ratings of these debt issues reflect the top credit quality of the Government of Canada.

Long-term and short-term ratings of CWB debt during 2009-10 were as follows:

- Moody's Investors Service Senior Unsecured Ratings – Aaa/P-1
- Standard & Poor's Ratings Group Issue Credit Debt Ratings – AAA/A-1+
- Dominion Bond Rating Service Debt Ratings – AAA/R-1-(high)

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

Currently, the CWB offers farmers FPC, BPC and FlexPro programs under Section 39.1

Total debt outstanding in 2009-10 ranged from $1.2 billion to $2.3 billion (Canadian dollar equivalent) 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 notes issued under the euro medium-term note program have an original term to maturity of up to 15 years and are therefore considered long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity due to embedded call features. During 2009-10, to fund the past purchase and upgrade of rail cars, the CWB issued two amortizing notes, with an original term to maturity of 12 years and 21 years, under the domestic medium-term note program.

Net borrowings were $1.8 billion at the close of 2009-10, unchanged from $1.8 billion at the 2008-09 year-end.

CONTINGENCY FUND

The *Act* provides for the establishment of a contingency fund to be used for specified purposes. Currently, the fund may only be used 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 (currently this option is provided by the Early Payment Option, see page 65). 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 (i.e. initial payment) and on whatever terms it considers appropriate. Currently, the CWB offers farmers Fixed Price Contracts, Basis Price Contracts and FlexPro contracts under Section 39.1 (see page 63), as well as cash-traded purchases from other sources (see page 66).

Pursuant to the Contingency Fund Regulation, the contingency fund can be populated by deducting an amount from any revenue 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 with no specified limit.

During the year, total program net surpluses were $18.6 million. Producer Payment Option programs contributed a net surplus of $17.2 million, interest earnings on feed barley $0.3 million and cash trading $1.1 million.

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 Generally Accepted Accounting Principles (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 nevertheless required for the purpose of reporting to the producer stakeholder group, given the requirement of the *Act* to establish a separate pool account for each crop. A separate accounting has therefore been provided for the pool accounts in the MD&A.

One difference between the combined statements and the individual pool accounts is in the timing and recognition of recording certain transactions related to the tonnes included in a pool or program period. The combined statement based on GAAP requires financial statements to report on the activities and transaction within a fiscal period. The inventory valuation is based on the Canadian accounting standard for inventory, estimated at July 31, 2010 without the use of marketing activities subsequent to year end. 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 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. Financial instrument transactions, specifically derivative, hedges (foreign exchange contracts and commodity contracts), sales contracts, and PPO contracts, are entered into during a reporting period. These financial instruments can relate to the subsequent pool period. Under GAAP requirements, all derivative financial instruments, regardless of pool period, are required to be fair valued and the change in fair value recorded in the combined statement of operations. However, the Corporation does not believe it appropriate to impact current-year distributions with changes in fair value that relate to future pool periods. The result is that the statement of combined operations is affected by the change in fair value of financial instruments for all pool periods. Under the *Act*, the individual pool statements exclude amounts related to future pool periods.

For the year ended July 31, 2010, the effect of these two differences is a net charge to the GAAP statements. As these amounts are not applicable to the current pool marketing results, the *Act* distribution exceeds the result calculated under GAAP as reflected in the combined statement of operations.

RECONCILIATION OF POOL STATEMENTS TO THE COMBINED STATEMENTS

(dollar amounts in 000s)	2010	2009
Pool operations	**$ 4,238,430**	**$ 6,433,510**
Cash trading	**7,211**	**7,315**
PPO programs		
FPC / BPC / FlexPro programs	17,483	27,702
Early Payment Option programs	(310)	2,948
	4,262,814	**6,471,475**
Net change in fair value of financial instruments – future periods	(320,213)	(32,183)
Difference in inventory valuation	(132,013)	179,762
Net earnings, per combined statement of operations	**$ 3,810,588**	**$ 6,619,054**

Financial risk management

The CWB seeks to minimize risks related to the financial operations of the Corporation. It actively manages exposure to financial risks and ensures adherence to approved corporate policies and risk management guidelines.

GOVERNANCE FRAMEWORK

Ongoing responsibilities for managing risk are articulated through policies approved by the CWB's 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 financial risk management operations. This committee establishes and recommends to the board of directors the financial risk management policies and procedures, ensuring the policies are consistent with the goals and objectives of the Corporation and are in compliance with government and regulatory requirements. The FRMC is chaired by the Chief Executive Officer and includes the Chief Financial Officer, Chief Operating Officer and other senior management representatives who are involved in managing corporate risk.

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

MARKET RISK

Market risk is the exposure to movements in the level or volatility of market prices that may adversely affect the CWB's financial condition. Market risk exposure includes commodity, foreign exchange and interest rate risk.

Commodity price risk is the exposure to reduced revenue due to adverse changes in commodity prices. The CWB manages commodity price risk inherent to the core business for the wheat pool and the Producer Payment Options (PPOs).

The CWB's 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 futures and options are used to complement sales activity to provide flexible pricing alternatives to customers, such as basis contracts, and to engage in discretionary pricing activity when appropriate. The CWB also uses exchange-traded futures and option contracts to manage the commodity price risk related to the PPOs offered to Prairie farmers that provide pricing choices and cash-flow alternatives.

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

To manage foreign exchange risk, the CWB hedges foreign currency revenue values using over-the-counter derivative contracts to protect the expected Canadian dollar proceeds on sales. An integrated approach, combining sales activity with derivatives, is used. In addition, the CWB manages foreign exchange risk as it relates to the PPOs and other operations.

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 if a counterparty fails to meet its contractual obligations. The CWB is exposed to credit risk on investments, over-the-counter derivative transactions used to manage market risks, and customer credit arrangements outside of government-guaranteed programs.

The CWB enters into master agreements with all over-the-counter derivative counterparties to minimize credit, legal and settlement risk. Collateral agreements have also been negotiated with the majority of our counterparties, which provide for the posting of collateral by the counterparty when market exposure increases beyond certain thresholds. The CWB transacts only with highly rated counterparties that meet the requirements of its financial risk management policies. These policies meet or exceed the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations.

The CWB sells grain under two government-guaranteed export credit programs: the CGSP and the ACF. Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. The CWB may also extend credit to customers outside of these government-guaranteed programs, in which case the CWB will assume up to 100 per cent of the credit risk. For more information on credit sales, see the Credit Programs Financial Statement Note 4 on page 87.

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

INVESTMENTS

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

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

OPERATIONAL RISK

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

Outlook

Increased prices and strong international demand for wheat, durum and barley created a positive tone to the beginning of the 2010-11 marketing year. However, the optimistic demand outlook was tempered by decreased quality and production in Western Canada. The 2010 Prairie wheat crop was significantly smaller than in the previous two years. The western Prairies began the growing season with extremely low soil-moisture levels, with drought the major concern. Warm temperatures and dry conditions in April allowed planting to begin across the southern Prairies significantly earlier than in 2009. For the Peace River area, the threat of drought was real, becoming the second consecutive year of drought-reduced production from that region.

In most areas, however, the consistent theme of the 2010-11 growing season was rain. Record or near-record rainfall across most of the Prairies limited acreage, increased abandonment and lowered the yield potential and quality of the crop. Excessive rainfall during May and June caused severe flooding and more than 10 million acres (CWB estimate) were left unplanted in the Prairie region. The rain continued throughout the summer and into September. Temperatures across the Prairies were mostly below normal during the growing season, although eastern regions (especially Manitoba) saw conditions that were closer to normal than those in western Saskatchewan and Alberta. The primary concern going into harvest was the lateness of the crop and the possibility of frost occurring before the crops matured. A major killing frost during the middle of September hit the main growing areas of central and northern Saskatchewan and Alberta. Above-normal rainfall in September also caused damage to mature crops. Warmer, drier conditions followed, allowing crops to mature and the harvest to proceed rapidly. Crop quality improved over mid-season expectations, although protein levels for wheat and durum were slightly below 2009.

Bulk ocean freight rates exhibited some volatility during the 2009-10 crop year, though the volatility paled in comparison to the wild swings in freight rates observed during the 2008-09 crop year. Spikes in ocean freight rates were short-lived, as the pace of delivery of newly constructed dry bulk vessels escalated, increasing the supply of freight available at any point in time. The scrapping of older vessels was limited and, in fact, there was a flurry of new orders placed in early 2010 due to stronger freight rates. The quantity of new vessels entering the market was the major factor influencing the overall structure of the dry bulk market, and was expected to remain the main driving force influencing freight rates over the next few years.

Conversely, container freight rates remained relatively high versus dry-bulk freight rates during 2009-10. Container vessel owners and operators adjusted the supply of container freight to meet demand by reducing availability of container freight, thereby placing upward pressure on rates and making container freight even less competitive than in 2008-09 versus shipping in bulk.

The consistent theme of the 2010-11 growing season was rain.

The international wheat market experienced a significant reduction in supplies during 2010, as Canadian planting problems, Russian drought and a drop in overall global yields reduced total output. Although the overall impact on wheat supplies was modest, the reduction in export availability had a profound impact on prices. Export restrictions from Russia and Ukraine reduced the available supply of wheat, which supported prices. As of November 2010, wheat futures were mainly trading in the $6- to $8-per-bushel range, after the Russian government announced an export ban in August 2010. The export ban resulted in increased trade from the EU and the United States, which supported prices despite adequate supplies in both areas. Support from other grains and oilseeds was expected to help maintain price levels as coarse grain and oilseed supplies were relatively tight.

Lower durum production and poor durum quality dramatically changed the supply-and-demand situation compared to 2009-10. The global durum trade was forecast to remain unchanged, despite a 6.6-million-tonne drop in production. This was expected to reduce ending stocks of the major exporters (Canada, the U.S. and the EU) by 31 per cent from 2009-10 levels. Poorer quality in North America was also expected to increase consumption of durum for livestock feed.

International barley prices rallied significantly after August 2010 due to an export ban in Ukraine. The lowering of exports from Ukraine, combined with strong demand from the Middle East, supported prices. Large carry-in supplies were expected to help offset a decline of 20 per cent in global barley production from 2009-10. Adding to the strong barley fundamentals was the forecast for very tight world corn stocks at the end of the 2010-11 marketing year. Despite the third-largest U.S. corn crop on record, increased use for ethanol and strong export demand boosted corn prices substantially after August 2010.

Going into 2010-11, much uncertainty remained in the market. In the near term, global economic growth was expected to be uneven, as some economies (most notably in the U.S.) required additional stimulus efforts to maintain slow growth. Other economies, including Canada's, appeared to have stronger fundamentals and require removal of monetary and fiscal stimuli. As markets adjust to differing monetary and fiscal policies among nations, there are likely to be periods of high volatility in financial markets. Interest rates in U.S. dollar terms were expected to remain low for the CWB well into 2010-11 due to the announcement of quantitative easing by the U.S. Federal Reserve. While Canadian interest rates were expected to rise over the coming year due to a strengthening Canadian economy, the timing of increases was uncertain due to the close relationship between the Canadian and American economies. The CWB was not expected to have any liquidity issues as the Corporation's debt continued to be guaranteed by the Government of Canada.

Forward-looking statements

Certain forward-looking information contained in this annual report is subject to risk and uncertainty because of reliance on assumptions and estimates that are based on information available at the time of writing. A number of factors could cause actual results to differ from those expressed. These include changes that occur as a result of government policy and regulations. For example, the CWB currently markets farmers' wheat, durum and barley on the basis of its legislated single-desk mandate. However, the Government of Canada remains committed to the removal of the single desk. Other factors include, but are not limited to: weather; 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 or global political and economic conditions, including the ongoing World Trade Organization negotiations, which could affect Government of Canada guarantees of CWB borrowings and initial payments to farmers, and the monopoly powers of State Trading Enterprises, should an agreement be reached.

The CWB board of directors recognizes that possible loss of the single-desk is a principal business risk to the organization, a factor that is taken into account as part of the strategic planning process.

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 2009-10 pool accounts, Producer Payment Options, cash trading and the financial status of the Corporation at July 31, 2010.

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 25, 2010

AUDITORS' REPORT

We have audited the financial statements of the Canadian Wheat Board, which includes the statement of financial position as at July 31, 2010 and the combined statements of operations, cash flow, distributions to pool participants, transfers to contingency fund and administrative expenses for the year ended July 31, 2010. 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, 2010 and the results of its operations and cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 25, 2010

Statement of financial position

as at July 31 (dollar amounts in 000s)	2010	2009
ASSETS		
Current Assets		
Short-term investments (Note 3)	$ 604,772	$ 767,546
Current portion of credit programs (Note 4)	62,691	75,651
Advance payment programs (Note 5)	409,363	503,857
Prepayment of inventory program	144,273	290,288
Trade accounts receivable	111,612	210,019
Other accounts receivable	44,946	54,285
Derivatives (Note 6)	112,386	443,902
Inventory of grain (Note 8)	962,697	1,405,500
Prepaid expenses (Note 9)	196,908	24,305
Deferred pension asset (Note 28)	32,182	29,413
	2,681,830	3,804,766
Credit programs (Note 4)	213,019	230,489
Investments (Note 10)	222,843	176,964
Property, plant and equipment (Note 11)	58,919	51,563
Intangible assets (Note 12)	88,583	82,733
	$ 3,265,194	**$ 4,346,515**
LIABILITIES		
Current Liabilities		
Borrowings (Note 13)	$ 1,259,330	$ 1,011,107
Accounts payable and accrued expenses (Note 14)	183,377	176,513
Liability to agents (Note 15)	680,341	1,219,605
Derivatives (Note 6)	253,248	52,460
Liability to producers – outstanding cheques	27,316	108,455
Liability to producers – current earnings (Note 16)	578,672	797,897
Deferred pension liability (Note 28)	21,225	20,424
Current portion of long term debt (Note 17)	104,977	45,833
	3,108,486	3,432,294
Long-term debt (Note 17)	447,874	731,585
	3,556,360	4,163,879
UNDISTRIBUTABLE EARNINGS		
Reserve for producer payment expenses (Note 18)	2,316	875
Special account (Note 19)	2,424	3,518
Contingency fund (Note 20)	21,988	3,407
(Loss) earnings for future allocation (Note 21)	(317,894)	174,836
	(291,166)	182,636
	$ 3,265,194	**$ 4,346,515**

Combined statement of operations

For the year ended July 31 (dollar amounts in 000s)	2010	2009
Revenue	**$ 5,150,987**	**$ 7,828,458**
Direct costs		
Grain purchases (Note 22)	806,082	770,032
Freight	299,581	300,815
Terminal handling	176,824	178,395
Inventory storage	86,448	83,368
Country inventory financing	2,737	6,646
Inventory adjustments (Note 23)	32,381	(15,589)
Other direct expenses (Note 24)	43,466	47,771
Total direct costs	1,447,519	1,371,438
Net revenue from operations	3,703,468	6,457,020
Other income (Note 25)	187,837	245,000
Interest revenue	18,055	65,115
Other expenses	(534)	–
Interest expense	(8,072)	(63,382)
Administrative expenses (Note 26)	(70,322)	(68,545)
Depreciation and amortization expense	(17,593)	(14,187)
Grain industry organizations	(2,251)	(1,967)
Net earnings	**3,810,588**	**6,619,054**
Earnings for future allocation, beginning of year	174,836	219,034
Transition adjustment	–	(191,777)
Earnings distributed to pool participants	(4,278,603)	(6,432,122)
Earnings distributed to cash trading participants	(6,107)	(5,177)
Gains transferred to contingency fund (Note 20)	(18,608)	(34,176)
(Loss) earnings for future allocation, end of year	**$ (317,894)**	**$ 174,836**

Statement of cash flow

For the year ended July 31 (dollar amounts in 000s)	2010	2009
Increases (decreases) of cash during the year		
Cash (used in) from operating activities		
Net earnings	$ 3,810,588	$ 6,619,054
Adjustments to determine net cash (used in) from operations		
Net interest	(11,032)	(7,689)
Depreciation and amortization expense	17,593	14,187
Investment fair value adjustment	(4,615)	407
Long term debt fair value adjustment	12,948	27,622
Derivative asset	308,362	(61,843)
Derivative liability	204,281	(53,795)
	4,338,125	6,537,943
Changes in operations assets and liabilities		
Accounts receivable, excluding credit sales	349,564	137,443
Inventory of grain	442,802	34,539
Prepaid expenses	(172,608)	18,463
Deferred pension asset	(2,769)	(19,504)
Accounts payable and accrued expenses	9,447	(51,614)
Liability to agents	(539,264)	83,415
Liability to producers for outstanding cheques	(81,140)	(118,930)
Liability to producers program payments	(2,854)	(35,573)
Deferred pension liability	801	1,631
Cash generated from operations	4,342,104	6,587,813
Interest received	19,019	79,101
Interest paid	(11,273)	(67,778)
Reserve for producer payment expenses	1,322	(949)
Special account	(1,094)	(311)
	4,350,078	6,597,876
Cash (used in) from financing activities		
Net increase (decrease) in borrowings	248,224	(1,254,091)
Increase in long-term debt	51,000	–
Decrease in long-term debt	(265,360)	(254,659)
Cash distributions		
Prior year undistributed earnings	(792,047)	(340,190)
Current year distributions prior to July 31	(3,709,034)	(5,645,254)
	(4,467,217)	(7,494,194)
Cash (used in) from investing activities		
Accounts receivable – credit programs	29,840	605,288
Net decrease in short-term investments	156,939	371,372
Increase in investments	(38,923)	(37,376)
Purchase of property, plant and equipment	(14,334)	(17,219)
Purchase of intangible assets	(16,678)	(26,248)
Proceeds from sale of property, plant and equipment	295	501
	117,139	896,318
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)	2010				2009	
		Events after reporting				
	Statement of operations	Period (Note 16)	Total pool year	Per tonne	Total pool year	Per tonne
WHEAT						
Receipts for pool distributions (tonnes)	**14 411 915**		**14 411 915**		**14 032 219**	
Earnings distributed to pool participants						
Initial payments on delivery	$ 2,631,842	$ –	$ 2,631,842	$ 182.62	$ 3,242,963	$ 231.12
Adjustment payments	194,016	–	194,016	13.46	381,192	27.17
Interim payment	230,591	–	230,591	16.00	214,768	15.31
Final payment	245,545	(45,608)	199,937	13.87	346,628	24.69
Total wheat distribution	3,301,994	(45,608)	3,256,386	225.95	4,185,551	298.29
DURUM						
Receipts for pool distributions (tonnes)	**3 409 419**		**3 409 419**		**4 206 854**	
Earnings distributed to pool participants						
Initial payments on delivery	618,720	–	618,720	181.47	1,126,574	267.80
Adjustment payments	–	–	–	–	238,518	56.70
Interim payment	–	–	–	–	62,643	14.89
Final payment	60,408	6,613	67,021	19.66	114,958	27.33
Total durum distribution	679,128	6,613	685,741	201.13	1,542,693	366.72
DESIGNATED BARLEY						
Receipts for pool distributions (tonnes)	**1 428 633**		**1 428 633**		**2 272 893**	
Earnings distributed to pool participants						
Initial payments on delivery	247,736	–	247,736	173.41	607,624	267.34
Adjustment payments	16,719	–	16,719	11.70	45,150	19.86
Interim payment	14,286	–	14,286	10.00	15,810	6.96
Final payment	18,740	(1,509)	17,231	12.06	32,054	14.10
Total designated barley distribution	297,481	(1,509)	295,972	207.17	700,638	308.26
BARLEY A						
Receipts for pool distributions (tonnes)	**–**		**–**		**16 878**	
Earnings distributed to pool participants						
Initial payments on delivery	–	–	–	–	2,524	149.54
Final payment	–	–	–	–	703	41.64
Total barley A distribution	–	–	–	–	3,227	191.18
BARLEY B						
Receipts for pool distributions (tonnes)	**–**		**–**		**72**	
Earnings distributed to pool participants						
Initial payments on delivery	–	–	–	–	7	103.70
Final payment	–	–	–	–	6	80.15
Total barley B distribution	–	–	–	–	13	183.85
Earnings distributed to pool participants	**$ 4,278,603**	**$ (40,504)**	**$ 4,238,099**		**$ 6,432,122**	

Statement of transfers to contingency fund

For the year ended July 31 (dollar amounts in 000s)	2010	2009
PRODUCER PAYMENT OPTIONS PROGRAM		
FPC Program – earnings on program operations	$ 17,483	$ 44,030
EPO Program – (losses) earnings on program operations	(310)	4,620
	17,173	48,650
Transfer to pool participants	–	(18,000)
	17,173	30,650
CASH TRADING OPERATIONS		
Earnings on program operations	1,104	2,138
POOL OPERATIONS		
Barley	331	1,388
	331	1,388
Earnings transferred to contingency fund (Note 20)	**$ 18,608**	**$ 34,176**

Statement of administrative expenses

For the year ended July 31 (dollar amounts in 000s)	2010	2009
Human resources	$ 38,981	$ 39,635
Employee future benefit expense	4,553	3,681
Office services	3,363	3,471
Professional fees	6,483	5,853
Computer services	11,870	11,632
Facilities	1,778	1,989
Travel	1,717	1,819
Advertising and promotion	2,518	2,128
Other	1,648	1,410
Training	402	398
Recoveries	(2,771)	(3,099)
Total administrative expenses (Note 26)	**$ 70,542**	**$ 68,917**

Notes to Financial Statements

(dollars in thousands)

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, comprised of 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*.

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 fiscal year ended July 31.

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 estimated 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.

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

With respect to receivables from credit sales, non-credit sales, pre-payment of inventory, and cash advance payment programs, as a result of guarantees, security and other 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 where collection is deemed unlikely.

Accounts receivable from credit sales – 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, or enters into arrangements directly with its customers or their banks, in which case the risk is regularly monitored.

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 Pre-payment of Inventory program – Advances are provided under the Pre-payment of Inventory program to a number of grain companies, acting in the capacity of agents of the Corporation to purchase grain from producers (see Note 15). Amounts are repaid when grain is delivered to the Corporation by the agents at terminal or mill position. The Corporation registers Purchase Money Security Interests (PMSI) on the grain inventory.

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).

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded at cost and depreciated on a straight-line method over their expected useful life as follows:

Asset class	Term (years)
Computer equipment*	3 to 8
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.

INTANGIBLES AND AMORTIZATION

Computer software and computer system development are recorded at cost and amortized on a straight-line method over their expected useful life as follows:

Asset class	Term (years)
Computer software	2 to 6
Computer system development	2 to 10

Expenditures on internally developed software and system development are recognized as assets when the Corporation is able to demonstrate its intention and ability to complete the development and make use of the software or system in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development phase. Capitalized costs of internally developed software and systems development include costs directly attributable to developing the software or system. Amortization begins when the software or system is available for use by the Corporation.

TRANSLATION OF FOREIGN CURRENCIES

The financial statements are presented in Canadian dollars which is the Corporation's functional and presentation currency.

In preparing the financial statements, transactions in currencies other than the Corporation's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Exchange differences are recognized in profit or loss in the period in which they arise.

The net foreign exchange gains included in pools and programs for the year ended July 31, 2010 are $54,896 (2009 – net foreign exchange losses $116,808).

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 that have been designated 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 that have been designated 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, are required to be 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. The 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.

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 de-recognized 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 de-recognized 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. The difference also includes the difference in the valuation of inventory for distribution purposes from GAAP and the difference in the valuation of liability to producers – current earnings for distribution purposes from GAAP.

TRANSITION ADJUSTMENT

A transition adjustment attributable to the following was recognized in the Corporation's August 1, 2008 balance of earnings for future allocation:

	August 1, 2009	August 1, 2008
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**

INTEREST REVENUE

Interest revenue includes revenue related to sales, credit sales, program accounts receivables and investments. Revenue also includes penalty interest and deferred payment interest.

INTEREST EXPENSE

Interest expense includes expenses related to borrowings for programs and hopper car financing. Expenses also includes other financing costs, penalty interest and bank charges.

EMPLOYEE FUTURE BENEFITS

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

Pension plan – The Corporation sponsors a registered defined benefit pension plan, a supplemental defined benefit pension plan, a defined contribution pension plan and a defined benefit plan that provides other post-employment benefits to eligible employees. 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 (2009 – 10 years) for defined benefit pension plans and 15 years (2009 – 15 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
In June 2009, the Canadian Institute of Chartered Accountants (CICA) amended Section 3862, Financial Instruments – Disclosures. The amendments are effective for the Corporation's July 2010 year-end and are included in Notes 7 and 29. The amendments expand on disclosures relating to fair value measurements and liquidity risk. Fair value measurements must be classified into three levels using a fair value hierarchy that reflects the significance and transparency of the inputs used in making the measurements. A table of contractual maturities for derivative financial liabilities has been added to the liquidity risk disclosure. Comparative information is not required for the first fiscal year of application.

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. This section established standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition. The Corporation does not have any goodwill assets. The adoption of this section resulted in separate disclosure of intangible assets on the statement of financial position; but no change to the financial results. Please see Note 12 for disclosures on Intangible Assets.

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 change-over plan. The Corporation is currently working through the change-over process towards the transition date.

3. Short-term investments

The Corporation uses short-term investments for cash management and liquidity risk management and maintains a short-term investment portfolio as the result of a credit receivable prepayment. All investments adhere to requirements of the *Act*, the Corporation's annual borrowing authority granted by the Minister of Finance and applicable government guidelines.

Short-term investments consist of term deposits, banker's acceptances, certificates of deposit, bearer discount notes, commercial paper and treasury bills with maturities of less than one year. The 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 0.18 per cent to 1.10 per cent during the year (2009 – 0.15 per cent to 0.45 per cent).

Of the total investments at July 31, 2010, $127,183 represents the Canadian equivalent of $123,683 that will be receivable in U.S. funds. 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.

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

4. Credit sales programs

	Credit Grain Sales Program	Agri-food Credit Facility	**2010 Total**	2009 Total
Due from foreign customers				
Current	$ –	$ 50,861	**$ 50,861**	$ 65,445
Rescheduled	224,849	–	**224,849**	240,695
Total credit sales program receivables	224,849	50,861	**275,710**	306,140
Current portion	11,830	50,861	**62,691**	75,651
Non-current portion	$ 213,019	$ –	**$ 213,019**	$ 230,489
Credit risk				
Guaranteed by Government of Canada	$ 224,849	$ 49,844	**$ 274,693**	$ 304,831
Assumed by CWB	–	1,017	**1,017**	1,309
	$ 224,849	$ 50,861	**$ 275,710**	$ 306,140

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

CREDIT GRAIN SALES PROGRAM

Accounts receivable under this program arise from credit sales to Egypt, Haiti, Iraq, and Pakistan. Of the $224,849 principal and accrued interest due from foreign customers at July 31, 2010, $164,826 represents the Canadian equivalent of $160,290 repayable in U.S. funds. Of the $240,695 principal and accrued interest due from customers at July 31, 2009, $171,863 represents the Canadian equivalent of $159,501 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 sales 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 credit sales to customers in Brazil, Guatemala, Indonesia, Mexico, and Peru. The July 31, 2010 balance of $50,861 principal and accrued interest due under the ACF represents the Canadian equivalent of $49,461 repayable in U.S. funds. The July 31, 2009 balance of $65,445 principal and accrued interest represents the Canadian equivalent of $60,738 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 sales losses.

Credit sales program receivables are financial instruments and have been classified as loans and receivables. These accounts receivable have contractual interest rate re-pricing dates under 365 days and as a result, their carrying value approximates their fair value.

MATURITIES

These accounts receivable mature as follows:

	2010	2009
Amounts due:		
Within 1 year	**$ 62,691**	$ 75,651
From 1 – 2 years	**17,466**	11,434
From 2 – 3 years	**18,551**	16,140
From 3 – 4 years	**19,745**	17,227
From 4 – 5 years	**21,056**	18,425
Over 5 years	**136,201**	167,263
Overdue	**–**	–
	$ 275,710	$ 306,140

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 Grain Advance Program	**2010 Total**	2009 Total
Due from (to) producers	$ 676	$ 88,230	$ (3)	$ 31	$ 302,596	$ –	**$ 391,530**	$ 484,003
Due from (to) Government of Canada	(1,334)	1,207	(151)	(69)	1,437	(7)	**1,083**	141
Due from agents of the CWB	5	13,847	–	12	2,886	–	**16,750**	19,713
	$ (653)	$ 103,284	$ (154)	$ (26)	$ 306,919	$ (7)	**$ 409,363**	$ 503,857

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 programs.

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 $645,350, including $381,965 issued under the APP-After Harvest and $263,385 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 interest income or interest expense. Realized gains or losses from these contracts are recorded in the period in which they occur, as a component of interest income or interest expense.

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 (PPOs), 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 statement of financial position date, with the change in fair value recorded in the combined statement of operations. When hedging currency risk from grain sales or cash trades, the change in fair value is recorded as a component of revenue. When hedging currency risk from PPOs, the change in fair value is recorded as a component of grain purchases. When hedging currency risk from funding operations, the change in fair value is recorded as a component of interest income or interest expense. Realized gains or losses from currency contracts used to hedge currency risk from grain sales 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 PPOs recorded in the period in which they occur as a component of grain purchases. 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 interest income or interest expense.

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. A 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 statement of financial position date, with the change in fair value recorded in the combined statement of operations. When hedging price risk from grain sales or cash trades the change in fair value is recorded as a component of revenue. When hedging price risk from PPOs the change in fair value is recorded as a component of grain purchases. Realized gains or losses from commodity contracts used to hedge price risk from grain sales and cash trades are recorded in the period in which they occur as a component of revenue. Realized gains or losses from commodity contracts used to hedge price risk from PPOs are recorded in the period in which they occur as a component of grain purchases.

OTHER DERIVATIVES

An 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 stand-alone 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.

The freight and 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 price is based on an index. The grain sales and purchase contracts are classified as held-for-trading and are fair valued at the balance sheet date. The change in fair value of grain sales is recorded in the combined statement of operations as a component of revenue. The change in fair value of purchase contracts is recorded in the combined statement of operations as a component of grain purchases.

Notional amounts are not recorded as assets or liabilities on the statement of financial position 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, 2010, the fair value of outstanding derivative contracts is as follows:

	Assets		Liabilities	
	2010	2009	**2010**	2009
Derivative Instrument				
Commodity contracts	**$ –**	$ 57,336	**$ 141,681**	$ –
Foreign exchange contracts	**9,071**	152,662	**–**	–
Swaps – investments	**–**	–	**15,870**	24,663
Swaps – debt	**86,163**	106,251	**–**	–
PPO purchase contracts	**17,111**	–	**–**	26,102
Sales contracts	**–**	127,565	**94,591**	–
Embedded derivatives	**41**	88	**1,106**	1,695
Total	**$ 112,386**	$ 443,902	**$ 253,248**	$ 52,460

Fair value of derivative instruments by term to maturity

	2010				2009
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Total
Derivative assets	**$ 28,331**	**$ 52,749**	**$ 31,306**	**$ 112,386**	$ 443,902
Derivative liabilities	**$ 241,053**	**$ 12,195**	**$ –**	**$ 253,248**	$ 52,460

The change in fair value of outstanding derivative contracts totals $490,299 net loss. Of the total net loss, $534,086 loss is in revenue, $43,212 gain is in grain purchases, $48 loss is in freight, $590 gain is in other direct expenses and $33 gain is in interest income. Of the $490,299 net loss, a loss of $320,213 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 credit worthiness of the Corporation's 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:

- Fair value is assumed to equal carrying value for accounts receivable (including trade accounts and other receivables), 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 sales 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 sales 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 the Corporation's long-term debt includes call or extension options. The majority of 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 the Corporation's interest rate single-currency and cross-currency swaps include call or extension options. The majority of 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.
- Fair value for grain sales and purchase contracts is derived using the flat contract price derived by the Corporation. Where the futures component and an implied basis can be identified, the futures value is based on the close price quoted on derivative exchanges. The implied basis level is derived by the Corporation.
- Fair value for PPO purchase contracts is based on the daily PPO price derived by the Corporation. No change was made to fair value in relation to credit risk because the credit risk is considered immaterial.

FAIR VALUE HIERARCHY

The Corporation has classified fair value measurements using a hierarchy that reflects the significance and transparency of the inputs used in making the measurements. The fair value hierarchy classifies the inputs according to the following levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table classifies the inputs used in the valuation of financial instruments carried on the statement of financial position at fair value:

		Level 1		Level 2		Level 3		**Total**
Investments	$	–	$	172,820	$	50,023	**$**	**222,843**
Debt		–		(280,117)		(272,734)		**(552,851)**
Derivatives, net		(141,681)		44,843		(44,024)		**(140,862)**
Total	$	(141,681)	$	(62,454)	$	(266,735)	**$**	**(470,870)**

Changes in methods of fair value measurement can lead to transfers between levels. During the period, the transfers between levels were nil.

The following table provides the changes in fair value measurements for instruments included in Level 3 of the fair value hierarchy:

		Investments		Debt		Derivatives		**Total**
Balance at July 31, 2009	$	31,000	$	(500,035)	$	152,580	**$**	**(316,455)**
Gain (loss) included in net income		23		(9,611)		(159,448)		**(169,036)**
Purchases		19,000		–		–		**19,000**
Sales		–		–		–		**–**
Issues		–		–		–		**–**
Settlements		–		236,912		(37,156)		**199,756**
Transfers in (out)		–		–		–		**–**
Balance at July 31, 2010	$	50,023	$	(272,734)	$	(44,024)	**$**	**(266,735)**

8. Inventory of grain

Inventory of grain on hand at July 31, 2010 is valued at the lower of cost or net realizable value. Cost is defined as the estimated 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. At July 31, 2010, the Corporation recorded inventory write-downs of $386 (2009 – $244,218).

	2010			2009		
	Tonnes		**Amount**	Tonnes		Amount
Wheat	**3,544,573**	**$**	**791,797**	3,620,828	$	914,814
Durum	**542,669**		**99,191**	1,166,849		330,850
Designated barley	**305,287**		**63,234**	528,500		141,051
Barley	**187**		**18**	12,834		2,322
Cash trading operations	**33,418**		**8,457**	86,623		16,463
	4,426,134	**$**	**962,697**	5,415,634	$	1,405,500

9. Prepaid expenses

		2010		2009
Net results of hedging activities and foreign exchange applicable to current year [A]	**$**	**–**	$	17,131
Net results of hedging activities applicable to subsequent pool accounts [B]		**15,858**		–
Pre-paid cost of moving inventory to eastern export position		**22,123**		25,372
Deposits on hedging accounts		**152,474**		(20,321)
Other		**6,453**		2,123
	$	**196,908**	$	24,305

A – Net debit results of hedging activities and foreign exchange applicable to the current year are recorded in pre-paid expenses, while net credit results are recorded as part of accounts payable and accrued expenses. Please refer to Note 14.

B – Net debit results of hedging activities applicable to subsequent pool accounts are recorded in pre-paid expenses, while net credit results are recorded as part of accounts payable and accrued expenses. Please refer to Note 14.

10. Investments

The Corporation maintains a long-term investment portfolio which is the result of a credit receivable pre-payment. 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 by 2015.

The Corporation uses swap contracts to manage interest rate risk and to convert the currency exposure to either the Canadian dollar or the U.S dollar. 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 0.70 per cent to 0.93 per cent during the year (2009 – 1.00 per cent to 4.56 per cent).

Total by currency (in Canadian $ equivalent)

	Investment currency		Canadian $ equivalent			
	2010	2009	**2010**		2009	
	Carrying value	Carrying value	**Carrying value**	**Fair value**	Carrying value	Fair value
Canadian notes	**$ 125,000**	$ 106,000	**$ 125,000**	**$ 129,686**	$ 106,000	$ 110,973
U.S. notes	**95,000**	70,000	**97,689**	**93,157**	75,425	65,991
Long-term investments			**$ 222,689**	**$ 222,843**	$ 181,425	$ 176,964

These financial instruments are designated as held-for-trading and have been recorded at fair value.

11. Property, plant and equipment

	Hopper cars	**Computer equipment**	**Furniture & fixtures**	**Land, building & improvements**	**Automobiles**	**Total**
Cost						
Balance August 1, 2008	$ 105,271	$ 5,472	$ 5,558	$ 19,297	$ 897	$ 136,495
Additions	9,723	509	865	6,122	315	17,534
Disposals	(669)	(324)	(3,004)	(3,403)	(326)	(7,726)
Balance August 1, 2009	114,325	5,657	3,419	22,016	886	146,303
Additions	12,830	622	29	587	351	14,419
Disposals	(12,426)	(781)	(8)	–	(267)	(13,482)
Balance July 31, 2010	$ 114,729	$ 5,498	$ 3,440	$ 22,603	$ 970	$ 147,240
Accumulated depreciation						
Balance August 1, 2008	$ (79,835)	$ (3,765)	$ (3,393)	$ (8,197)	$ (291)	$ (95,481)
Depreciation	(4,346)	(675)	(243)	(973)	(163)	(6,400)
Disposals	613	315	2,702	3,357	154	7,141
Balance August 1, 2009	(83,568)	(4,125)	(934)	(5,813)	(300)	(94,740)
Depreciation	(4,148)	(693)	(409)	(1,355)	(173)	(6,778)
Disposals	12,329	729	3	–	136	13,197
Balance July 31, 2010	$ (75,387)	$ (4,089)	$ (1,340)	$ (7,168)	$ (337)	$ (88,321)
Net book value						
July 31, 2009	$ 30,757	$ 1,532	$ 2,485	$ 16,203	$ 586	$ 51,563
July 31, 2010	$ 39,342	$ 1,409	$ 2,100	$ 15,435	$ 633	$ 58,919

During the year, the Corporation acquired automobiles amounting to $85 (2009 – $315) under capital leases.

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 261 cars have been wrecked and dismantled, leaving 1,739 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, 15 cars have been wrecked and dismantled, leaving 1,648 in the fleet. The Corporation is reimbursed for destroyed cars under operating agreements with Canadian National Railway and Canadian Pacific Railway.

12. Intangible assets

	Computer system development		Computer software		Total
Cost					
Balance August 1, 2008	$	88,784	$	4,348	$ 93,132
Additions		25,714		534	26,248
Disposals		21		(17)	4
Balance August 1, 2009		114,519		4,865	119,384
Additions		15,590		1,090	16,680
Disposals		–		(3)	(3)
Balance July 31, 2010	$	130,109	$	5,952	$ 136,061
Accumulated amortization					
Balance August 1, 2008	$	(26,801)	$	(2,138)	$ (28,939)
Amortization		(6,929)		(780)	(7,709)
Disposals		(19)		16	(3)
Balance August 1, 2009		(33,749)		(2,902)	(36,651)
Amortization		(9,908)		(922)	(10,830)
Disposals		–		3	3
Balance July 31, 2010	$	(43,657)	$	(3,821)	$ (47,478)
Net book value					
July 31, 2009	$	80,770	$	1,963	$ 82,733
July 31, 2010	$	86,452	$	2,131	$ 88,583

The amortization expense has been included in the line item “depreciation and amortization expense” in the combined statement of operations.

13. 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 0.17 per cent to 0.69 per cent during the year (2009 – 0.14 per cent to 0.55 per cent).

Of the total borrowings at July 31, 2010, $485,840 represents the Canadian equivalent of $472,469 that will be repayable in U.S. funds. 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.

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

14. Accounts payable and accrued expenses

		2010		2009
Net results of hedging activities and foreign exchange applicable to current year [A]	**$**	**25,011**	$	–
Net results of hedging activities applicable to subsequent pool accounts [B]		**–**		13,028
Other accounts payable and accrued expenses		**104,960**		108,115
Deferred sales revenue		**53,406**		55,370
	$	**183,377**	$	176,513

A – Net debit results in net results of hedging activities and foreign exchange applicable to the current year are recorded in pre-paid expenses, while credits are recorded as part of accounts payable and accrued expenses. Please refer to Note 9.

B – Net debit results of hedging activities applicable to subsequent pool accounts are recorded in pre-paid expenses, while credits are recorded as part of accounts payable and accrued expenses. Please refer to Note 9.

15. Liability to agents

		2010		2009
Grain purchased from producer	**$**	**581,031**	$	980,441
Deferred cash tickets		**99,310**		239,164
	$	**680,341**	$	1,219,605

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.

16. Liability to producers – current earnings

The liability to producers – current earnings represents the earnings generated from the current pools that have not yet been distributed to producers. As prescribed by GAAP, the liability to producers – current earnings reflects the Corporation's best estimate of future sales proceeds based on market information as at July 31. For the current year, $578,672 (2009 – $797,897) was the estimated earnings that remained undistributed as at July 31, 2010.

The *Act* requires that all activity related to the sale of grain attributable to the tonnes purchased within the pool period are recorded and distributed for each pool to producers. In accordance with the *Act*, information relating to the value of the tonnes sold subsequent to July 31 was considered in the statement of distributions to pool participants.

Subsequent to July 31, sales contracts are entered into and executed which may differ from the estimations at July 31. These events after the reporting period of July 31, 2010 have reduced the estimation of the earnings generated from the current pools by $40,504 which decreased the liability to producers – current earnings to $538,168.

Of the adjusted liability, $244,877 (2009 – $293,220) was approved as an interim payment on October 7, 2010; $2,816 (2009 – $5,850) was a payment to Early Payment Option (EPO) participants where the pool price exceeded the contract price; and the balance of $290,475 (2009 – $498,827) was distributed to producers through final payments: $284,189 (2009 – $493,650) to pool participants, $179 (2009 – nil) to the Wheat Storage Program (WSP) and Churchill participants and $6,107 (2009 – $5,177) to the cash trading program.

17. Long-term debt

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

Long-term borrowings are notes issued in the domestic and euro medium-term note market with an original term to maturity between one and 15 years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity, due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to that of the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest rate fluctuations on the notes' principal and interest payments. The effective interest rates for these borrowings ranged from 0.01 per cent to 5.04 per cent during the year (2009 – 0.01 per cent to 1.59 per cent).

Total by currency (in CAD equivalent)

	Debt currency				Canadian $ equivalent			
		2010		2009		**2010**		2009
Canadian notes	**$**	**280,116**	$	277,383	**$**	**280,116**	$	277,383
U.S. notes	**$**	**102,088**	$	105,490	**$**	**104,977**	$	113,666
Yen notes	**¥**	**14,097,292**	¥	33,921,789	**$**	**167,758**	$	386,369
						552,851		777,418
Current portion long-term debt						**104,977**		45,833
Long-term debt					**$**	**447,874**	$	731,585

These borrowings mature as follows:

	Carrying value				Fair value			
		2010		2009		**2010**		2009
Amounts due:								
Within 1 year	**$**	**102,830**	$	30,505	**$**	**104,977**	$	45,833
From 1 – 2 years		**16,281**		107,750		**21,260**		113,666
From 2 – 3 years		**11,433**		26,650		**15,179**		33,897
From 3 – 4 years		**4,719**		19,157		**6,009**		24,465
From 4 – 5 years		**166,234**		5,600		**182,973**		6,762
Over 5 years		**218,951**		568,301		**222,453**		552,795
	$	**520,448**	$	757,963	**$**	**552,851**	$	777,418

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

18. Reserve for producer payment expenses

The amount of $2,316 (2009 – $875) 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.

19. 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 is comprised of:

		2010		2009
Beginning of year	**$**	**3,518**	$	3,376
Transfer from payment accounts		**–**		518
Expenditures		**(742)**		(370)
Payments to producers against old payment accounts		**(352)**		(6)
End of year	**$**	**2,424**	$	3,518
Ending balance comprised of:				
Unexpended authorizations		**158**		655
Not designated for expenditure		**2,266**		2,863
	$	**2,424**	$	3,518

During the 2009-10 crop year, a request for an Order-in-Council (OIC) was submitted to transfer balances from payment accounts for 2002 wheat. As of July 31, 2010, this OIC had not yet been approved, but was approved on September 23, 2010.

Program activity during the 2009-10 crop year is detailed as follows:

	Unexpended at beginning of year	Authorized	Expended	Expired	Unexpended at end of year
Scholarship program	$ 155	$ 245	$ (242)	$ –	$ 158
University of Saskatchewan Canadian Grain Policy Chair	500	–	(500)	–	–
	$ 655	$ 245	$ (742)	$ –	$ 158

20. 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 Producer Payment Option (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 (PPO) 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 through sign-up by October 31 (changed to January 31 for 2010-11). FlexPro 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 Early Payment Option (EPO) provides producers with a greater portion of their expected final pool price at time of delivery, while still allowing them to remain eligible to participate in price gains if pool returns exceed EPO values.

The surplus or deficit arising from the operation of these programs is transferred to the contingency fund.

CASH TRADING

During 2009-10, 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 593 802 (2009 – 561 105) tonnes were traded at a profit of $1,151 (2009 – $2,102).

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. No PDT payments were issued to producers as the PDT was discontinued for 2009-10 (compared to $2,943 of payments to 105 producers in 2008-09). There was a small net deficit of $47 (2008-09 – net surplus of $36) in the program.

The Wheat Storage Program provides producers contract premiums and storage payments 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, 28 producers delivered 7 702 tonnes for a value of $2,511 (compared to $3,878 of payments to 42 producers for delivery of 10 189 tonnes in 2008-09). The program revenue received from the wheat pool was sufficient to cover this cost.

The Churchill Storage Program, new for 2009-10, provides producers in the Churchill catchment area a contract premium and storage payment to store their wheat on farm. It ensures sufficient quantities are on hand to meet customer demand during the Churchill port's short operating season. During the year, 356 producers delivered 60 275 tonnes for a value of $18,400. 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 2009-10, $331 (2009 – $1,388) was transferred to the contingency fund.

Consistent with the treatment applied to the pools and PPO programs, the contingency fund's 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, 2010 is detailed as follows:

		2010		2009
Opening surplus, beginning of year	**$**	**3,407**	$	(28,942)
Transferred from pool accounts		**331**		1,388
Current year surplus (deficit)		**18,277**		32,788
Interest earned (expensed)		**(27)**		(1,827)
Closing surplus, end of year	**$**	**21,988**	$	3,407

21. Earnings for future allocation

Earnings for future allocation represents the difference between earnings calculated under the *Act* (for distribution to pool and other program participants) and the earnings calculated under GAAP. The *Act* requires that all activity related to the sale of grain attributable to the tonnes purchased within a pool period are recorded and distributed for each pool to producers for each pool period. GAAP requires all activity (regardless of pool period) as at a point in time (July 31, 2010) be recorded in the financial statements. The difference between these two calculations is recorded in this account.

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. The difference also includes the difference in the valuation of inventory used for distribution purposes from GAAP and the difference in the valuation of liability to producers – current earnings for distribution purposes from GAAP.

The earnings for future allocation balance at July 31, 2010 are detailed as follows:

		2010		2009
Earnings for future allocation, beginning of year	**$**	**174,836**	$	219,034
Transition adjustment (Note 2)		**–**		(191,777)
Net change in fair value of financial instruments		**(320,213)**		(32,183)
Net change in inventory valuation differences		**(132,013)**		179,762
Net change in liability to producer – current earnings valuation differences		**(40,504)**		–
(Loss) earnings for future allocation, end of year	**$**	**(317,894)**	$	174,836

22. Grain purchases

Grain purchases are primarily made up of purchases under PPO contracts of $243,722 (2009 – $583,243), purchases from third-party suppliers of grain in the course of cash trading of grain of $155,604 (2009 – $151,770), late receipts, and inventory overages and shortages of $19,720 (2009 – $22,480) and other of $387,036 (2009 – $12,539). Purchases under PPO contracts represent the contract value of the grain delivered through the PPO programs net of hedging gains and losses. 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 benefitting 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, 2010, the total grain purchases of $806,082 (2009 – $770,032) represents the cost of goods sold. Earnings distributed to pool participants of $4,278,603 (2009 – $6,432,122) also represents the cost of grain sold during the year.

23. 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 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.

24. Other direct expenses

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

25. 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.

Other income also includes Corporation-owned hopper car lease revenue.

26. Administrative expenses

	2010	2009
Allocated as follows:		
Wheat pool	**$ 50,588**	$ 45,156
Durum pool	**11,074**	12,135
Designated barley pool	**4,688**	6,834
Pool A feed barley	**–**	62
Pool B feed barley	**–**	32
Cash trading	**1,881**	1,661
PPO programs	**2,056**	2,665
CWB lab	**35**	–
Total	**70,322**	68,545
Producer payment accounts	**220**	372
Administrative expenses	**$ 70,542**	$ 68,917

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

27. 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, 2010 were $735 (2009 – $725).

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

Commitments under operating leases are as follows:

	Premises and office equipment
2010-11	503
2011-12	197
2012-13	42
After 2013	–

CAPITAL LEASES

The Corporation has entered into capital leases for vehicles. These capital leases are accounted for as an acquisition of an asset and an assumption of an obligation. The vehicles under capital lease will be amortized on a straight-line basis over their economic lease term. They have an interest rate of 7.5 per cent in 2010-11 and 8.0 per cent thereafter.

Commitments under capital leases are as follows:

	Vehicles
2010-11	120
2011-12	40
2012-13	3

OTHER

The Corporation has agreed to fund the operations of the Canadian International Grains Institute (CIGI) for a base amount of $1,996 annually, through to 2011.

28. 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 provides 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 and long-service allowance.

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 $6,496 (2009 – $20,157).

EXPENSES

The Corporation's expenses for its defined benefit and other post-employment benefit plans, for the year ended July 31, 2010 were $4,455 (2009 – $3,592).

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, 2009. The next valuation, which is in progress, will be as at July 31, 2010. The results indicate an unfunded solvency liability of approximately $5,300 that is not reflected in the table on the following page. The most recent actuarial valuation of the other post-employment benefit plan was prepared as of July 31, 2009, with the next required valuation as of July 31, 2012.

The following table presents information related to the Corporation's pension and other post-employment benefit plans, including amounts recorded on the statement of financial position and statement of administrative expenses for the year.

	2010 Pension benefits	2009 Pension benefits	**2010 Other benefits**	2009 Other benefits
Change in fair value of plan assets				
Balance at beginning of year	**$ 83,807**	$ 63,696	**$ –**	$ –
Contributions by corporation	**4,296**	20,766	**2,127**	1,521
Contributions by employees	**1,142**	1,137	**–**	–
Expected return on plan assets	**5,733**	4,911	**–**	–
Actuarial return on plan assets	**36**	(5,510)	**–**	–
Benefits paid	**(1,672)**	(1,193)	**(2,127)**	(1,521)
Fair value, end of year	**$ 93,342**	$ 83,807	**$ –**	$ –
Change in accrued benefit obligation				
Balance at beginning of year	**$ 59,218**	$ 56,803	**$ 27,114**	$ 28,548
Current service cost	**3,457**	3,725	**595**	686
Interest cost on benefit obligation	**4,251**	3,817	**1,799**	1,780
Contribution by employees	**1,142**	1,137	**–**	–
Benefits paid	**(1,672)**	(1,193)	**(2,127)**	(1,521)
Actuarial loss (gain) on Accrued Benefit Obligation	**6,656**	(5,071)	**2,892**	(2,379)
Benefit obligation, end of year	**$ 73,052**	$ 59,218	**$ 30,273**	$ 27,114
Funded status				
Plan surplus (deficit)	**$ 20,290**	$ 24,589	**$ (30,273)**	$ (27,114)
Unamortized net actuarial loss	**15,097**	8,592	**5,526**	2,634
Unamortized transition (asset) obligation	**(3,205)**	(3,768)	**3,522**	4,056
Accrued benefit asset (obligation), end of year	**$ 32,182**	$ 29,413	**$ (21,225)**	$ (20,424)

Defined benefit costs

	2010 Pension benefits	2009 Pension benefits	**2010 Other benefits**	2009 Other benefits
Defined benefit costs				
Current service cost	**$ 3,457**	$ 3,725	**$ 595**	$ 686
Interest cost on benefit obligation	**4,251**	3,817	**1,799**	1,780
Actual return on plan assets	**36**	(5,510)	**–**	–
Actuarial loss (gain) on Accrued Benefit Obligation	**6,656**	(5,071)	**2,892**	(2,379)
Costs arising in the period	**14,400**	(3,039)	**5,286**	87
Adjustments for difference between costs arising in the period and costs recognized in the period in respect of				
Return on plan assets	**(5,769)**	599	**–**	–
Actuarial (loss) gain	**(6,540)**	5,420	**(2,892)**	2,533
Transition asset (obligation)	**(564)**	(564)	**533**	533
Adjustment to deferred pension asset	**–**	(1,977)	**–**	–
Total expense included in administrative expenses	**$ 1,527**	$ 439	**$ 2,928**	$ 3,153

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:

	2010	2009
Expected return on plan assets	**7.00%**	7.00%
Discount rate	**6.00%**	6.75%
Rate of compensation increase	**2.50%**	3.00%
Medical cost trend rate	**9.00%**	9.50%
Medical cost trend rate declines to	**5.00%**	5.00%
Medical cost trend rate declines over	**8 years**	9 years
Dental cost trend rate	**3.00%**	3.00%

Sensitivity analysis:

Assumed medical/dental cost trend rates have a significant effect on the amounts reported. A one-percentage-point change in assumed rates would have the following effects for 2010:

		Increase		Decrease
Accrued benefit obligation	$	3,080	$	(2,498)
Current service and interest cost	$	273	$	(217)

Plan assets:

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

	2010	2009
Equity securities	**34%**	60%
Debt securities	**51%**	39%
Other	**15%**	1%
	100%	100%

Defined contribution plan:

The Corporation expensed $98 (2009 – $89) to the defined contribution component of the Corporation's pension plan. Employees contributed $400 (2009 – $355) to the defined contribution component of the Corporation's pension plan as at July 31, 2010. Benefits paid from the defined contribution component were $191 (2009 – $71).

29. 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 *Act*, the Minister of Finance 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, 2010, 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:

	2010 Increase (Decrease)
$0.90 increase in price per bushel	$ (299,261)
$0.90 decrease in price per bushel	$ 299,270

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 contracts to hedge foreign currency revenue values from sales priced either directly or indirectly in U.S. dollars and 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 years 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, 2010, 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:

	2010 Increase (Decrease)
5.00% increase in exchange rates	$ 15,010
5.00% decrease in exchange rates	$ (15,018)

INTEREST RATE RISK

Interest rate risk is the exposure to changes in market interest rates that may adversely affect interest income or interest expense. 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 are generally comprised of 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 U.S. dollar or Canadian dollar 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 interest income and interest expense 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, 2010, 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:

	2010 Increase (Decrease)
0.50% increase in interest rates*	$ 3,669
0.50% decrease in interest rates	$ (2,735)

* The lowest rate on yield curve 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, over-the-counter derivative transactions that have a positive market value and credit extended on sales outside of the government-guaranteed (CGSP and ACF) credit sales programs, referred to as commercial credit.

INVESTMENTS AND OVER-THE-COUNTER DERIVATIVES

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 the Corporation's financial risk management policies. These policies meet or exceed the guidelines issued by the Minister of Finance 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, 2010, $45,266 in U.S. and Canada Government Treasury Bills was posted as collateral by the Corporation's 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, 2010, was $897,908 (2009 – $1,108,439) and the largest credit risk with any institution as at July 31, 2010, was $65,483 (2009 – $65,078).

COMMERCIAL CREDIT

The Corporation has entered into arrangements directly with its customers or their banks to provide short-term credit to the customer on grain sales. This exposure is similar to investment exposure in that the full principal value of the grain sold is at risk if the customer or their bank is unable to pay the funds. The Corporation manages this credit risk by contracting only with approved customers and banks that meet the requirements of the Corporation's financial risk management policies. Per policy, the customers' banks must meet the same rating requirements as investment and OTC derivative counterparties. Customers who are not formally rated must meet rating requirements based on the Corporation's internal scoring model. The internal scoring model was developed using liquidity, debt, and profitability ratios to provide ratings similar to those provided by rating agencies. The Corporation's exposure and the credit ratings of approved customers and their banks are regularly monitored. As well, credit limits are in place to provide for diversification of credit extended among approved customers and their banks. The Corporation's financial risk management policies provide limits within which management must operate.

The Corporation does not anticipate non-performance by customers or their banks. The largest cumulative amount outstanding with any customer or their bank as at July 31, 2010, was $21,182 (2009 – $ 29,718).

As at July 31, 2010, the credit risk of outstanding derivative contracts, before netting and after collateral is considered, is as follows:

	2010			2009		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest rate contracts						
Single currency interest rate swaps	**$ 205,868**	**$ 10,880**	**$ 11,022**	$ 178,452	$ 18,044	$ 18,201
Cross currency interest rate swaps	**415,317**	**63,322**	**75,293**	625,558	79,032	88,050
	621,185	**74,202**	**86,315**	804,010	97,076	106,251
Foreign exchange contracts						
Forwards	**2,281,529**	**9,072**	**17,992**	2,531,507	105,927	123,036
Currency swaps	**185,294**	**(1,804)**	**672**	110,150	(7,567)	–
Options	**–**	**–**	**–**	1,220,667	46,735	46,735
	2,466,823	**7,268**	**18,664**	3,862,324	145,095	169,771
Derivatives before master netting agreements	**3,088,008**	**81,470**	**104,979**	4,666,334	242,171	276,022
Impact of master netting agreements	**(44,923)**	**(45,266)**	**(45,266)**	(44,388)	(44,948)	(44,948)
Total derivatives after master netting agreements	**$ 3,043,085**	**$ 36,204**	**$ 59,713**	$ 4,621,946	$ 197,223	$ 231,074

The following table provides a breakdown, by credit rating of the Corporation's derivative exposure as at July 31, 2010.

Credit rating		**2010**		2009	
Moody's	Standard & Poor's (S&P)	**Notional amounts**	**Fair value**	Notional amounts	Fair value
Aaa	AA-	**$ 956,018**	**$ 55,320**	$ 1,647,809	$ 87,462
Aa1	AA-	**363,339**	**2,470**	737,448	22,437
Aa1	A+	**–**	**–**	705,960	41,030
Aa2	AA-	**174,001**	**1,131**	320,976	15,123
Aa2	A+	**1,220,571**	**2,837**	460,385	39,639
Aa3	AA-	**102,830**	**2,150**	116,898	7,710
Aa3	A+	**271,249**	**17,562**	676,858	28,770
Total		**$ 3,088,008**	**$ 81,470**	$ 4,666,334	$ 242,171

The following table provides a breakdown, by credit rating of the Corporation's notional short-term and long-term investments as at July 31, 2010.

Credit rating		**2010**		2009	
Moody's	Standard & Poor's (S&P)	**Short-term**	**Long-term**	Short-term	Long-term
Aaa	AAA	**$ 24,992**	**$ 75,000**	$ 124,988	$ 75,000
Aaa	AA-	**180,000**	**–**	161,370	–
Aaa	–	**–**	**–**	37,996	–
Aa1	AA	**–**	**50,000**	–	31,000
Aa1	AA-	**152,121**	**25,708**	46,389	–
Aa1	A+	**–**	**–**	137,927	–
Aa2	AA+	**–**	**71,981**	–	75,425
Aa2	A+	**69,525**	**–**	61,127	–
Aa2	A	**75,000**	**–**	75,000	–
Aa3	A+	**74,038**	**–**	–	–
–	AA	**29,096**	**–**	122,749	–
Total		**$ 604,772**	**$ 222,689**	$ 767,546	$ 181,425

"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 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 (preferably from either Moody's or S&P) is required, provided that the rating meets the minimum criteria (P1/A1).

The following table provides a breakdown of relative risk of credit extended to customers on grain sales as at July 31, 2010.

Credit Risk*	**2010**	2009
Customer (direct)	**Short-term**	Short-term
Low	**$ 35,054**	$ 26,950
Low to medium	**9,208**	13,876
Medium to high	**13,139**	19,994
Total customer (direct)	**$ 57,401**	$ 60,820

* Credit risk for customers is determined by an internal scoring model. All transactions are within acceptable credit risk policy terms.

Credit rating*			
Moody's	Standard & Poor's (S&P)	**2010** **Short-term**	2009 Long-term
Aa2	A+	**$ –**	$ 29,718
A2	A	**–**	1,140
A2	A-	**–**	4,020
A2	BBB+	**–**	4,381
Total customer (bank)		**$ –**	$ 39,259
Total credit arrangements		**$ 57,401**	$ 100,079

* Credit rating for customer's bank uses the same methodology as above for derivative and investment counterparties.

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 marketplace. 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 $604,772 on hand at July 31, 2010 (July 31, 2009 – $767,546),
- 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,
- access to committed and uncommitted lines of credit – committed lines of credit total $250,000 Canadian and $100,000 U.S. and uncommitted lines of credit total $1,150,000 Canadian and $250,000 U.S. These lines were not accessed in the past year; and
- access to Canadian and U.S. bank operating lines of credit to a combined total of $75,000 Canadian.

The following table provides a summary of the Corporation's contractual commitments future payments for derivatives and borrowings. Certain long-term debt and associated derivative liabilities are shown at their contractual maturity dates rather than their earliest possible maturity due to the uncertainty of exercising the optionality within the contract.

Contractual maturities of financial liabilities (in Cdn $)

	Outstanding	< 1 month	1- 3 months	3-12 months	1-5 years	> 5 years
Non-derivative liabilities						
Borrowings	$ (1,288,675)	$ (666,892)	$ (528,783)	$ (93,000)	$ –	$ –
Long-term debt	(520,448)	(102,830)	(578)	(1,549)	(210,826)	(204,665)
Derivative liabilities	71,199	803	7,685	2,114	24,601	35,997
	$ (1,737,924)	$ (768,919)	$ (521,676)	$ (92,435)	$ (186,225)	$ (168,668)

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.

30. Capital management

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

The *Act* stipulates that the Corporation can not retain capital except for the contingency fund, which was established to underwrite the risks associated with the Producer Payment Options and cash trading activities. The *Act* states that the contingency fund can be negative, with no limit specified. The fund, however, can not exceed $60,000.

The contingency fund is independent of the pool accounts. The surpluses and deficits of the Producer Payment Options 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.

31. 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 – 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 stand-alone 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.


CASE IH

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

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

Ottawa, Ontario
21 Florence Street
Ottawa, Ontario
Canada K2P 0W6
Phone: (613) 236-3633 (ext 2373)
Fax: (613) 236-5749

Beijing, China
Suite 708, Tower B
Beijing COFCO Plaza
8 Jianguomen Nei Street
Beijing, China 100005
Phone: 011-86-10-6526-3906
Fax: 011-86-10-6526-3907

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

CWB