The bottom line

2010-11 Annual Report

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.

Foreword

This annual report provides an overview of the 2010-11 crop year. It underscores the broad range of activities, the performance levels and the governance structure of the CWB during the 2010-11 crop year, ending July 31, 2011.

Between the July 31, 2011 crop year-end and the publication of this report, the CWB's legislative and environmental landscape underwent significant change. On December 15, 2011, Bill C-18: *An Act to reorganize the Canadian Wheat Board and to make consequential and related amendments to certain Acts*, became law, transforming certain fundamental elements of the CWB ("the Corporation").

The information contained within this report is accurate and representative of the CWB's operating environment as it existed during the 2010-11 crop year. Although this report is intended to be an analysis of the 2010-11 crop year, the importance of the legislative changes imposed by the passage of Bill C-18 warranted, in some instances, the addition of relevant information arising after the 2010-11 crop-year end to ensure clarity and up-to-date commentary.

Unless otherwise stated, reference to the *Canadian Wheat Board Act* or "the Act" refers to the legislation governing the CWB during the 2010-11 crop year.

Financial highlights

	2010-11	**2009-10***	**2008-09**	**2007-08**	**2006-07**
Combined pool operating results ($millions)					
Revenue	$ 6,071.3	$ 5,149.4	$ 7,828.5	$ 8,418.6	$ 4,945.9
Payments to pool participants	3,791.8	4,278.6	6,432.1	5,240.3	3,497.8
Payments to PPO participants	1,709.2	278.2	679.3	1,921.1	1,060.3
Payments to cash trading participants	11.5	6.1	5.2	–	–
Receipts (000 tonnes)					
Wheat	13 668.1	15 603.3	15 931.5	13 368.1	15 516.6
Durum	3 965.4	3 413.5	4 281.4	3 581.0	3 982.7
Designated barley	681.1	1 445.0	2 411.4	2 444.9	1 851.3
Barley (pool A)	299.0	–	19.3	37.5	147.5
Barley (pool B)	153.0	–	11.6	418.0	19.8
Cash trading	735.2	593.8	561.1	1 206.9	5.9
Total	**19 501.8**	**21 055.6**	**23 216.3**	**21 056.4**	**21 523.8**

* 2009-10 results have been re-stated to conform with the current year's presentation, in compliance with Generally Accepted Accounting Standards.

A message from the president and CEO

The bottom line

For the farmers we serve, that's what really matters.

Weather fluctuates, issues evolve, public policies change as elections come and go. But what matters most to Prairie farmers is the living they make for themselves and their families by growing the food that feeds the world. At the CWB, farmers' bottom lines have always been our exclusive focus.

And in the 2010-11 crop year, it was among the highest in history. A total of $5.5 billion was returned to Prairie producers, profits received from the CWB marketing their wheat and barley to customers in over 70 countries around the world. It was the fourth-highest total on record.

This occurred despite the fact that the 2010-11 harvest produced one of the smallest and lowest-grade crops on record after a disappointing weather pattern for most of the growing season. Record rainfall left millions of unseeded acres, delayed crop development and damaged harvest quality, directly impacting farmer incomes. Significant rail transportation problems – some related to excessive rainfall – resulted in additional challenges for marketing the crop.

The all-wheat crop was 21 million tonnes – compared to 24.6 million tonnes the previous year. Only 38 per cent of Canada Western Red Spring wheat graded Nos. 1 or 2, compared to a normal average of 68 per cent. For durum, the quality issue was even more pronounced, with only 21 per cent of Canada Western Amber Durum falling in the top two grades (the normal average is 57 per cent). Since 1970, only one other year saw a lower overall durum quality profile in Western Canada.

Total CWB exports were 15.8 million tonnes of wheat, durum and barley, the lowest volume in six years and three million tonnes below the previous year's decade-high export total. Wheat exports were 11.2 million tonnes, durum was 3.4 million tonnes, malting barley was 400 000 tonnes and feed barley was 800 000 tonnes.

Domestically, the CWB sold 2.7 million tonnes of wheat, 290 000 tonnes of durum and 211 000 tonnes of malting barley.

The CWB's focus during the year was to find ways to meet the requirements of western Canadian farmers' quality-conscious and most valuable grain customers, while finding markets for the unusually large quantities of lower-quality wheat and durum that needed to be sold. Our success on both fronts contributed to producers' bottom line. CWB sales-price comparisons (p. 32 in "Measuring Success") show a significant increase over the previous year in the net per-tonne price received in 2010-11, compared to that received by our competitors for comparable quality. For wheat, the CWB achieved $8.67 per tonne more than competitors, for durum $17.23, and for malting barley $21.88.

One of the biggest challenges in 2010-11 involved moving Prairie grain to port. Sourcing, segregating and transporting grain were extremely complex due to factors including Canadian Pacific Railway performance problems, bad weather that hampered farmer deliveries, and limited supplies of high-quality grain.

However, at the end of the day, there were some significant successes from the CWB's role in the wheat supply chain that also added to the bottom lines of farmers. The CWB generated direct savings of $35.1 million through commercial grain-handling contracts. We also shipped a near-record number of producer cars for additional savings to producer-car users of $14.5 million. During the crop year, 600 000 tonnes of wheat flowed through the Port of Churchill, the second-highest volume since 1977. In February, the CWB announced its decision to buy two laker vessels as another way to reduce farmers' transportation costs over the long term.

For malting barley, the main issue was finding enough selectable barley on the Prairies to supply both the domestic market and traditional export customers. Canada's 2010-11 barley production decreased to 7.6 million tonnes, nearly two million tonnes lower than the previous year. With the limited amount of high-quality malting barley produced, the CWB successfully worked with customers to maximize acceptance of additional barley with lower-than-normal malting quality specifications. On the positive side, barley prices for both feed and malting quality were buoyed during the year by tighter world barley supplies and higher world feed prices, driven by tight supplies of U.S. corn.

The 2010-11 crop year also saw great activity and enhancements for the CWB's Producer Payment Options (PPOs), which have been extremely valuable in assisting with farmers' bottom lines over the 10 years they have been offered. There was record farmer participation in the PPOs during the year, as producers looked at rising commodity values in the international marketplace, with grain prices appreciating due to export bans in the Black Sea region and very tight U.S. corn supplies. In total, farmers signed 42,677 PPO contracts for 5.9 million tonnes of grain – about one third of the CWB's total program. (See p. 53.)

PPO programs were enhanced during the year through the extension of deadlines from October 31 to January 31, enabling farmers to sign contracts later in the crop year to capture potential market rallies. In addition, the CWB began offering Early Payment Options for feed wheat and durum, enabling producers to take advantage of the strong feed-grain market values and providing greater cash flow and price certainty.

As we look to the future, the bottom line will continue to be the most important consideration for all Prairie producers. The landscape of grain marketing will undoubtedly undergo significant change over the course of the next year, but it is our sincere wish that Prairie farmers are able to ensure their own interests always come first.

Ian White
President and Chief Executive Officer

Corporate governance

The following section focuses on the CWB board of directors and executive leadership team. It outlines the roles 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. The information contained within this section reflects the CWB's governance structure and mandate as it existed during the 2010-11 crop year.

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Board of directors*

The CWB operates as a shared-governance corporation under the *Canadian Wheat Board Act* (the Act). 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. During the 2010-11 crop year, President and CEO Ian White was re-appointed for another three-year term. This unique board structure was created in 1998 to reflect the CWB's accountability to farmers and to ensure that farmers direct the Corporation. 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.

Prior to the passage of Bill C-18, farmer-directors were elected by producers in 10 electoral districts across the Prairies. To ensure continuity on the board, these directors had staggered four-year terms and elections were held every two years, alternating between odd- and even-numbered districts. Appointed directors held three-year terms. During the 2010-11 crop year, director David Carefoot was re-appointed to the board for another term. Following the 2010 director elections, two new farmer-directors were elected to the board: Stewart Wells (District 3) and John Sandborn (District 9). Chair Allen Oberg, Henry Vos and Kyle Korneychuk were re-elected to the board for another term.

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 2010-11 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 2010-11 crop year included updates on corporate performance measurement as new measures were developed and existing measures refined. The 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.

In the May 2, 2011 federal election, the Conservative Party of Canada won a majority government. Shortly after, the Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board, Gerry Ritz, announced the government's intentions to remove the CWB's legislated single-desk authority. The board of directors began assessing the implications of this change and preparing contingency plans.

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, comprising:

- 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

* On December 15, 2011, Bill C-18: *An Act to reorganize the Canadian Wheat Board and to make consequential and related amendments to certain Acts* became law, resulting in the immediate dismissal of the farmer-elected board members. The board of directors currently consists of the four government-appointed directors and the President and CEO who served on the board prior to Bill C-18 receiving Royal Assent.

- 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 and a policy on director participation in Producer Payment Options
- 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

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

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, Ken Motiuk, John Sandborn[1] and Henry Vos.

Governance and Management Resources Committee

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), David Carefoot, Glen Findlay, Bruce Johnson, John Sandborn[1], Bill Toews[3] and Bill Woods.

Election Subcommittee

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

Members[2] – David Carefoot, Allen Oberg, John Sandborn and Ian White.

Strategic Issues Committee

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, Jeff Nielsen, Stewart Wells[1], and Bill Woods.

Farmer Relations Committee

This committee reviews and recommends to the board strategic plans for farmer relations, communications and government relations.

Members – Rod Flaman (chair), Cam Goff, Ken Motiuk, Jeff Nielsen, Stewart Wells[1], and Henry Vos[3].

1 Appointed February 2, 2011
2 Appointed March 25, 2011
3 Appointed June 2, 2011

Director biographies

Elected directors

Henry Vos (District 1) [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) [2]

Jeff operates J.E. Nielsen Farms Inc. near Olds, Alberta where he farms 1,350 acres of grains and oilseeds. Jeff has previous experience as an elected board official, notably with the 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.

Stewart Wells (District 3) [3]

Stewart was born and raised on a family farm near Swift Current, Saskatchewan. He and his partner Terry Toews co-own and operate a third-generation farm, with the majority of acres seeded to organic red spring wheat, winter wheat, peas and lentils. Stewart holds a Bachelor of Agricultural Engineering from the University of Saskatchewan. He served as a farmer-delegate to the Saskatchewan Wheat Pool. He was elected to the national board of the National Farmers Union for 12 years, including serving for eight years as its president. Stewart has also served as a board advisor for the Canadian Agri-Food Policy Institute and has sat on provincial and national committees related to marketing, trade and farm safety-net programs.

Bill Woods (District 4) [3]

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) [3]

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) [3]

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. Cam is also a board member of the Western Grains Research Foundation.

Photo from far left to right: Cam Goff, Bill Toews, Kyle Korneychuk, Stewart Wells, Allen Oberg, Rod Flaman, Bill Woods, Ian White, John Sandborn, Henry Vos, David Carefoot, Glen Findlay, Jeff Nielsen.

Missing from photo: Bruce Johnson and Ken Motiuk.

1 Resigned October 26, 2011
2 Resigned October 31, 2011
3 Directorship ceased with the passage of Bill C-18 on December 15, 2011

Kyle Korneychuk (District 7) [1]

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 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) [1]

Rod farms with his wife Jeanne and son Nick near Edenwold, Saskatchewan. They farm 4,500 acres, planting spring wheat, durum wheat, barley and canola. Rod holds a Bachelor of Engineering from the University of Saskatchewan and spent 10 years working in industry before returning to the family farm. Rod served as a director at Terminal 22 at Balcarres and was a founding member and director of the Saskatchewan Fruit Growers Association.

John Sandborn (District 9) [1]

John Sandborn farms 3,000 acres of wheat and canola near Benito, Manitoba. John holds a Certificate in Management Leadership from the University of Calgary and a Bachelor of Science from Brandon University. John was an elected director of Manitoba Pool Elevators and Agricore Co-operative Ltd. He also served as a director of Federated Co-operative Ltd., including two years as a member of its Audit Committee. John is a founding director of the Parkland Crop Diversification Foundation and is the vice-president of the Swan Valley Consumers Co-operative board.

Bill Toews (District 10) [1]

Bill and his wife Barbara operate Harambee Farms, a grain and special crops farm at Kane, Manitoba. Bill holds a Bachelor of Agricultural Science, a master's 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.

1 Directorship ceased with the passage of Bill C-18 on December 15, 2011

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 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 bachelor's and master's 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 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 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) 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

2010-11 crop year

Director	District	Retainer	Per diems	Total	Board meetings	Industry/ Committee meetings	Miscellaneous meetings
		Remuneration[1]			Attendance		
Vos, Henry	1	$20,000	$18,000	$38,000	7/7	14/14	6
Nielsen, Jeff	2	$20,000	$23,000	$43,000	7/7	12/12	16
Hill, Larry [2]	3	$8,333	$6,750	$15,083	2/2	7/7	3
Wells, Stewart [3]	3	$11,667	$18,500	$30,167	5/5	8/8	11
Woods, Bill	4	$20,000	$30,500	$50,500	7/7	12/12	24
Oberg, Allen	5	$105,000	N/A	$105,000	7/7	14/14	23
Goff, Cam	6	$20,000	$31,250	$51,250	7/7	12/12	22
Korneychuk, Kyle	7	$25,000	$32,875	$57,875	7/7	14/14	18
Flaman, Rod	8	$25,000	$22,625	$47,625	7/7	14/14	11
Nicholson, Bill [2]	9	$8,333	$6,000	$14,333	2/2	6/6	4
Sandborn, John [3]	9	$11,667	$30,750	$42,417	4/5	7/9	19
Toews, Bill	10	$25,000	$22,250	$47,250	7/7	12/12	30
Carefoot, David	A	$20,000	$6,500	$26,500	6/7	13/15	0
Findlay, Glen	A	$20,000	$10,500	$30,500	7/7	12/12	0
Johnson, Bruce	A	$27,500	$11,750	$39,250	7/7	13/14	3
Motiuk, Ken	A	$20,000	$12,750	$32,750	6/7	13/14	3
White, Ian [4]	A	N/A	N/A	N/A	7/7	N/A	N/A
TOTAL:		**$387,500**	**$284,000**	**$671,500**			

Notes:
A = Appointed

1 The board chair receives an annual retainer of $105,000. Other directors are paid an annual retainer of $20,000 and per diem allowances. Regular committee chairs receive a further $5,000 per committee chaired and the Audit, Finance and Risk Committee chair receives $7,500. A per diem of $500 per full regular meeting day is paid to each regular board member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for regular directors.

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

Total expenses for the board of directors during the 2010-11 crop year, including retainers, per diems and reimbursable expenses, were $949,900 compared to $947,081 during the 2009-10 crop year.

2 Term ended December 31, 2010
3 Took office December 31, 2010
4 Remuneration for the president and CEO is listed under Leadership Team, page 16

Director participation in Producer Payment Options

CWB directors are permitted to participate in the CWB's Producer Payment Options (PPOs). Directors are subject to a blackout period on PPO transactions, during which time they must not enter into or settle PPOs. These blackout periods correspond with regular meetings of the board. Directors must also refrain from entering into or settling a PPO at any time they become aware of material, non-public market information outside of blackout periods. The board-approved policy on director participation in PPOs requires disclosure of any PPO transactions by directors. The following is a list of PPO transactions by directors in 2010-11.

Director name	Payment option	Tonnes	Total transaction value
Ken Motiuk	EPO – Feed wheat	660	$161,825
Jeff Nielsen	EPO – CWRS	572	$159,945
Allen Oberg	EPO – Feed barley	235	$53,729

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 to serve in external capacities during the 2010-11 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
Prairie Grain Development Committee	Member, Prairie Recommending Committee for Wheat, Rye and Triticale	Bill Woods
Prairie Grain Development Committee	Member, Prairie Recommending Committee for Oats and Barley	John Sandborn
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, comprising senior officers of the Corporation, is responsible for overseeing its operations 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 Corporation.

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 combination of base pay and variable pay (for all employees) is designed to place the CWB's total compensation program 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 Corporation must achieve or exceed a number of corporate performance targets in order for a payout 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, 2010-11

Salary disclosure for the top five salaries within the Corporation 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 2010-11 crop year. These figures reflect total compensation during the time that the individual held the position during the 2010-11 crop year.

	Base pay	Variable pay*	Bonus**	Benefits***	Total
Ian White	$ 665,845.34		$ 119,840.00	$ 21,553.08	$ 807,238.42
Ward Weisensel	$ 326,657.39	$ 86,726.81		$ 48,964.39	$ 462,348.59
Brita Chell	$ 265,675.90	$ 70,536.39		$ 43,844.88	$ 380,057.17
Graham Paul	$ 231,190.18	$ 61,377.68		$ 40,660.60	$ 333,228.46
Gordon Flaten[1]	$ 197,759.64	$ 54,406.89		$ 37,608.75	$ 289,775.28

* Based on Variable Pay program results for the 2010-11 crop year and paid out in December 2011

** As per contract based on the results for the 2010-11 crop year and paid out in December 2011

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

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

1 Vice-president, Marketing and Sales

Left to right: Diane Wiesenthal, Ward Weisensel, Graham Paul, Ian White, Brita Chell, Jim McLandress, Dave Burrows

Leadership team for 2010-11

Ian White – President and Chief Executive Officer

Dave Burrows – Vice-President, Farmer Relations and Public Affairs

Brita Chell – Chief Financial Officer

Graham Paul – Chief Information Officer

Jim McLandress – General Counsel

Ward Weisensel – Chief Operating Officer

Diane Wiesenthal – Vice-President, People and Organizational Services

Note: Deborah Harri – Corporate Secretary, retired July 2011

Management discussion & analysis

Responsibility

The following management discussion and analysis (MD&A) is the responsibility of management as of November 24, 2011. 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.

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Our business

The CWB is the single 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 derived from durum milling. Semolina is primarily used in pasta and couscous, which is a staple dish in North Africa.

Designated barley

About 55 per cent of Western Canada's barley acres are seeded to malting varieties. Of that, on average approximately 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.

Products

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

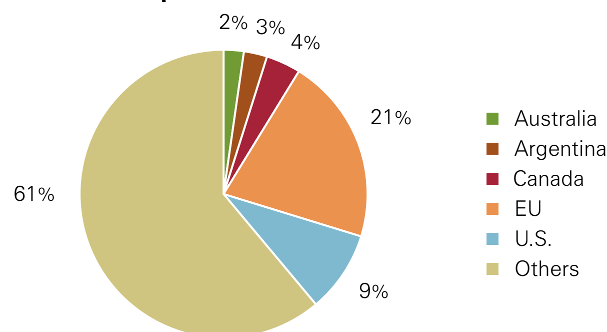
The global market for wheat, durum and barley is highly competitive. For more than 75 years, the CWB has sustained and built Western Canada's market presence and strong reputation through customer service and branding. This has successfully contributed to its role as the largest wheat and barley marketer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

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, Bangladesh, 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. Russia, Ukraine and Kazakhstan are also significant exporting countries, but exports from these countries in 2010-11 were hampered by a large-scale drought in the region.

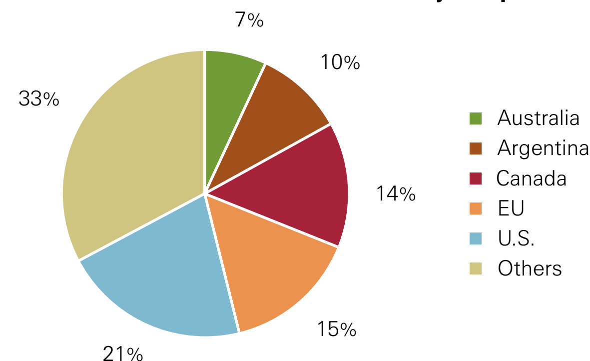
Canada is also a significant participant in the world durum market, capturing approximately 50 per cent of world export trade. Canada, the EU and the U.S. combined account for about three-quarters of international durum exports, despite the fact that these countries produce less than 43 per cent of the total global supply, with Canada producing less than 15 per cent.

Market share of principal wheat-exporting countries (% of world totals, 2006-2010)

World wheat production

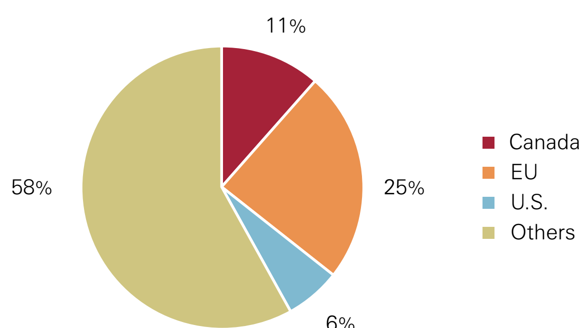


World wheat trade: Market share of major exporters

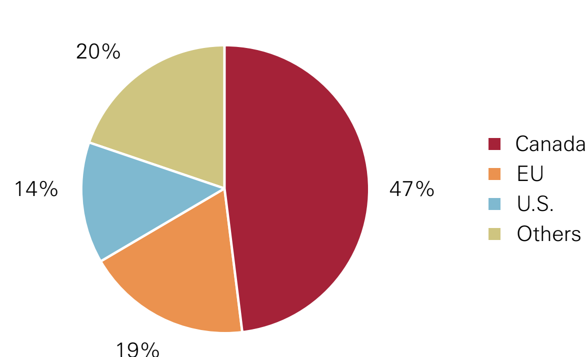


Market share of principal durum-exporting countries (% of world totals, 2006-2010)

World durum production



World durum trade: Market share of major exporters

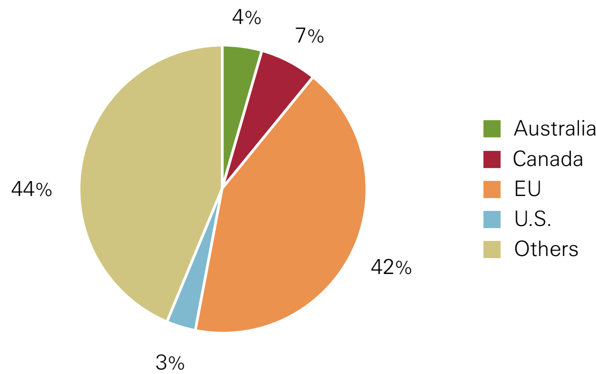


Global buyers value Canadian durum for its consistency, quality and reliability of supply, which is ensured by superior marketing and grain-handling systems. Italian pasta makers are among the top buyers of Canadian durum, a group that also includes customers in other European nations, North Africa (Algeria,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

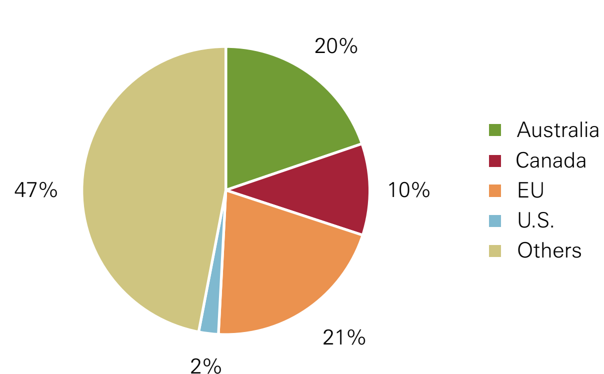
In barley export markets, the main suppliers are Australia, Canada, the EU and Ukraine, which together account for nearly half of all world exports. In recent years, Ukraine has been the largest exporter, followed by Australia and the EU. Two-row malting varieties from Western Canada are used in the 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 going to Mexico.

Market share of principal barley-exporting countries (% of world totals, 2006-2010)

World barley production



World barley trade: Market share of barley exporters



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 core operations and structure of the CWB – the single desk, pooling and government guarantees – were 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 the designated area 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 build and support Canada's reputation for consistent quality and reliable supply – a firm foundation for excellent customer service.

Pooling

Pooling is the foundation of the CWB's ability 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; feed barley A; and feed barley B. 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 (PPOs). 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 their grain, dependent 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 their cash flow needs. 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 participating farmers to lock in a fixed price for durum, with the possibility of receiving a rebate of the risk discount at the end of the year.

* On December 15, 2011, Bill C-18: *An Act to reorganize the Canadian Wheat Board and to make consequential and related amendments to certain Acts* became law. As a result, the CWB's single desk will be eliminated August 2012, creating a fully open market for the sale of western Canadian wheat and barley.

Basis Price Contract (BPC)

The 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

FlexPro offers a daily price for wheat that can be locked in throughout the crop year, provided tonnage is assigned before the beginning of the crop year.

Early Payment Option (EPO)

The EPO provides cash flow shortly after delivery for wheat, durum, feed barley and selected barley, creating a guaranteed floor price. Farmers receive payment equal to the guaranteed floor price within 10 business days of delivery. Farmers receive additional payments from the CWB if returns for their grain exceed the early payment value (EPV). During the 2010-11 crop year, the CWB introduced expanded EPO levels of 125, 150, 175 and 200 per cent of the Pool Return Outlook (PRO) for feed wheat, No. 4 Canada Western Amber Durum (CWAD) and No. 5 CWAD that provided expanded floor prices.

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, Cash*Plus* adds flexibility to pricing and establishes an upfront, guaranteed cash price that reflects current 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

GrainFlo is an optional delivery contract for Canada Western Red Spring (CWRS) wheat and CWAD that provides farmers with the option of choosing between two delivery periods. The program is available for Nos. 1, 2 and 3 grades, guaranteeing 100-per-cent contract acceptance for CWRS while providing equal acceptance to the Series A delivery contract for CWAD. Combined with storage payments, the program gives farmers the ability to manage the delivery of their grain while still ensuring the CWB can source grain to meet sales commitments.

Guaranteed Delivery Contracts (GDCs)

GDCs offer farmers 100-per-cent acceptance within defined delivery periods. Many different GDCs were available during 2010-11 due to the lower-quality crop. To ensure sales commitments were met, GDCs for high-protein CWRS and Nos. 1 and 2 CWAD, providing premiums and storage payments, were offered during the crop year. GDCs were also offered for Canada Western feed wheat, Canada Western Red Winter Select, Canada Prairie Spring Red, Canada Prairie Spring White, Canada Western Extra Strong and Canada Western Red Winter wheat.

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 to the new-crop pool in order to try to capture higher projected returns.

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 wheat on-farm. It ensures a consistent supply of high-quality, high-protein wheat to satisfy the needs of premium customers.

Churchill Storage Program (CSP)

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 be shipped as early as the beginning of July. The CSP is designed to ensure this grain is on hand when needed.

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 Corporation 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 employees also have agricultural and farming backgrounds, with family ties to farming communities across the Prairies. The CWB's headquarters are in Winnipeg, Manitoba. Satellite sales offices are also located in Beijing and Tokyo. The majority of the CWB's 410 employees are based in Winnipeg. Sixteen Farm Business Representatives (FBRs) are stationed in communities across the Prairies, providing farmers with in-person customer support. They are responsible for serving the business needs of farmers and maintaining contact with grain-handling facilities within their districts.

People

How the financial statements capture the business

The financial statements were prepared in accordance with the Act as it existed at July 31, 2011, prior to the passage of Bill C-18 on December 15, 2011.

The Act required the Corporation to establish a separate pool account each crop year (August 1 to July 31) for each of the crops it handles. Five pool accounts are operated: 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 designated barley, feed barley, Canada Western Soft White Spring wheat, organic wheat and organic 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 the 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 $200 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 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 – pools, 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, but do include costs associated with the construction of the two lake vessels as per the direction of the board of directors. These statements provide producers with an opportunity to review the results of each pool account and the resulting distributions that can be tied back to the audited statement of distributions to pool participants. Please see page 62 for a reconciliation of the individual statements in the MD&A to the audited financial statements.

The reconciliation of items between the statement of individual pool accounts and the GAAP financial statements relate to the point in time at 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 reporting standard	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 gans and losses related to recording of fair value of financial instruments • Differences in inventory valuation • Difference in capitalization of lake vessels	

* Reconciliation of differences is reported on page 62.

Our vision and strategies

The 2010-11 crop year represented the second full year of execution of the CWB's five-year (2009-14) strategic plan. As the most important stakeholders of the Corporation, farmers are the ultimate beneficiaries of services and operations.

To achieve the overarching strategic goal of serving and adding value for all western Canadian farmers, efforts are focused on four strategic priorities, which correspond with the strategic plan's four pillars:

1. Operate efficiently and effectively

Continually improve and optimize processes and systems in order to provide responsive service while meeting service commitments to both farmers and customers. This must be done 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 with which the CWB conducts business and develop closer business relationships with them.

3. Manage the customer base

Ensure deeper and more profitable relationships with customers while exploring new and innovative ways to develop ties with them 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. The Corporation seeks opportunities that are profitable, have high growth potential, enhance the core marketing business and deliver a competitive advantage for farmers.

These strategic priorities are designed to deliver superior value to farmers. Owing to a highly skilled and diverse workforce committed to a "Farmer First" culture, the CWB is dedicated to achieving these goals.

Improvement in its processes and systems has been made a priority to ensure all activities result in the most responsive service possible to farmers. This is being done while striving for the lowest possible costs throughout the supply chain. In addition, managing the customer base in a manner that leverages existing relationships enables the CWB to meet the needs and expectations of customers. This, in turn, results in deeper and more profitable relationships.

For each strategic priority, a number of specific initiatives were developed. Progress on these initiatives is constantly monitored and measured to ensure the expected results are achieved and the appropriate value is delivered to farmers.

During the first two years of the five-year strategic plan, significant progress was made on the execution of the strategy, including optimizing performance while increasing transparency and accountability in every area of the Corporation. Clear performance measures are used to monitor and drive the behaviour and actions required to achieve the set goals.

Following the May 2, 2011 federal election, the Government of Canada announced its intention to introduce legislation that would eliminate the CWB's single desk. This announcement triggered a full review of all initiatives currently under way to determine which would remain relevant and valuable in the new environment. As a result of this review, certain initiatives were indefinitely suspended until more clarity on the details of Bill C-18 and its possible tabling date were known. At the time this report was published, Bill C-18 had become law and was in effect. Review of these initiatives is ongoing as the Corporation moves forward in its new legislative and operational environment.

CWB performance highlights

The CWB's performance in 2010-11 was measured based on the framework of the four strategic priorities of the strategic plan. The achievements and efforts are outlined below. As the Corporation prepares to operate in a new operational and legislative environment, certain initiatives have been indefinitely suspended, while others are under review. Performance related to the CWB's core grain marketing functions is detailed in the individual pool, cash trading and PPO program results sections of the report, beginning on page 37.

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 to ensure the achievement of the strategic plan over the next five years.
- Provide efficient, cost-effective grain 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 Corporation's strategic objectives.

Achievements

Streamlined business processes:

- Continued to focus on the business process modernization initiative launched in the 2009-10 crop year, designed to review existing business processes and identify opportunities to increase efficiency and effectiveness throughout the Corporation. Employees received training on customer service and continuous improvement concepts to equip them with the tools required to ensure business modernization is entrenched in the Corporation's culture.

Performance management:

- Continued to assess and enhance the key corporate measures used to assist the CWB and its board of directors in tracking and monitoring the implementation of the strategic plan throughout the Corporation. A strong focus is placed on ensuring farmers' business needs and expectations are met and that continual improvements are achieved throughout the grain supply chain.

Grain transportation:

- Generated direct savings of $35.1 million through commercial grain-handling contracts. The CWB moved 12,271 producer cars for additional savings of $14.5 million.
- Shipped 600 000 tonnes of wheat through the Port of Churchill. This is the second-highest volume since 1977. Use of the port is a viable export alternative for Prairie farmers as it saves farmers money through reduced rail-freight costs and avoids St. Lawrence Seaway charges.

Risk management:

- Completed the third phase of the overall corporate price-risk model, designed to help the CWB better understand, quantify and manage risk in the face of ongoing market volatility. The third phase of the contingency fund risk model measures the risks associated with activities backstopped by the contingency fund. The first phase, focusing on the discretionary-trading risk model for the pools, and the second phase, focusing on the PRO risk model, were completed in 2009-10.

Human resource management:

- Completed the new human-resource technology system transition. Implementation was completed on schedule and under budget, resulting in significant savings for the Corporation.
- Implemented a number of new processes, including budgeting methodology.
- Rolled out a customized leadership program to all levels of management in the Corporation to provide them with the support and tools needed to deliver on the CWB's leadership and management expectations.

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 Corporation.
- 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

Producer programs:

- Adjusted sign-up deadlines for PPOs. Deadlines were extended from October 31 to January 31, enabling farmers to sign up PPOs later into the crop year and capture potential market rallies. Given the extremely busy spring seeding period (April 6 to June 15), the daily sign-up deadline was also extended by three hours.
- Offered additional Early Payment Values (EPVs) for feed wheat and Nos. 4 and 5 durum EPO program participants. The additional EPV levels, ranging in defined increments between 125 and 200 per cent of the PRO, enabled farmers to take advantage of strong feed grain market values and provided higher degrees of cash flow and price guarantees.
- Introduced daily delivery contract buyouts and assignments. Farmers had the option to exit their delivery contracts by paying a daily buyout fee or assigning outstanding tonnes to other farmers before the end of the crop year. This daily buyout option offers more transparency and consistency for farmers who face contract default.
- Implemented a Series contract storage-payment program. Farmers were compensated $0.03 per tonne per day for storing their grain from January 1, 2011 for Series A and January 11, 2011 for Series B until delivery calls were issued.

A focus on farmers:

- Redesigned the public Web site (www.cwb.ca) and created a mirrored mobile site (m.cwb.ca) to meet the needs of online users, which include farmers, customers, agri-business, government, media and the general public. A growing number of farmers now have access to high-speed internet and use online tools to access information, sign up for programs and communicate with the CWB.
- Increased CWB presence on the Prairies with the addition of new FBRs and Program Service Representatives (PSRs). Restructured certain service-area boundaries in order to enhance relationships and provide an increased level of service to farmers. Placed an increased focus on PPOs through workshops delivered by PSRs, adding value and increasing farmer knowledge and awareness of the programs.

Trade policy advocacy:

- Implemented a comprehensive trade strategy to ensure the needs and interests of western Canadian wheat, durum and barley farmers were represented within various multilateral and bilateral trade frameworks. The strategy focused on the World Trade Organization's Doha Development Round of negotiations, bilateral free-trade agreements, and various market access issues facing wheat, durum and barley.
- Promoted the critical importance of free trade agreements (FTAs) with Colombia and Morocco – two markets where western Canadian farmers faced a competitive disadvantage against their key competitors. The August 15, 2011, implementation of the Canada-Colombia FTA and the January 27, 2011, formal launch of FTA negotiations with Morocco will help ensure competitive access to two key markets for western Canadian wheat and barley.

Transportation advocacy:

- Continued to actively support and advocate for an efficient rail-service system for farmers. This included working with farmers and politicians 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 strong 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 the CWB's high-value products and services in order to differentiate from competitors.

Achievements

Serve customer needs:

- Continued to manage marketing programs to identify opportunities to match available product with individual customer needs, in order to achieve the highest overall returns for each program and maximize returns to farmers. As part of this process, the CWB also endeavours to enhance mutually beneficial long-term relationships with high-return customers and to ensure consistent, high-quality products and services are delivered. Special focus was placed on promoting the CWB brand in these markets.
- Undertook, in cooperation with the Canadian International Grains Institute, a comprehensive competitive analysis of the quality and value attributes of the CWRS and CPSR wheat classes was undertaken to support strategic client marketing and communication efforts.
- Worked with the Canadian Grain Commission to further improve the CWAD class tolerance specifications to better reflect world market requirements and to sustain market-share gains.

Branding:

- Partnered with a new domestic end-user, Canada Bread, for a nation-wide campaign that included in-store displays, television commercials, print ads, digital media and the CWB branding logo on Dempster's WholeGrains™ product packaging.
- Expanded the CWB branding partnership with Moderna Alimentos of Ecuador by promoting the CWB brand to bakers at their technical seminars. By educating this target group on the benefits and quality of Canadian wheat, the goal is to make Canadian flour the preferred choice in that region.
- Continued a successful collaboration with Robin Hood® with fall 2010 and spring 2011 consumer ad campaigns. These included recipe booklets with coupons for in-store promotion and magazine inserts with print runs of 2.5 million. Robin Hood has seen an increase in market share from similar previous campaigns.

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

Achievements

- Improved all the CWB laboratory performance metrics: efficiency, throughput and financial and personnel development. The laboratory processed over 60,000 samples for testing and analysis while meeting its 24-hour turnaround standard for over 98 per cent of all samples. Due to the increase in testing volumes, the lab expanded its capacity and personnel. The laboratory is completing the documentation and auditing steps required to attain ISO 17025 accreditation.
- Continued to expand the scope of WeatherFarm™, the CWB's Prairie-wide weather network and agronomic information centre. Since its launch in 2009 the number of registered users – over 80 per cent of them farmers – has grown to over 12,000, while the weather network expanded to over 850 stations, the largest weather network in Western Canada. In addition to launching a new one-of-a-kind mobile phone application and an online soil moisture tool, WeatherFarm closely collaborated with the Province of Manitoba to install over 50 additional stations to help predict and manage overland and watershed flooding.
- Entered into agreements to build two new lake vessels at a total cost of $65 million. Based on a favourable business case, the lake vessels are expected to be operational in 2013.

Measuring success

In the interest of accountability to its farmer stakeholders, the CWB strives to assess its performance against a set of fair and meaningful measures. The CWB will continue to assess the corporate performance measures on an ongoing basis to ensure their relevance going forward.

Three key indicators of CWB performance results against targets for the 2010-11 crop year are reported below.

Measure	Target for 2010-11	Results for 2010-11
Sales price comparison	Wheat – C$6.14; US$6.00 Durum – C$9.21; US$9.00 Designated barley – C$10.75; US$10.50	Wheat – C$8.67; US$8.67 Durum – C$17.23; US$17.39 Designated barley – C$21.88; US$22.00
Contribution from other revenue sources	$44.56 million	$55.11 million
Cost management	$65.87 million	$67.77 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 2010 were set in November 2010, based on sales already completed during the first three months of the crop year and additional sales projected to be made to July 31, 2011. 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

The 2010-11 world wheat crop was the third-largest in history, enabling global wheat stocks to grow by almost 7 million tonnes. However, despite the large world supplies, the amount of available high-quality, high-protein wheat was limited due to excess moisture in Australia, Canada and the northern U.S., which downgraded overall crop quality. Hard Red Spring supplies in the U.S. increased year on year, but the average protein level fell to 13.7 per cent – down from the five-year average of 14.1 per cent. With reduced high-quality supplies and the absence of Russia, Ukraine and Kazakhstan as major marketers of low-quality wheat, it was necessary to adapt in order to increase market share in lower-quality markets and to maximize the value of the limited supplies of high-protein wheat available. In order to achieve sales volume targets and induce buyers to purchase lower-quality Canadian wheat, it was anticipated that pricing would need to be more aggressive relative to competitors. Over the entire selling period, premiums on wheat sales remained steady at approximately $2 per tonne above target.
Sales price premiums achieved compared to the relevant competition were above set target levels and well above levels achieved the previous year.

Durum

Durum prices climbed throughout the fall of 2010 and into early 2011, due to a reduction in high-quality durum supplies, while lower-quality durum was in direct competition with corn and feed wheat in feed markets. World durum production declined by 6.2 million tonnes, chiefly due to poor production in Africa, Canada and Kazakhstan. However, large African carry-over limited import demand from that continent. Overall, total global demand was relatively unchanged from 2009-10.

Durum exports from Canada and Turkey decreased in 2010-11 while exports from the EU increased by approximately 1 million tonnes. As a result of the reduced Canadian crop size, the CWB's marketing strategy was designed to shift buyers to lower-quality durum while continuing to maximize the value of the durum crop. In order to achieve the necessary

quality shift, a more aggressive approach to durum sales was necessary. As a result, sales targets were set lower than those in 2009-10. Difficult seeding conditions in North America and farmer retention in the U.S. pushed North American durum values to historical highs in the spring of 2011. A combination of a smaller-than-forecast pool size, logistical constraints and an anticipated late 2011-12 harvest enabled the CWB to be more selective with durum marketing and therefore capture higher-than-anticipated returns. As a result, premiums on durum sales remained well above the target throughout the year. Sales prices achieved compared to the relevant competition were above the target levels and well above the level achieved the previous year.

Designated barley

In 2010-11, global barley production decreased significantly from 2009-10. Barley crops in the EU and Russia each declined by approximately 10 million tonnes from 2009-10 and, similarly, Ukraine and Kazakhstan also experienced significant reductions. In addition to the decline in supplies, the Australian and Canadian malting barley crops both faced quality problems. At the time targets were set, the Australian crop had yet to be harvested, so its impact could not accurately be factored into the set targets, which in turn affected the results of the sales-price comparison. With a limited high-quality crop in Western Canada, the CWB's overall marketing strategy for designated barley was designed to maximize sales that could be made at reasonable premiums to domestic feed alternatives. Sales premiums over the competition were expected to be under pressure as the CWB would have to move higher volumes of lower-quality barley. Overall, better-than-forecast price premiums were achieved and significant premiums were realized for new crop sales (2011-12) made prior to July 31, 2011, as some buyers were willing to pay a large premium to lock in a portion of their required supply.

Contribution from other revenue sources

This measure reflects the level of revenue 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 commodity and foreign exchange trading, and net interest earnings. The 2010-11 targets were exceeded for all revenue sources with the exception of the discretionary commodity benchmark – the measure of actual pricing performance against defined market benchmarks, which was slightly below target. The shortfall of the commodity benchmark was more than offset by the other sources of revenue, with no impact on the overall result.

Cost management

This measure 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. In 2009-10 this measure included costs of depreciation and amortization. However, in 2010-11, the impacts of depreciation and amortization were eliminated from the determination of the cost management target as these costs, which are related to capital decisions made in previous years, are not under the control of current management. This change resulted in a significant decrease in the target.

In setting this target, the CWB strives to limit costs to 1.25 per cent under the actual budget. In the 2010-11 crop year, administrative expenses came in above target (2.9 per cent) as well as above budgeted levels (1.6 per cent). This was due to a variety of factors, including timing of staff reductions under the business-modernization project begun during the previous year, and software support costs that had been capitalized in prior years and are now reclassified as administrative costs, as per accounting guidelines.

Current-year results

Factors that shaped the 2010-11 business conditions

World production

Wheat

Global wheat production in 2010-11 was the third-largest on record, despite a large drought in Russia and Kazakhstan and significant acreage loss in Western Canada due to excessive moisture. The International Grains Council estimated total global wheat production at 651 million tonnes, 28 million less than the previous year. Despite the reduced production, by the end of the 2010-11 marketing year, global stocks were 193 million tonnes, only 4 million tonnes lower than the previous year. In Canada, the smaller production, in part due to a large unseeded area, eroded national ending stocks down to 7.2 million tonnes, over 640 000 tonnes less than the previous year. Overall, prices appreciated for most of the 2010-11 marketing year as the combination of Black Sea region export bans and tight U.S. corn supplies boosted the market. A lower-than-average grade pattern in Canada and lower-than-expected protein levels in the U.S. spring wheat crop helped support the high-quality segment of the market. The wheat market was quite volatile during the spring of 2011 due to concerns over a drought in the U.S. Hard Red Winter wheat growing regions and excessive moisture during the spring seeding period in the northern U.S. and Western Canada.

Durum

Global durum production in 2010-11 dropped to 35 million tonnes, down just over 6 million tonnes from 2009-10. Durum production in the major exporting countries – Canada, the U.S. and the EU – decreased by 2.1 million tonnes from 2009-10. The size of the world durum trade remained almost unchanged at 7.5 million tonnes. Ending stocks of the major durum exporters decreased by 1.3 million tonnes, to 3.6 million tonnes. Durum prices appreciated throughout the year, but remained at a discount to high-protein spring wheat.

Barley

Global barley production in 2010-11 was 125 million tonnes, a dramatic 24.7-million-tonne reduction from 2009-10 levels. Canada's 2010-11 barley production decreased to 7.6 million tonnes, nearly 2 million tonnes lower than the previous year. Barley prices were buoyed throughout the year by tighter barley supplies and higher world feed prices driven by tight corn supplies.

Poor-quality crop in Canada

The grade distribution of the 2010-11 crop saw most of the wheat and durum crops in the bottom three grades. Malting barley selections were extremely low due to a small crop, frost damage and dismal harvest weather. Cool and damp weather conditions persisted throughout the summer and well into October, leading to an exceptionally challenging harvest across most of Western Canada.

The spring of 2010 saw a lower number of seeded acres than the previous year for both winter and spring wheat crops, due to cool weather and excessive moisture in parts of northern and central Saskatchewan. The early spring was warmer than normal, enabling farmers to make good progress in the early seeding stage. The weather quickly turned cool, with excessive moisture stalling most seeding activity in all three provinces. Ultimately Saskatchewan suffered the majority of lost acreage. The total surface area seeded with spring wheat in 2010-11 was the smallest in nearly 30 years.

Cool and wet weather persisted throughout the summer months resulting in slow crop development and above-average yield potential. In fact, the less-than-optimal weather conditions impeded crop development to such an extent that a frost occurence in the middle of September damaged crops in Alberta and Saskatchewan, while mature crops in the southern growing areas were impacted by excessive moisture.

Drier weather conditions in mid-October and beyond enabled harvest activities to resume and finally come to a close by the first week of November.

Grain deliveries and rail-service challenges

Slow crop development and poor weather conditions during the fall delayed harvest activity. The resulting lower-than-anticipated grade patterns motivated farmers to retain their high-quality grain on farm as they negotiated with grain handlers, therefore delaying shipments from country elevators to port. Compounding these challenges were significant shortfalls in Canadian Pacific Railway service – especially in the first half of the crop year – which further delayed shipments to port and led to an increase in demurrage costs.

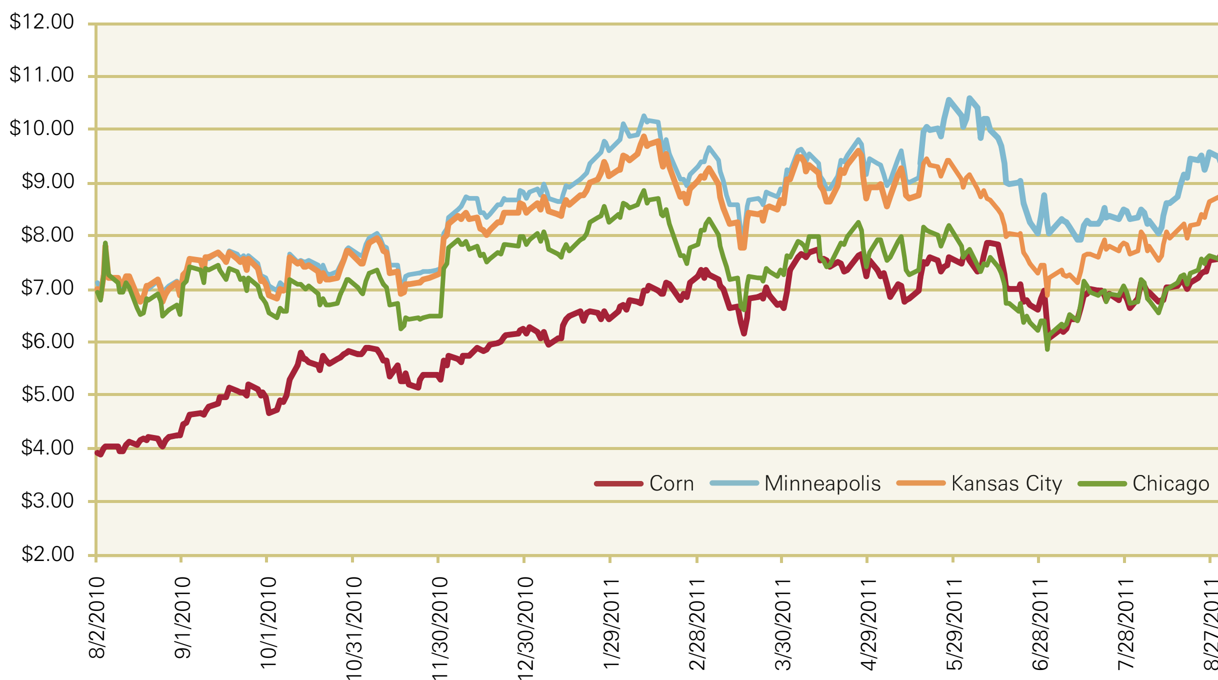
Commodity markets

Although commodity markets were volatile throughout most of the 2010-11 marketing year, they did trend upwards during most of that period. Wheat futures followed this trend to January, until a bearish U.S. Department of Agriculture report marked the change to a downward trend. Prices remained extremely volatile on a day-to-day basis, trending lower from January to March. Prices then rallied through late May, when more bearish fundamentals began to push prices lower. Prices continued to fall into June until planting issues in Western Canada and dryness in Russia and Ukraine began providing market support.

During the 2010-11 crop year, Kansas City wheat futures traded at a high of US$9.88 per bushel in the early half of February 2011, while the low of US$6.76 per bushel was set early in the year around the end of August 2010. Similarly, Minneapolis wheat futures set a high of US$10.60 per bushel at the beginning of June 2011. A low of US$6.78 per bushel was set earlier, in mid-August of 2010. Chicago wheat traded in a slightly different pattern, with a high of US$8.86 per bushel in the early half of February 2011 and a low of US$5.85 per bushel at the end of June 2011.

The price of corn ran in a similar fashion to Kansas City and Minneapolis wheat. Corn futures set a crop-year low of US$3.90 per bushel in early August 2010, then hit a high of US$7.87 per bushel in mid-June 2011.

U.S. futures market values, 2010-11 (US$ per bushel)



Stronger Canadian dollar

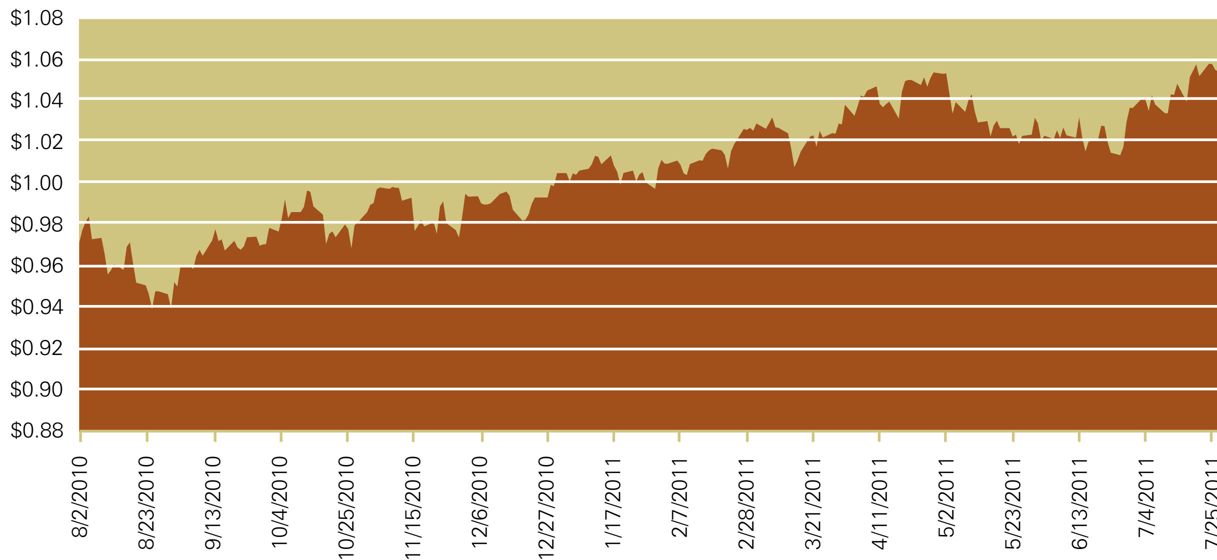
A slowing world economy and falling commodity prices saw the Canadian dollar close at 94 cents U.S. in August 2010 – the lowest level of the entire crop year. Financial and commodity markets began to rally upon news that the U.S. Federal Reserve would further stimulate the American economy through a program of buying U.S. Treasury securities to increase the money supply. Rising commodity prices and higher Canadian interest rates strengthened the Canadian dollar, rising above parity with the U.S. dollar at the close of 2010. This trend continued until April 2011, when it became apparent that additional stimulus efforts by the U.S. Federal Reserve were not likely. For the remainder of the crop year, the Canadian dollar traded between 101 and 106 cents U.S. as predictions of higher Canadian interest were offset by softer financial markets created by concerns over the fiscal challenges in Greece and other European nations.

Since most grain sold by the CWB is priced directly in U.S. dollars, the relatively stronger Canadian dollar in 2010-11 versus the prior year had a negative impact on pool returns. Hedging strategies employed 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 2010-11 crop year.

Financial market conditions

At the beginning of 2010-11, the global economy weakened, leading to a softening of financial markets and lower commodity and equity prices. However, despite these market conditions, the Bank of Canada continued its strategy of raising short-term interest rates into September in direct response to strong Canadian economic growth in the first half of 2010. In November, the U.S. Federal Reserve announced it would employ additional stimulus measures to strengthen financial markets and keep U.S. dollar short-term interest rates near zero. Because the majority of CWB debt is short-term in nature and is entirely guaranteed by the Government of Canada, farmers benefited from these low rates.

Bank of Canada C$/US$ 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. Below is an account of the combined pool operations, excluding results for Producer Payment Options and cash trading.

For the year ended July 31 (dollar amounts in 000s)		**2011** Total		2010 Total
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)		**18 766 584**		**20 461 812**
Revenue	$	6,224,104	$	5,037,702
Direct costs				
Freight		263,121		292,919
Terminal handling		175,629		166,895
Inventory storage		98,727		76,161
Country inventory financing		2,476		2,814
Inventory adjustments		(32,960)		32,342
Grain purchases		23,280		19,719
Other direct expenses		63,934		43,105
Total direct costs		**594,207**		**633,955**
Net revenue from operations		5,629,897		4,403,747
Other income		152,973		189,402
Other expenses		(13,776)		(534)
Net interest earnings		7,076		9,603
Administrative expenses		(67,405)		(66,350)
Depreciation and amortization expense		(17,438)		(17,085)
Grain industry organizations		(2,765)		(2,250)
Total pool earnings		5,688,562		4,516,533
Deduct:				
Sales returns to Producer Payment Options program		1,809,298		278,103
Earnings for distribution	**$**	**3,879,264**	**$**	**4,238,430**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts		**18 766 584**		**20 461 812**
Less: Producer Payment Options program receipts		**5 804 891**		**1 143 987**
Wheat Storage Program and Churchill Storage Program receipts		**22 440**		**67 858**
Receipts for pool distributions		**12 939 253**		**19 249 967**
Earnings distributed to pool participants				
Initial payments on delivery	$	2,565,306	$	3,498,298
Adjustment payments		717,972		210,735
Interim payment		310,181		244,877
Final payment		285,754		284,189
Total earnings distributed to pool participants		3,879,213		4,238,099
Transferred to contingency fund				
Undistributed earnings		51		331
Total distribution	**$**	**3,879,264**	**$**	**4,238,430**

Wheat pool

For the year ended July 31 (dollar amounts in 000s)	**2011**		2010	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**13 668 113**		**15 603 332**	
Revenue	$ 4,673,807	$ 341.95	$ 3,905,003	$ 250.27
Direct costs				
Freight	173,355	12.68	196,498	12.59
Terminal handling	130,761	9.57	128,150	8.21
Inventory storage	77,312	5.66	54,755	3.51
Country inventory financing	2,149	0.16	2,324	0.15
Inventory adjustments	(25,005)	(1.83)	27,650	1.77
Grain purchases	11,560	0.85	12,190	0.78
Other direct expenses	36,032	2.64	27,864	1.79
Total direct costs	**406,164**	**29.73**	**449,431**	**28.80**
Net revenue from operations	4,267,643	312.22	3,455,572	221.47
Other income	100,668	7.37	133,125	8.53
Other expenses	(10,051)	(0.74)	(407)	(0.03)
Net interest earnings	5,432	0.40	7,311	0.47
Administrative expenses	(49,158)	(3.60)	(50,588)	(3.24)
Depreciation and amortization expense	(12,708)	(0.93)	(13,028)	(0.83)
Grain industry organizations	(2,030)	(0.15)	(1,646)	(0.11)
Total pool earnings	4,299,796	314.57	3,530,339	226.26
Deduct:				
Sales returns to Producer Payment Options program	1,707,359	317.19	273,953	243.83
Earnings for distribution	**$ 2,592,437**	**$ 313.74**	**$ 3,256,386**	**$ 225.95**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**13 668 113**		**15 603 332**	
Less: Producer Payment Options program receipts	**5 382 754**		**1 123 559**	
Wheat Storage Program and Churchill Storage Program receipts	**22 440**		**67 858**	
Receipts for pool distributions	**8 262 919**		**14 411 915**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 1,733,866	$ 209.84	$ 2,631,842	$ 182.62
Adjustment payments	472,994	57.24	194,016	13.46
Interim payment	213,597	25.85	230,591	16.00
Final payment	171,980	20.81	199,937	13.87
Total earnings distributed to pool participants	2,592,437	313.74	3,256,386	225.95
Total distribution	**$ 2,592,437**	**$ 313.74**	**$ 3,256,386**	**$ 225.95**

The strategy

Western Canada's wheat production (excluding durum) in 2010 was 18 million tonnes, down approximately 1.3 million tonnes from 2009. Near-record precipitation levels during spring seeding in east-central Saskatchewan contributed to a loss – either abandoned or unseeded – of over 10 million acres. Abnormally cool and wet weather throughout the growing and early harvest period resulted in a below-average grade pattern, with only 38 per cent of the crop grading Nos. 1 or 2 on the quality scale. Average protein levels in CWRS wheat were slightly below the five-year average but higher than in 2009, at 13.4 per cent. The relatively poor grade pattern shifted the focus of the overall sales strategy to encourage buyers of Nos. 1 and 2 CWRS to transition to No. 3 CWRS.

Limited volumes of high-grade wheat increased the importance of targetted selling and, as a result, particular emphasis was placed on securing a pipeline of quality supply throughout Western Canada. Although protein levels were higher than in 2009, the relatively low amount of high-grade wheat created significant challenges in satisfying customer demand for high-grade, high-protein wheat. The primary focus of the CWB's marketing program was to first ensure the demand originating from premium markets, such as Japan and other west-coast customers, was satisfied. In other high-protein markets, efforts were made to supply customers with higher-protein No. 3 CWRS, often with minimum falling number specifications. Lower-protein No. 3 CWRS, Canada Prairie Spring Red (CPSR), Canada Western Red Winter (CWRW) and a significant amount of Canada Western feed wheat (CWFW) were earmarked for sale to the remainder of the customer base.

Producer receipts

Producer receipts of all non-durum wheat totalled 13.7 million tonnes, a decrease from 15.6 million tonnes in the previous year. Deliveries were accepted into the wheat pool until September 12, 2011. Keeping the pool open beyond July 31 ensures deliveries can be receipted into the pool and producers can fulfill their contract requirements regardless of difficulties arising from external 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 the farmer wants to deliver. Farmers had the opportunity to sign a Series A delivery contract by October 31, 2010. The CWRS, CWHWS, and feed wheat Series B delivery contract sign-up deadline was January 31, 2011 and for Series C the deadline was May 31, 2011.

The CWB announces an acceptance level after it has assessed the amount of grain offered under all contacts and the market demand for that grain. All Series A, Series B and Series C wheat contracts were accepted at 100 per cent.

2010-11 Contract acceptance

	Acceptance	% accepted
Series A	All wheat classes	100%
Series B	All wheat classes	100%
Series C	All wheat classes	100%

CWRW was the first product called for delivery, followed shortly after by CWRS, CPSR, CWSWS and the remaining classes. Nos. 1 and 2 CWRS Series A contracts were terminated in January, to encourage deliveries to meet sales commitments. Deliveries of CPSW and CWES were secured solely through Guaranteed Delivery Contracts (GDCs), while CWRW and CPSR GDCs were offered to secure non-contracted tonnes following the Series A deadline.

GrainFlo contracts gave producers the opportunity to contract CWRS in one of two delivery periods. A total of 387 000 tonnes of CWRS were delivered through these contracts.

In 2010-11, the increased presence of fusarium in wheat necessitated a fusarium delivery program. The CWB offered Series contracts that enabled producers to deliver Nos. 2, 3 and 4 CWRS as well as No. 2 CWRW containing higher-than-normal levels of fusarium and still receive the appropriate initial payment, less dockage. The program ran throughout the crop year, ensuring that the export tolerances on sales were met.

The Wheat Storage Program (WSP) offered producers an opportunity to sign up high-quality No. 1 CWRS harvested in the 2009-10 crop year for delivery in 2010-11 in order to ensure the availability of supplies for premium customers. This program was supplemented by 2010-11 GDCs for high-protein No. 1 CWRS that was not previously contracted under the WSP.

The Churchill Storage Program (CSP) offered farmers premiums as well as storage payments to ensure stocks of CWRS were available for the Churchill sales program at freight-favourable locations. The grain was called at the end of the 2010-11 crop year.

2010-11 Delivery calls

Class called	Fully called by	Call volume
Series A CPSR	March	100%
Series A Nos. 3 and 4 CWHWS	November	100%
Series A CWRS	April	100%
Series A CWRW	March	100%
Series A CWSWS	March	100%
Series A feed wheat	April	100%
Series B Nos. 3 and 4 CWHWS	November	100%
Series B CWRS	April	100%
Series B feed wheat	April	100%
Series C Nos. 3 and 4 CWHWS	May	100%
Series C CWRS	May	100%
Series C feed wheat	May	100%

Revenue

The domestic market was the single largest wheat market, accounting for 2.4 million tonnes of shipments, down slightly from 2.5 million tonnes in 2009-10. The second-largest wheat customer in 2010-11 was South Korea, with shipments of just under 1.1 million tonnes. This was a considerable increase over the prior year, when sales to South Korea were only 144 000 tonnes. With the relatively poor weather conditions during harvest, significant quantities of feed wheat were available for export. As one of the largest feed wheat import markets in the world, and located in a freight-favourable location from Western Canada, shipments to South Korea increased dramatically. In 2010-11, Japan was the third-largest buyer of Canadian wheat, with 944 000 tonnes of shipments, up from 927 000 tonnes the year before. Indonesia was the fourth-largest customer, purchasing 817 000 tonnes. Sri Lanka was the fifth-largest customer, purchasing 731 000 tonnes.

Total revenue in the wheat pool was $4.7 billion on 13.7 million tonnes of receipts, representing an average gross revenue of $341.95 per tonne (2010 – $250.27). This was an increase of $91.68 per tonne from the previous year's return and represents the second-highest per-tonne return on record. A very tight supply-and-demand balance in the corn and soybean markets underpinned strong prices for the major grains. Strength in the feed-grain sector provided support for the Canadian wheat classes.

The final pool return for No.1 CWRS with 13.5 per cent protein (net of all costs) was $344.96 per tonne in-store Vancouver/St. Lawrence, compared to $236.80 per tonne a year earlier. Due to lower-than-average protein in North American wheat crops, a high value was placed on high-protein grain. The protein spread between 11.5 per cent and 13.5 per cent increased to $37.78 per tonne from $31.89 per tonne one year before. The final pool returns for No. 3 CWRS and No. 2 CPSR were $283.17 and $270.28 per tonne respectively, compared to $187.27 and $182.59 per tonne in 2009-10.

Direct costs increased by $0.93 per tonne from the previous crop year, with terminal handling, inventory storage and other direct expenses being the main factors. Terminal handling increased due mainly to a larger proportion of west coast shipments, while the introduction of storage payments on grain stored against Series contracts increased inventory storage costs. Although listed as a cost, the on-farm storage payments to Series contract holders are paid to farmers themselves. A combination of delayed harvest, poor Canadian Pacific Railway performance and difficulties sourcing higher-grade wheat during multiple periods led to higher demurrage costs. Cost increases to these items were offset by inventory adjustment decreases due to downgrading, where the quality of deliveries from companies was lower than the quality cash ticketed from farmers.

Net revenue from operations was $312.22 per tonne, up by $90.75 from the previous year.

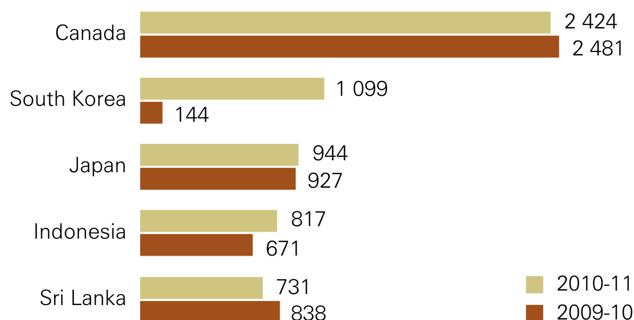
Other income decreased $1.16 to $7.37 per tonne from the previous year. This was primarily due to a $14.6-million decrease in rail freight clawback resulting from a 33-per-cent decrease in shipments via direct rail to customers. The increase in other expenses includes a portion of the construction costs for the newly purchased lake vessels.

Distribution of earnings

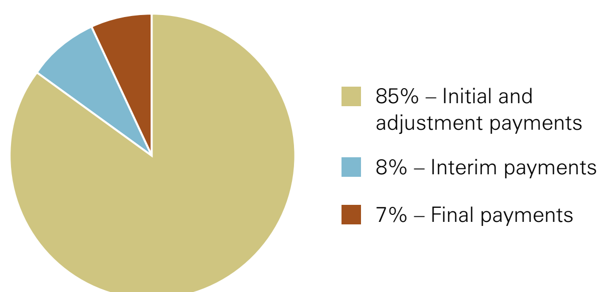
Average sales proceeds available for distribution increased $88.31 per tonne from the previous year to $314.57 per tonne, for a total of $4.3 billion. Of this, $2.6 billion was returned to pool participants. Of this amount, 85 per cent was approved by June 23, 2011 for distribution in the form of initial and adjustment payments. A further 8 per cent was distributed as an interim payment on November 8, 2011, with the balance distributed as the final payment.

Approximately $1.7 billion of sales returns were paid from the wheat pool to the Producer Payment Programs (PPO) programs, representing the pool return on the specific grades and classes of wheat delivered under Fixed Price Contracts, Basis Price Contracts, FlexPro and Early Payment Options. The PPO programs, in turn, paid participating farmers at their respective contract prices. Due to increased farmer participation in these programs, as well as the significantly higher price structure, the 2010-11 sales returns paid to the PPO programs were $1.4 billion greater than the previous year.

Largest-volume wheat customers (000s tonnes)



Earnings distributed to farmers



Durum pool

For the year ended July 31 (dollar amounts in 000s)	**2011** Total	**2011** Per tonne	2010 Total	2010 Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**3 965 405**		**3 413 522**	
Revenue	$ 1,250,801	$ 315.43	$ 812,433	$ 238.00
Direct costs				
Freight	86,740	21.87	72,577	21.26
Terminal handling	36,487	9.20	30,741	9.01
Inventory storage	16,297	4.11	11,809	3.46
Country inventory financing	201	0.05	402	0.12
Inventory adjustments	(7,783)	(1.96)	4,843	1.42
Grain purchases	3,310	0.83	5,598	1.64
Other direct expenses	23,466	5.92	8,577	2.51
Total direct costs	**158,718**	**40.02**	**134,547**	**39.42**
Net revenue from operations	1,092,083	275.41	677,886	198.58
Other income	29,223	7.37	22,114	6.48
Other expenses	(2,914)	(0.73)	(89)	(0.03)
Net interest earnings	768	0.19	923	0.27
Administrative expenses	(14,262)	(3.60)	(11,074)	(3.24)
Depreciation and amortization expense	(3,687)	(0.93)	(2,850)	(0.83)
Grain industry organizations	(491)	(0.12)	(360)	(0.11)
Total pool earnings	1,100,720	277.59	686,550	201.12
Deduct:				
Sales returns to Producer Payment Options program	13,121	271.82	809	197.24
Earnings for distribution	**$ 1,087,599**	**$ 277.65**	**$ 685,741**	**$ 201.13**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**3 965 405**		**3 413 522**	
Less: Producer Payment Options program receipts	**48 273**		**4 103**	
Receipts for pool distributions	**3 917 132**		**3 409 419**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 683,212	$ 174.42	$ 618,720	$ 181.47
Adjustment payments	224,037	57.19	–	–
Interim payment	92,249	23.55	–	–
Final payment	88,101	22.49	67,021	19.66
Total earnings distributed to pool participants	1,087,599	277.65	685,741	201.13
Total distribution	**$ 1,087,599**	**$ 277.65**	**$ 685,741**	**$ 201.13**

The strategy

Canadian durum production was just over 3.0 million tonnes in 2010, sharply down from the 5.4 million tonnes produced in 2009. Despite the significantly lower production, Canada carried in approximately 2.7 million tonnes of generally high-quality durum from the 2009 crop, facilitating a normal level of exports. Relentless cool and wet conditions during both the growing and harvest seasons resulted in a low-grade durum crop, with only 22 per cent of total production grading Nos. 1 or 2 CWAD and 46 per cent grading Nos. 4 or 5 CWAD. Similar to the situation for non-durum wheat, the marketing strategy required a strong focus on segregating and selling high-grade supplies to markets that value quality. Given the limited supply of higher-grade durum, demand for Nos. 1 and 2 CWAD could not be fully met.

The second element of the strategy was to segregate the customer base that was most flexible on its quality demands and encourage purchases of No. 3 CWAD with superior hard vitreous kernel count and acceptable falling number. This category represented the majority of the customer base in 2010-11 and the No. 3 CWAD grade was exported into most markets last year, often for the first time. Of particular note was the successful marketing of No. 3 CWAD into the U.S. markets. Despite the fact that No. 3 CWAD is not favoured by U.S. durum millers, the ability to source better-quality No. 3 CWAD and a lack of U.S. durum deliveries by U.S. farmers helped fuel demand for Canadian durum.

The final element of the marketing strategy for the 2010-11 durum crop was the development of a sales program for lower-quality durum that would facilitate movement throughout the crop year, while achieving returns above domestic feed values. To accomplish this, the logistical strategy was structured in such a way as to maximize the volume of No. 5 CWAD shipped through the west coast in order to minimize the internal freight cost and maximize net revenue. Additionally, southern European durum millers were targetted for lower-grade durum that worked well in their blends, factoring in the quality of their own domestic supplies. This segment represented the primary market for No. 4 CWAD sales in 2010-11.

Producer receipts

Producer receipts of durum wheat totalled 4 million tonnes, an increase from 3.4 million tonnes the previous year. Deliveries were accepted into the durum pool until September 22, 2011. Keeping the pool open beyond July 31 ensures deliveries can be receipted into the pool and producers can fulfill their contract requirements, regardless of difficulties arising from external 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 the farmer wants to deliver. Farmers had the opportunity to sign a Series A delivery contract by October 31 or a Series B delivery contract by March 31.

The CWB announces an acceptance level after it has assessed the amount of grain offered under all contacts and the market demand for that grain. All Series A and Series B durum contracts were accepted at 100 per cent.

2010-11 Contract acceptance

	Acceptance	% accepted
Series A	All durum	100%
Series B	All durum	100%

Nos. 1, 2 and 3 CWAD were called first, followed by Nos. 4 and 5 CWAD. Terminations of Nos. 1 and 2 CWAD occurred within the first two-thirds of the crop year to encourage deliveries of milling grades as producer deliveries were slower than normal, and therefore kept stocks tight. Four Guaranteed Delivery Contracts were also used to help generate deliveries of Nos. 1 and 2 CWAD to help alleviate sourcing issues.

GrainFlo contracts gave producers the opportunity to contract CWAD in one of two delivery periods. A total of 11 000 tonnes of CWAD were delivered through these contracts.

2010-11 delivery calls

Class called	Fully called by	Call volume
Series A Nos. 1 and 2 CWAD	February	100%
Series A Nos. 3, 4 and 5 CWAD	March	100%
Series B Nos. 1 and 2 CWAD	February	100%
Series B Nos. 3, 4 and 5 CWAD	March	100%

Revenue

The EU (excluding Italy) was the largest traditional milling-durum market for Canadian durum in 2010-11, with shipments of 880 000 tonnes. European durum millers have the flexibility to use lower-grade CWAD as part of their grist and therefore the lower-grade pattern in the 2010-11 crop year suited their needs. In addition to the 880 000 tonnes sold into the rest of Europe, Italy alone purchased 519 000 tonnes and ranked as the second-largest customer. The third-largest destination for durum sales was Morocco, where volumes were up from the previous year to 498 000 tonnes. Sales to the U.S. were fairly stable at 458 000 tonnes (449 000 tonnes in 2009-10). The fifth-largest destination in 2010-11 was Venezuela, where 360 000 tonnes were sold, increasing volume into that market by over 116 000 tonnes. In virtually all of these markets, the increased volumes were achieved by selling lower-grade CWAD compared to what the customers traditionally purchased from Canada.

Gross revenues in the durum pool amounted to $1.3 billion on just under 4 million tonnes of receipts for an average of $315.43 per tonne. This is an increase of $77.43 per tonne and is well above longer-term durum average values.

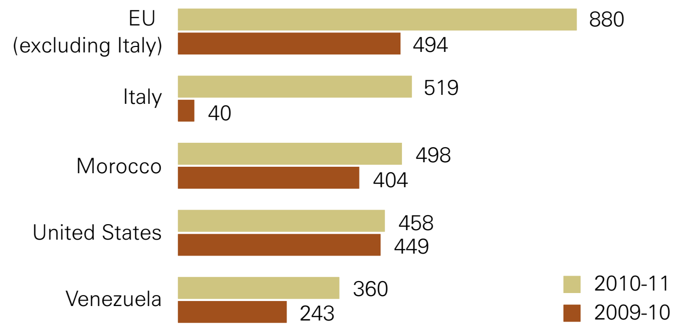
The final pool return for No. 1 CWAD with 13 per cent protein was $302.94 per tonne in-store Vancouver/St. Lawrence, compared to returns of $205.65 per tonne in 2009-10. The final pool return for No. 3 CWAD was $255.03 per tonne, versus $172.62 per tonne in 2009-10.

Direct costs rose by $0.60 per tonne over the prior year, largely as a result of two factors. Other direct expenses rose due to significantly higher demurrage costs resulting from increased execution delays. A combination of delayed harvest, poor rail performance and difficulties sourcing higher-grade durum during several periods of the year were the primary causes of the higher demurrage costs. The higher demurrage costs were partially offset by a decrease in inventory adjustment costs due to lower grades delivered than what was cash ticketed as delivered from producers.

Net revenue from operations was $275.41 per tonne, up $76.83 from the prior year and consistent with the increase in durum market values.

Other income increased slightly over the prior year to $7.37 per tonne. This was primarily due to an increase in liquidated damages and pool buyout costs, which were calculated using a revised formula in the 2010-11 crop year. The increase in other expenses includes a portion of the construction cost for the newly purchased lake vessels.

Largest-volume durum customers (000s tonnes)

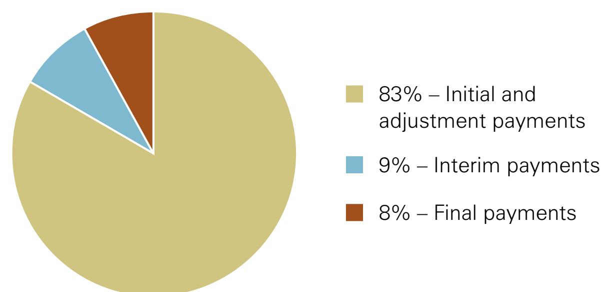


Distribution of earnings

Average sales proceeds available for distribution increased by $76.47 per tonne over the previous year to $277.59 per tonne. Of the $1.1 billion available for distribution, all but $13.1 million was returned to pool participants. Eighty-three per cent of the amount returned to pool participants was approved by March 25, 2011 for distribution in the form of initial and adjustment payments. Another 9 per cent was distributed as an interim payment on November 8, 2011, with the balance distributed as the final payment.

For producer receipts delivered under the Producer Payment Options (PPOs), $13.1 million of sales returns was paid from the durum pool to the PPO programs, representing the return on the specific grades and classes of durum delivered under Fixed Price Contracts. The PPOs, in turn, paid farmers at their respective contract prices.

Earnings distributed to farmers



Designated barley pool

For the year ended July 31 (dollar amounts in 000s)	**2011**		2010	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**681 088**		**1 444 958**	
Revenue	$ 179,655	$ 263.78	$ 320,266	$ 221.64
Direct costs				
Freight	2,800	4.11	23,844	16.50
Terminal handling	1,593	2.34	8,004	5.54
Inventory storage	4,570	6.71	9,597	6.64
Country inventory financing	86	0.13	88	0.06
Inventory adjustments	(143)	(0.21)	(151)	(0.10)
Grain purchases	6,806	9.99	1,931	1.34
Other direct expenses	2,134	3.13	6,783	4.69
Total direct costs	**17,846**	**26.20**	**50,096**	**34.67**
Net revenue from operations	161,809	237.58	270,170	186.97
Other income	22,088	32.43	34,163	23.64
Other expenses	(502)	(0.74)	(38)	(0.03)
Net interest earnings	734	1.08	1,157	0.80
Administrative expenses	(2,450)	(3.60)	(4,688)	(3.24)
Depreciation and amortization expense	(633)	(0.93)	(1,207)	(0.83)
Grain industry organizations	(177)	(0.26)	(244)	(0.17)
Total pool earnings	180,869	265.56	299,313	207.14
Deduct:				
Sales returns to Producer Payment Options program	2,103	265.46	3,341	204.63
Earnings for distribution	**$ 178,766**	**$ 265.56**	**$ 295,972**	**$ 207.17**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**681 088**		**1 444 958**	
Less: Producer Payment Options program receipts	**7 923**		**16 325**	
Receipts for pool distributions	**673 165**		**1 428 633**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 134,411	$ 199.67	$ 247,736	$ 173.41
Adjustment payments	17,253	25.63	16,719	11.70
Interim payment	4,039	6.00	14,286	10.00
Final payment	23,063	34.26	17,231	12.06
Total earnings distributed to pool participants	178,766	265.56	295,972	207.17
Total distribution	**$ 178,766**	**$ 265.56**	**$ 295,972**	**$ 207.17**

The strategy

Canadian barley production fell by approximately 2 million tonnes in 2010-11 from the previous year, primarily due to extremely wet weather conditions during spring seeding. In addition to lower production, designated barley supplies were affected by wet weather at harvest, which reduced the amount and quality of selectable barley. With the poorer-than-average quality, selectors' standards were adjusted downward in 2010-11.

The poor quality and limited volumes of selectable barley resulted in a sales strategy focused on North American demand. The North American market was the least affected by European, Australian and (particularly in 2010-11) Argentine barley competition. As such, price levels in the Canadian and U.S. malt markets offered the highest return for barley in 2010-11. The CWB endeavoured to continue selling into the offshore bulk barley market, but limited selectable supplies reduced the amount that could be sold. For certain sales, quality specifications were negotiated with buyers that would accept lower-quality barley until the new crop became available. In order to work with smaller aggregate supplies, many buyers chose to make smaller, more frequent purchases to lock up remaining good-quality supplies.

With limited supplies to choose from, the CWB was able to focus on key, high-return markets and negotiate higher-than-normal premiums on CWB sales.

Producer receipts

At 681 000 tonnes, the 2010-11 designated barley pool was down from the previous year's pool volume of 1.4 million tonnes. The reduced volume of selectable quality barley was primarily due to a poorer-than-average crop. Combining pool receipts with malting barley sold through the Cash*Plus* program, total designated barley sales were over 950 000 tonnes during the 2010-11 marketing year, down from the 2009-10 total volume of 1.8 million tonnes.

Deliveries into the designated barley pool were completed by September 9, 2011. 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 challenges arising from external factors such as transportation and weather.

Revenue

Due to poor harvest weather, the downgraded barley crop restricted certain sales opportunities. Malting barley sales to the domestic market through the pool account in 2010-11 were just over 445 000 tonnes. This was down from 675 000 tonnes in the 2009-10 crop year, but represented over 65 per cent of total malting barley pool sales. In addition to pooled sales to the domestic malt industry, 256 000 tonnes were sold through the Cash*Plus* program.

For bulk barley exports, China was again the largest export market for Canadian designated barley, although shipments dropped by about 484 000 tonnes to 55 000 tonnes in 2010-11. China is a very price-sensitive market and returns in that market were not favourable when compared to other alternatives, especially given the limited Canadian supplies in the previous year. China has continued to diversify its barley originations and purchased barley from a number of lower-cost suppliers in the 2010-11 crop year.

The U.S. was the CWB's third-largest bulk customer for pool-sourced designated barley, with purchases of just over 50 000 tonnes. U.S. bulk buyers also purchased through the Cash*Plus* program to supplement their pool purchases. The CWB's fourth-largest customer for pooled designated barley was Japan at 42 000 tonnes, while Colombia was fifth with 33 000 tonnes.

Gross returns in the designated barley pool were $180 million on 681 000 tonnes of receipts, down from $320 million on 1.4 million tonnes of receipts the previous year. This translated into average gross revenue of $263.78 per tonne, versus $221.64 per tonne in 2009-10.

The final pool return for Select Two-Row barley in-store Vancouver/St. Lawrence was $265.74 per tonne, compared to $208.42 per tonne the year before. The final pool return for Select Six-Row barley was $247.98 per tonne, compared to $190.64 per tonne in 2009-10.

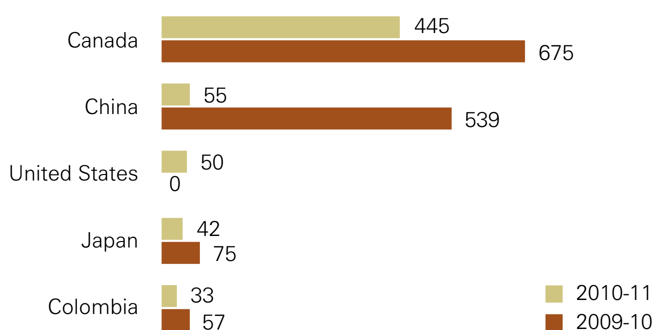
Direct costs decreased by $8.47 per tonne from the previous year, primarily the result of a decrease in freight charges. Due to smaller selectable supplies, malting barley sales were heavily weighted toward the domestic market and a much smaller proportion was

sold into the U.S. and overseas, resulting in lower freight costs. An increase in grain-purchase expenses was due to a larger amount of late receipts from the 2009-10 crop year falling into this year's accounts. It is important to note that the revenue earned from the sales of these receipts is reported as part of the overall pool revenue.

As a result, the net revenue from operations was $237.58 per tonne, an increase of $50.61 per tonne from the prior year.

Other income increased by $8.79 to $32.43 per tonne. The main source of this increase was a $4.57 per tonne increase in the freight clawback due to the higher proportion of sales made to domestic maltsters. The increase in other expenses includes a portion of the construction cost for the newly purchased lake vessels.

Largest-volume designated barley customers (000s tonnes)

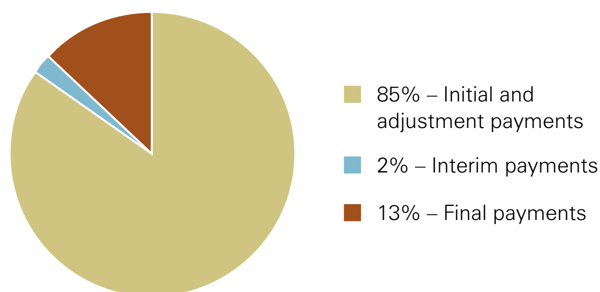


Distribution of earnings

Average sales proceeds available for distribution increased $58.42 per tonne from 2009-10 to $265.56 per tonne, for a total of $180.9 million. Of this amount, $178.8 million was returned to pool participants. Eighty-five per cent was approved by January 24, 2011 for distribution in the form of initial and adjustment payments. A further 2 per cent was distributed as an interim payment on November 8, 2011, with the balance distributed as the final payment.

A total of $2.1 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 Early Payment Options. The PPOs, in turn, paid farmers at their respective contract prices.

Earnings distributed to farmers



Feed barley pools A and B

(dollar amounts in 000s)	2011			
	Barley pool A* six months ended January 31		Barley pool B* six months ended July 31	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**299 000**		**152 978**	
Revenue	$ 77,291	$ 258.50	$ 42,550	$ 278.14
Direct costs				
Freight	91	0.31	135	0.88
Terminal handling	4,379	14.64	2,409	15.75
Inventory storage	441	1.47	107	0.69
Country inventory financing	29	0.10	11	0.07
Inventory adjustments	(25)	(0.08)	(4)	(0.03)
Grain purchases	–	–	1,604	10.49
Other direct expenses	547	1.83	1,755	11.47
Total direct costs	**5,462**	**18.27**	**6,017**	**39.32**
Net revenue from operations	71,829	240.23	36,533	238.82
Other income	638	2.13	356	2.32
Other expenses	(197)	(0.66)	(112)	(0.74)
Net interest earnings	117	0.39	25	0.16
Administrative expenses	(985)	(3.30)	(550)	(3.60)
Depreciation and amortization expense	(268)	(0.90)	(142)	(0.93)
Grain industry organizations	(48)	(0.16)	(19)	(0.12)
Total pool earnings	71,086	237.73	36,091	235.91
Gross transfers to contingency fund	(51)	(0.17)	–	–
	71,035	**237.56**	**36,091**	**235.91**
Deduct:				
Sales returns to Producer Payment Options program	60,664	237.67	26,051	235.35
Earnings for distribution	**$ 10,371**	**$ 237.03**	**$ 10,040**	**$ 237.43**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	**299 000**		**152 978**	
Less: Producer Payment Options program receipts	**255 247**		**110 694**	
Receipts for pool distributions	**43 753**		**42 284**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 7,037	$ 160.84	$ 6,780	$ 160.34
Adjustment payments	1,741	39.78	1,947	46.04
Interim payment	–	–	296	7.00
Final payment	1,593	36.41	1,017	24.05
Total earnings distributed to pool participants	10,371	237.03	10,040	237.43
Total distribution	**$ 10,371**	**$ 237.03**	**$ 10,040**	**$ 237.43**

*There were no receipted tonnes to the feed barley pools in the 2009-10 crop year.

The strategy

Generally speaking, the CWB's primary feed-barley marketing strategy for both Pool A and Pool B was to participate in offshore markets when returns were above what was achievable in the domestic feed market. Both pool and cash purchases were used to meet the demands of these two markets, depending on the circumstances for each sale. The international feed-barley export market is dominated by a few key buyers. The main suppliers at any given time are Canada, Australia, the EU, Argentina, Ukraine and Russia. An environment with few players often lends itself to short-lived selling opportunities.

For the 2010-11 marketing year, Ukraine, one of Canada's biggest competitors in the barley market, imposed export duties on feed barley, effectively limiting the amount of barley that would be exported. Russia also imposed volume limits on its own exports. These actions supported barley prices and provided opportunities for Canadian barley to be exported to Saudi Arabia, the largest market for imported barley in the world. As international price levels remained strong throughout the year, the CWB was able to continue to satisfy Japanese demand for imported feed barley.

Producer receipts

Producers wanting to participate in the 2010-11 feed barley pools were able to do so by signing a Guaranteed Delivery Contract (GDC). There were 31 GDCs offered for delivery into Pool A and 13 GDCs for delivery into Pool B. The earliest delivery date offered was for Pool A delivery in September 2010 and the last delivery date offered was for Pool B delivery in August 2011. Producers who participated through feed barley GDCs were also able to take advantage of a 100-per-cent Early Payment Option (EPO) to provide more certainty of cash flow.

A total of 299 000 tonnes were delivered into Pool A and a total of 153 000 tonnes were delivered into Pool B.

Revenue

The largest customer for Pool A feed barley was Saudi Arabia, with shipments of just over 181 000 tonnes. This was followed by 63 000 tonnes of sales into Japan and 55 000 tonnes into the Middle East. The largest customer for Pool B was Japan, with sales of 99 000 tonnes. This was followed by 57 000 tonnes of sales into Saudi Arabia and 5 000 tonnes into the Middle East.

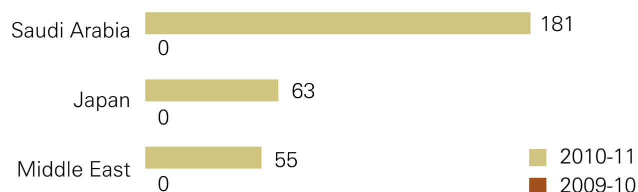
Total revenue for Pool A was $77.3 million, representing an average gross revenue of $258.50 per tonne. Total revenue for Pool B was $42.6 million, representing an average gross revenue of $278.14 per tonne.

The final Pool A return for No. 1 Canada Western feed barley in-store Vancouver/St. Lawrence was $238.39 per tonne. The final Pool B return was $235.72 per tonne.

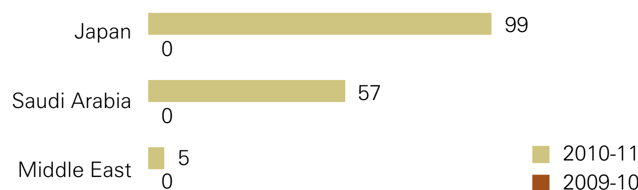
The majority of total direct costs of $18.27 per tonne for Pool A were incurred as a result of terminal handling charges of $14.64 per tonne. Total direct costs of $39.32 per tonne for Pool B consisted primarily of terminal handling ($15.75), other direct costs ($11.47) and grain purchases ($10.49). For Pool B, the direct costs primarily comprised the amounts paid as tender premiums to line companies to help source exported feed barley, as well as demurrage paid on vessel loading. The grain purchase costs relate to the cost of buying approximately 7 000 tonnes in the cash market. These tonnes were required to complete the loading of a vessel. Revenue to offset the cost of the grain purchases is included in the Pool B revenue line.

Net revenue from Pool A operations was $240.23 per tonne. Net revenue from Pool B operations was $238.82 per tonne.

Largest-volume Pool A customers (000s tonnes)



Largest-volume Pool B customers (000s tonnes)

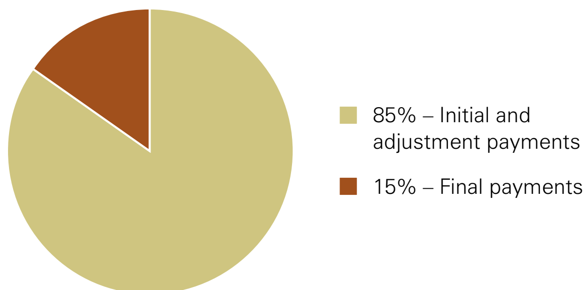


Distribution of earnings – Pool A

Average sales proceeds available for distribution were $237.73 per tonne, for a total of $71.1 million. Of this, $10.4 million was returned to pool participants. Of this amount, 85 per cent was approved by January 24, 2011 for distribution in the form of initial and adjustment payments. The balance was distributed as the final payment.

Approximately $60.7 million of sales returns was paid from Pool A to the Producer Payment Option (PPO) programs, representing the pool return on the specific grades and classes of barley delivered under EPOs. The PPO programs, in turn, paid participating farmers at their respective contract prices.

Earnings distributed to farmers – Pool A

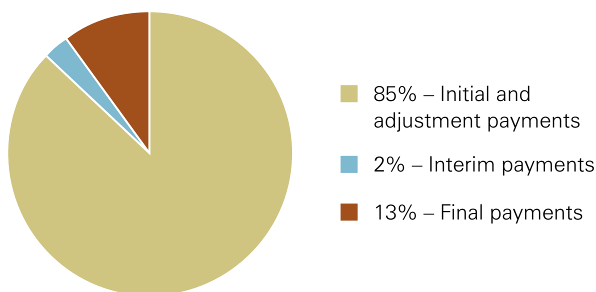


Distribution of earnings – Pool B

Average sales proceeds available for distribution were $235.91 per tonne, for a total of $36.1 million. Of this, $10 million was returned to pool participants. Of this amount, 87 per cent was approved by March 25, 2011 for distribution in the form of initial and adjustment payments. An additional 3 per cent was paid out on November 8, 2011 as an interim payment, with the balance distributed as the final payment.

Approximately $26.1 million of sales returns was paid from Pool B to the PPO programs, representing the pool return on the specific grades and classes of barley delivered under EPOs. The PPO programs, in turn, paid participating farmers at their respective contract prices.

Earnings distributed to farmers – Pool B



Indirect income and expenses

Net interest earnings

Net interest earnings of $7.9 million were comprised of gross interest earnings of $22.8 million minus gross interest expenses of $14.9 million.

Allocations for the current and prior year are as follows:

(dollar amounts in 000s)		**2011**		2010
Wheat pool	$	5,432	$	7,311
Durum pool		768		923
Designated barley pool		734		1,157
Barley pool A		117		115
Barley pool B		25		97
Combined pool		7,076		9,603
Cash trading		451		332
PPO programs		(1,649)		15
Earnings for future allocation		1,995		33
Net interest earnings	**$**	**7,873**	**$**	**9,983**

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. 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)		**2011**		2010
Interest on credit sales				
Revenue on credit sales receivable	$	4,267	$	5,218
Expense on borrowings used to finance credit sales receivables		795		831
Net interest on credit sales		3,472		4,387
Interest (expense) revenue on pool account balances		(1,282)		1,077
Other interest				
Revenue		6,492		7,483
Expense		1,606		3,344
Net "other interest" revenue		**4,886**		**4,139**
Total net interest earnings	**$**	**7,076**	**$**	**9,603**

Net interest of $7.1 million comprised interest earned on credit sales, pool-account balances and other sources. The net interest on credit sales represents interest earned on amounts owed to the CWB on credit grain sales made under the Government of Canada 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 the CWB receives from credit customers. As a result, the CWB earns an interest spread. In 2010-11, revenue earned was consistent with customers' credit agreements. The reduction in net interest earned was largely due to the decrease in outstanding balances.

The net interest on pool-account balances decreased, resulting in net interest expenses in 2010-11 (compared to net interest earnings in 2009-10) due to increases in interest rates and larger outstanding notional balances, particularly on CWB notes, compared to the prior year. An increase in rates magnifies the increase in loan principal, resulting in an increase of interest on debt in excess of the increase of interest earned on investments. This, in turn, resulted in a negative 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 $2.1 million, or 3 per cent, to $72.6 million (compared to $70.5 million in 2009-10). A key driver was computer services, mainly due to software support costs that had been capitalized in prior years and are now reclassified as administrative costs as per accounting guidelines. These costs largely relate to system optimization as part of the major CWB systems improvement initiative referred to as "Supply Chain Transformation", a multi-year project focused on streamlining CWB information technology and business processes used to manage the grain-marketing supply chain. In addition, post-employment benefit costs increased due to the actuarial valuation of CWB benefit plans.

Grain industry organizations

Research and development are of 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 as 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, both directly and indirectly to organizations that benefit western Canadian grain farmers. During 2010-11, the CWB contributed $2.4 million to the operations of the CIGI and the CMBTC. These two organizations play an integral role in the Corporation's marketing and product-development strategies by providing technical information and educational programs to customers.

Producer Payment Options (PPOs)

Financial results

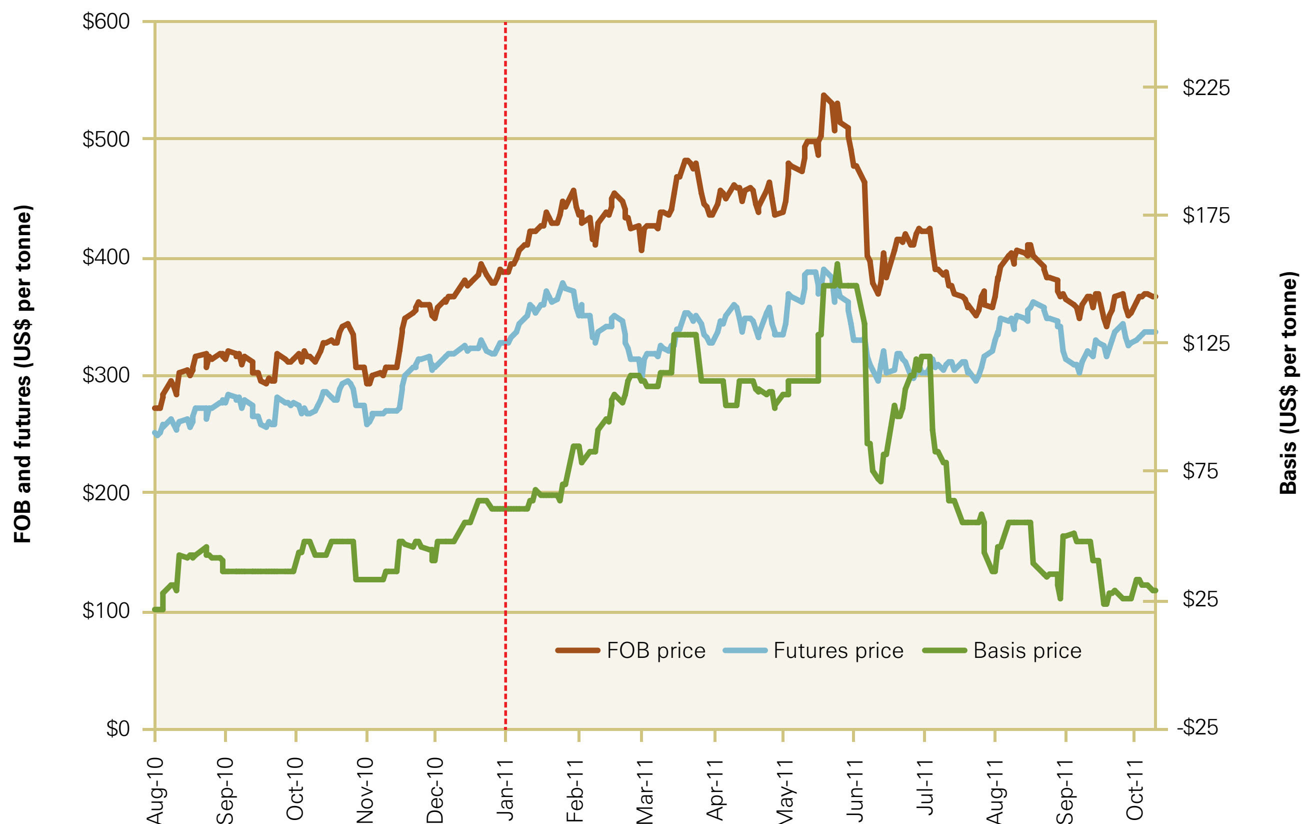
Statement of PPO program operations

For the year ended July 31 (dollar amounts in 000s)		**2011**		2010
FIXED PRICE/BASIS PRICE/FLEXPRO CONTRACTS				
Receipts (tonnes)		**4 599 987**		**949 224**
Revenue				
Sales returns paid to program	$	1,481,925	$	217,984
Net hedging activity		–		34,832
Pricing damages		5,693		720
		1,487,618		253,536
Expense				
Contracted amounts paid to producers		1,304,534		234,370
Net hedging activity		76,408		–
Net interest		1,413		24
Administrative expenses		1,630		1,604
Depreciation and amortization expenses		2		55
		1,383,987		236,053
Net surplus on program operations		**103,631**		**17,483**
Surplus distribution		53		–
Net program surplus, to contingency fund	**$**	**103,578**	**$**	**17,483**

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

Tonnage contracted to the 2010-11 FPC, BPC and FlexPro programs increased substantially from the previous year. Total deliveries under the 2010-11 programs were 4.6 million tonnes (a record total) compared to the final 2009-10 program size of 949 000 tonnes. One of the key drivers behind the increased program participation was the rising prices throughout the sign-up period for the programs. During the second half of 2010, crop quality was reduced, as were world wheat supplied destined for export, mainly due to drought and export bans on cereal grains in the Black Sea region and poor harvest weather in North America and Australia. In addition, supply concerns over U.S. corn were very supportive of grain prices.

NA Interior (Chicago) DNS 14.0 prices vs. Minneapolis futures (nearby prices)



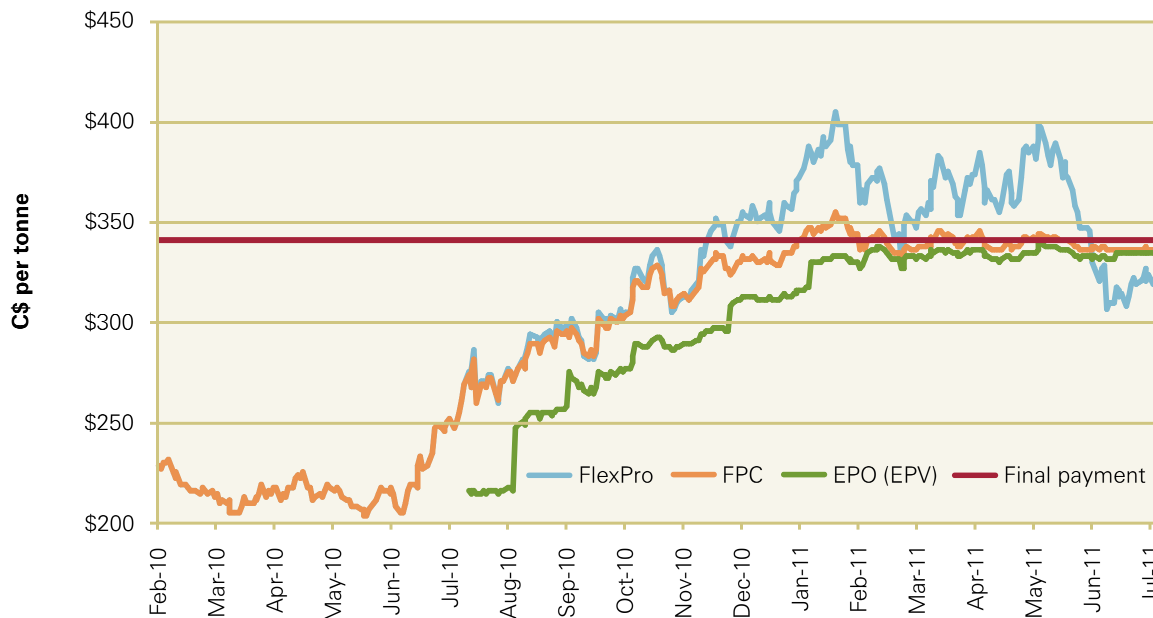
The majority of sign-up and pricing in the FPC and BPC programs occurred following a U.S. wheat futures price rally in late July 2010, which coincided with the Russian export ban. A second surge in sign-up occurred during a December price rally, which also coincided with precipitation-related harvest troubles in Australia. Approximately 46 per cent of the programs, which included the basis portion, was locked in by farmers prior to November 2010. Premiums for protein levels greater than 13.5 per cent increased over the winter and into the spring of 2011, leading to higher-than-projected participation rates. Basis risk and necessary levels of protection associated with the PPO prices early in the sign-up period were higher. As the year progressed, the market improved and basis levels achieved on customer sales were higher than projected earlier in the year, when much of the program sign-up occurred. The net result was higher basis returns for wheat in the pool relative to basis levels that farmers priced in the FPC/BPC program.

There were no FPC or BPC programs for barley during 2010-11. See the table below for details on the number of contracts, producers enrolled and tonnes delivered.

FPC/BPC/FlexPro

(dollar amounts in 000s)	2010-11				2009-10			
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	34,257	16,530	4 476 056	$ 101,740	7,117	4,293	935 082	$ 17,469
Wheat FlexPro	996	841	122 578	1,803	103	93	10 814	80
Durum	18	15	1 353	35	20	18	3 328	(66)
Total	**35,271**	**17,386**	**4 599 987**	**$ 103,578**	**7,240**	**4,404**	**949 224**	**$ 17,483**

2010-11 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 $1.5 billion for wheat and $0.4 million for durum. When other revenues (net hedging results and pricing damages) and program risk and expenses (including interest and administration expenses) are accounted for, minus payments to farmers, the programs generated a net surplus of $103.6 million. The 2010-11 durum FPC*Plus* program was much smaller than in 2009-10. World durum cash values also strengthened significantly over the year and therefore reduced the overall program risk during the year. This resulted in a net gain to the program and generated a surplus distribution to producers.

Early Payment Option (EPO)

For the year ended July 31 (dollar amounts in 000s)		2011		2010
EARLY PAYMENT OPTION				
Receipts (tonnes)		**1 204 904**		**194 763**
Revenue				
Sales returns paid to program	$	313,462	$	43,648
Program discount		92,072		672
Pricing damages		86		–
Net interest		–		39
		405,620		44,359
Expense				
Contracted amounts paid to producers		404,619		43,859
Net hedging activity		4,546		332
Pricing damages		–		11
Net interest		236		–
Administrative expenses		711		452
Depreciation and amortization expenses		1		15
		410,113		44,669
Net program (deficit) surplus, to contingency fund	**$**	**(4,493)**	**$**	**(310)**

In 2010-11, there were 1.2 million tonnes delivered to the EPO program, compared to 195 000 tonnes in 2009-10. 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 $92.1 million. The increase in realized program discounts from the previous year was the result of a substantial increase in program use, largely due to the offering of EPOs valued significantly higher than the concurrent Pool Return Outlook. In the fall of 2010, the CWB expanded the EPO programs to include deep-in-the-money strike prices. The deep-in-the-money EPOs were developed to meet farmer pricing needs in response to the lower-than-average quality wheat and durum crop in 2010-11. EPO strikes higher than 100 per cent draw a significantly higher discount, with the Early Payment Value (EPV) approximating the price for an FPC for No. 4 CWRS, feed wheat and both Nos. 4 and 5 CWAD durum qualities. After accounting for payments to producers, pricing damages charged for non-delivery, net interest expenses, net hedging results and administration, a net deficit of $4.5 million was generated.

EPO

(dollar amounts in 000s)	2010-11					2009-10				
Program statistics	**No. of contracts**	**No. of producers**	**Tonnes delivered**		**Net surplus (deficit)**	**No. of contracts**	**No. of producers**	**Tonnes delivered**		**Net surplus (deficit)**
Wheat	4,858	3,073	784 120	$	(6,439)	912	603	177 663	$	(294)
Durum	346	233	46 920		147	2	2	775		(2)
Designated Barley	45	40	7 923		53	49	44	16 325		(1)
Feed Barley A	1,466	1,261	255 247		1,084	–	–	–		(12)
Feed Barley B	691	602	110 694		662	–	–	–		(1)
Total	**7,406**	**5,209**	**1 204 904**	**$**	**(4,493)**	**963**	**649**	**194 763**	**$**	**(310)**

Cash trading

Financial results

For the year ended July 31 (dollar amounts in 000s)	2011		2010	
	Total	Per tonne	Total	Per tonne
Receipts (tonnes)	**735 216**		**593 802**	
Revenue	$ 186,924	$ 254.24	$ 162,209	$ 273.17
Direct costs				
Purchase cost	171,304	233.00	155,604	262.05
Freight	338	0.46	1,139	1.92
Terminal handling	4,835	6.58	3,370	5.68
Inventory storage	1,395	1.90	2,592	4.37
Country inventory financing	53	0.07	31	0.05
Inventory adjustments	70	0.10	39	0.07
Other direct expenses	2,427	3.30	617	1.03
Total direct costs	180,422	245.41	163,392	275.17
Net revenue (loss) from operations	6,502	8.83	(1,183)	(2.00)
Other income	11,124	15.13	10,379	17.48
Net interest earnings	451	0.61	332	0.56
Administrative expenses	(2,535)	(3.45)	(1,881)	(3.17)
Depreciation and amortization expenses	(626)	(0.85)	(436)	(0.73)
Net surplus on program operations	14,916	20.27	7,211	12.14
Cash surplus distributions	11,486	15.62	6,107	10.29
Net program surplus, to contingency fund	**$ 3,430**	**$ 4.65**	**$ 1,104**	**$ 1.85**

Cash trading – program statistics

(dollar amounts in 000s)	2011			2010		
Program statistics	**Tonnes**	**Surplus, net of risk management cost**	**Surplus distribution**	**Tonnes**	**Surplus, net of risk management cost**	**Surplus distribution**
Organic program	1 611	$ –	$ –	4 272	$ –	$ –
Soft White Spring wheat	8 149	189	NA	NA	NA	NA
Cash*Plus*	275 527	2,210	2,210	369 051	6,107	6,107
Feed barley program	390 494	9,276	9,276	152 502	47	NA
Pre-delivery Top up	–	2	NA	–	(47)	NA
Wheat Storage Program	14 546	733	NA	7 702	–	NA
Churchill Storage Program	44 889	508	NA	60 275	–	NA
Total	**735 216**	**$ 12,918**	**$ 11,486**	**593 802**	**$ 6,107**	**$ 6,107**

NA = Not applicable

In addition to the three cash-trading accounts the CWB operated in prior crop years, the CWB introduced the Canada Western Soft White Spring (CWSWS) wheat cash trading program in 2010-11. Cash-trading 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, it 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 2010-11, over 390 000 tonnes of feed barley were marketed through the cash program, up from 152 000 tonnes in 2009-10.

The price relationship between the Canadian domestic market and the world market continued to be volatile in 2010-11. The majority of feed-barley cash sales occurred during a few relatively brief periods, and were stimulated by a combination of factors, including higher offshore prices, currency relationships and buyer demand. For a cash trade of feed barley to add value, the sale price must be competitive with the CWB's offshore competition and also able to support a guaranteed price to Canadian farmers that is high enough to provide a superior return to domestic feed sales alternatives.

As was the case in 2009-10, the majority of the 2010-11 feed-barley cash sales were made to Japan and the Middle East.

The 2010-11 cash trading program earned a net margin after all costs of approximately $9.3 million, up significantly from 2009-10. This resulted in an additional distribution of $23.75 per tonne to farmers above the cash price for which they contracted.

Designated barley cash trading (Cash*Plus*)

The Cash*Plus* program purchased a total of 276 000 tonnes of designated barley from producers in 2010-11, compared to 369 000 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 2010-11, the upfront guaranteed producer price was equal to an average of 95 per cent of the revenue earned from sales.

In 2010-11, as in the previous years, 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 2010-11 Cash*Plus* program achieved sales values of $262.63 per tonne, down from $316.70 per tonne the previous year, less purchases of $248.34 per tonne, down from $292.74 per tonne in 2009-10. After deducting program costs of $6.27 per tonne (down from $7.42 per tonne in 2009-10), a net surplus of $8.02 per tonne was distributed to producers who participated in the program.

Organic cash trading

The 2010-11 crop year marked the fourth year of operation for the CWB's organic cash trading program. The program purchased 1 611 tonnes of organic grain, paying farmers, on average, $366.79 per tonne at the farm gate. This sales volume was lower than in 2009-10 for a number of reasons. In 2010-11, while the U.S. organic market began to recover from the recession, supply still surpassed demand and competition among multiple sellers was high. Grain buyers owning storage facilities were able to stockpile lower-priced grain in August and September 2010 when organic prices fell to conventional levels and then, as prices were rising throughout the year, sell very aggressively to lock in a profit margin and move stocks. Some U.S. mills and brokers increased the volumes they contracted with farmers directly, bypassing Canadian handlers, including the CWB. The EU and exporters from Argentina, Kazakhstan and Hungary continued to offer organic wheat at historically low prices, generally making Canadian wheat uncompetitive.

A buyers' market continued in 2010-11, pressuring prices downward in both North America and Europe. At the same time, with conventional grain prices increasing, farmers' organic price expectations were rising. This made for a challenging situation for back-to-back cash selling in a highly competitive marketplace.

Canada Western Soft White Spring (CWSWS) wheat cash-trading program

The soft white spring program was introduced in the 2010-11 crop year as a pilot program to provide farmers and domestic processors a mechanism for contracting small volumes of grain and to take advantage of niche opportunities when supplies were not readily available through the pooling program. Total receipts in the 2010-11 CWSWS cash-trading program were 8 149 tonnes.

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 CWRS wheat on-farm. It ensures a consistent supply of high-quality, high-protein wheat to satisfy the needs of the CWB's premium customers. During the year, WSP payments were issued to 51 producers for a total of $4.8 million (2009-10 – $2.5 million). Program participants also received premium and storage payments totalling $399,900 (2009-10 – $217,000).

Churchill Storage Program (CSP)

The CSP is designed to ensure that grain is on hand to meet customer demand during the Port of Churchill's short operating season. The CSP 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 2010-11 crop year, CSP payments were issued to 123 producers for a total of $12.8 million (2009-10 – $18.4 million). Program participants also received premium and storage payments totalling $542,200 (2009-10 – $656,000).

Liquidity and capital resources

Liquidity risk refers to the risk of being financially unable to meet corporate obligations. The Corporation 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 Corporation 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 Corporation'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. Therefore, at the end of the year there is a zero net cash position.

Cash generated by operations was $3.9 billion. Financing activities, including cash distributions to farmers, used $3.6 billion and investing activities used $0.3 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 $3.8 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 2011-12.

Statement of financial position

Overall, the statement of financial position at July 31, 2011 was $0.9 billion higher than the previous crop year, at $4.2 billion. Inventory of grain, increased short-term investments and higher derivative values were the main contributors to this increase due to higher grain prices and increased liquidity requirements at July 31, 2011 compared to the 2009-10 crop year.

Debt instruments

Under the Act, and with the approval of the Government of Canada's minister of finance, the Corporation is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidence of indebtedness. All of the Corporation's borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance from the time of issuance to the date of maturity. Therefore, the credit ratings of these debt issues reflect the top credit quality of the Government of Canada.

Long-term and short-term ratings of the Corporation's debt during 2010-11 were as follows:

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

The Corporation 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 Corporation 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.

Total debt outstanding in 2010-11 ranged from $1.6 billion to $3.0 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 Corporation before maturity due to embedded call features.

Net borrowings were $2 billion at the close of 2010-11, up from $1.8 billion at the 2009-10 year-end. The increase is attributable to the Corporation increasing liquidity reserves to offset increased risks in financial markets and in the Corporation's operating environment.

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 56). Section 39.1 enables the Corporation 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. The Corporation is offering farmers Fixed Price Contracts, Basis Price Contracts and FlexPro contracts for the 2011-12 crop year under Section 39.1 (see page 53), as well as cash-traded purchases from other sources (see page 57). These Producer Payment Option (PPO) programs have been suspended for the 2012-13 crop year due to uncertainty relating to the potential impact of Bill C-18 and how the Corporation will operate in the future, including alternate procurement programs, under the legislation.

Pursuant to the Contingency Fund Regulation, the contingency fund can be populated by deducting an amount from any revenue the Corporation receives in the course of its operations under the Act and crediting that amount to the fund. However, one of the limitations is that the Corporation cannot make a deduction if doing so would create a pool deficit. The Contingency Fund Regulation also provides the upper limit to the contingency fund. Subsequent to year end, the Contingency Fund Regulation was amended through an order-in-council (OIC) to provide that the balance of the fund cannot exceed $200 million, up from the previous limit of $60 million. On October 18, 2011 the Corporation received a directive through OIC P.C. 2011-1182 that all profits or gains (relating to non-pool programs) be transferred to the contingency fund unless a different disposition of those profits or gains is required under the Act. As a result, all surpluses from the PPO programs and cash trading, relating to the year ended July 31, 2011, were transferred to the contingency fund. Pursuant to the Act, the contingency fund balance can be negative, with no limit specified.

During the year, total program net surpluses were $102.6 million. PPO programs contributed a net surplus of $99.1 million, interest earnings on feed barley $0.1 million and cash trading $3.4 million.

Reconciliation of non-GAAP measures

The financial statements are presented on a combined basis. They capture all aspects of the business – pools, Producer Payment Options (PPOs) and cash trading combined – in accordance with Canadian GAAP. In addition, there is a separate statement of distributions to pool participants in order to report on the final distributions by pool. These combined statements, including the statement of distributions to pool participants, are audited by Deloitte & Touche LLP, the Corporation's auditors.

The combined statements will meet the needs of some stakeholder groups. However, a separate statement for each pool account and the results of operations are 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 Management Discussion and Analysis.

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 transactions within a fiscal period. The inventory valuation is based on the Canadian accounting standard for inventory, estimated at July 31, 2011, 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 be 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 is 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.

During the year ended July 31, 2011, the Corporation entered into agreements to purchase two lake vessels for grain transportation. Under GAAP, the costs associated with the construction of the lake vessels are capitalized and depreciated over the expected useful life of the assets. The costs associated with construction have been capitalized in the combined statements and are disclosed in Note 12 – property, plant and equipment. Under the direction of the CWB board of directors, for the determination of earnings distributed to pool participants, the costs associated with the construction of the two lake vessels were expensed as incurred and are reflected in the individual pool statements.

Reconciliation of individual pool statements to the combined statement

(dollar amounts in 000s)	2011	2010
Pool operations	**$ 3,879,266**	**$ 4,238,430**
Cash trading	**14,916**	**7,211**
PPO programs		
FPC / BPC / FlexPro programs	103,631	17,483
Early Payment Option programs	(4,494)	(310)
	3,993,319	**4,262,814**
Net change in fair value of financial instruments	155,874	(320,213)
Difference in inventory valuation	(142,576)	(132,013)
Deposit on lake vessels paid from current operations	12,973	–
Net earnings, per combined statement of operations	**$ 4,019,590**	**$ 3,810,588**

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 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 president and CEO 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 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 Producer Payment Options (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, cash trading 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 CWB 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 Credit Grain Sales Program and the Agri-food Credit Facility (ACF). Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. 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 5 on page 77.

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 cash management and liquidity risk-management purposes. 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

Market and financial outlook

The 2011-12 crop year is projected to see relatively strong prices as U.S. corn supplies are expected to remain tight. Canadian all-wheat and barley crop production is expected to be slightly above 2010-11 levels.

Similar to the previous year, excess precipitation and overland flooding in the spring of 2011 caused significant delays and the loss of 6.5 million unseeded or abandoned acres. Southern Alberta, southern Saskatchewan and southwestern Manitoba reported the bulk of the acreage losses. The remaining regions of the Prairies endured a cool start to the 2011 growing season, which resulted in significantly delayed seeding activities. Above-average temperatures and limited precipitation throughout the central and easternmost regions enabled late-seeded crops to reach full maturation in time for a relatively problem-free harvest. These conditions allowed farmers in Manitoba and eastern Saskatchewan to begin harvest in mid-August, despite being the last region to conclude seeding activity in the spring. Cooler temperatures in Alberta and western Saskatchewan continued to delay the harvest in those regions, with harvest beginning in September. Consistently dry and warm temperatures throughout September maintained harvest progress ahead of schedule compared to the historical average. Nearly all harvest activities were concluded by the end of October, with crop quality vastly improved compared to the previous year. Most of the wheat, durum and barley is expected to fall in the top two grades for the 2011-12 marketing year.

Dry bulk ocean freight rates remained relatively static during the 2010-11 crop year as a significant number of new dry bulk vessels entering the market outpaced increases in dry cargo demand. Increasing Chinese demand for commodities prevented dry bulk freight rates from falling further, as there was little growth in dry bulk demand in other regions of the world. The retiring of older vessels was accelerated during the 2010-11 crop year relative to the previous year due to the relatively weak dry bulk markets, particularly in the segment of the market represented by the largest vessel types. The pace of delivery of the new vessels is expected to abate in the latter half of the next crop year.

The international wheat market experienced a significant rebound in supplies during 2011, as Russia and Kazakhstan returned to normal crop production levels following the 2010 drought. Although wheat output has improved globally, production problems in the U.S. corn crop have significantly tightened supplies in the world feed-grain market. As of December 2011, corn futures were mainly trading in the $5.50- to $6.50-per-bushel range, which supported wheat prices. These high corn prices are expected to persist throughout most of the 2011-12 marketing year. Volatility in world commodity markets driven by economic uncertainty in both the U.S. and the EU is expected to continue for most of the marketing year.

Increased durum production and improved durum quality have helped boost the outlook for durum exports in 2011-12. American and European durum crops are significantly smaller and of lower quality than in previous years, which is supportive of higher market prices. Durum stocks are expected to remain very tight until the 2012 spring crop is introduced into the markets.

International barley prices have remained relatively strong, despite better crops in Ukraine and Russia. Barley prices are being supported by tight U.S. corn supplies. Malting barley prices have remained strong through the first quarter of the marketing year, but are expected to be pressured downward by larger southern hemisphere crops.

The global financial markets began 2011-12 in a state of crisis on heightened fears that Greece would default on its debt and trigger a global debt crisis. As European political leaders began implementing measures to bolster the fiscal positions of Greece, other troubled European countries and European banks, some degree of stability returned to the markets. Subsequent indications that the measures implemented were insufficient to prevent a debt crisis have led to periods of market volatility, which are expected to persist into 2012.

In the early months of the 2011-12 crop year, U.S. economic growth remains slow, with consistently high unemployment rates. This has prompted the U.S. Federal Reserve to issue a statement indicating U.S. short-term interest rates would remain low until 2013. While Canada retains stronger economic fundamentals, it cannot escape the impact of slow U.S. growth and a looming European financial crisis. As a result, expectations of higher interest rates in Canada have now been shifted, with the market anticipating lower interest rates at the beginning of 2012. This means the CWB can expect interest costs to remain low for the 2011-12 crop year. The CWB was not expected to have any liquidity issues, as the Corporation's debt continue to be guaranteed by the Government of Canada.

Legislative change

On December 15, 2011, Bill C-18: *An Act to reorganize the Canadian Wheat Board and to make consequential and related amendments to certain Acts* became law, transforming certain fundamental elements of the Corporation, including the legislative, governance and operational framework. Upon Royal Assent, the existing farmer-elected directors were immediately dismissed and the timeline for the elimination of the single-desk marketing structure was established. August 1, 2012 will see the deregulation of Western Canada's wheat and barley exports and domestic sales for human consumption. The Bill provides for the continuity of the Corporation into the future and certain government supports for a maximum of five years or until it becomes a non-statutory corporation through a transition plan approved by government.

The removal of the single-desk structure will reduce the scope of the Corporation's business and will impact how it conducts that business in the future. The Corporation is continuing its analysis of the legislation's impact on the business and on the Corporation's future operations. The Corporation's future decisions regarding its operations after the effective date of the Bill will need to be assessed to determine their impact on the Corporation's financial reporting of its financial position and on the results of its operations in the future. Such impact, if any, cannot be determined until the formulation of the Corporation's future operating plans are completed. Such impact will therefore be recorded at some time in the future, as stipulated by International Financial Reporting Standards, which the Corporation must apply for the first time in its July 31, 2012 financial statements, as more fully described in Note 3.

The Corporation will continue to assess the changes to its business environment and work diligently to move it forward into an open-market system for the 2012-13 crop year.

To date, one known impact of the legislative change is the transfer of the administration of advance payment programs to the Canadian Canola Growers Association for the 2012-13 crop year.

Forward-looking statements

Certain forward-looking information contained in this annual report is subject to risk and uncertainty because of the reliance on assumptions and estimates 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 authority; however, as of August 1, 2012, the CWB's single-desk marketing structure will be eliminated. 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, should an agreement be reached. The CWB board of directors recognizes that loss of the single desk is a principal business risk to the Corporation, a factor that is taken into account as part of the strategic planning process.

Financial results

Management's responsibility for financial reporting

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 2010-11 pool accounts, Producer Payment Options, cash trading and the financial status of the Corporation at July 31, 2011.

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 24, 2011

Independent auditor's report

We have audited the accompanying statement of financial position of the Canadian Wheat Board as at July 31, 2011, and the combined statement of operations, cash flow, distributions to pool participants, transfers to contingency fund and administrative expenses for the year then ended, and the notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

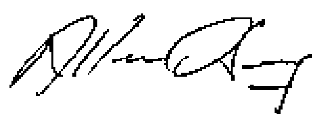
Chartered Accountants

Winnipeg, Manitoba
November 24, 2011

Statement of financial position

As at July 31 (dollar amounts in 000s)		2011		2010
ASSETS				
Current assets				
Short-term investments (Note 4)	$	921,739	$	604,772
Current portion of credit programs (Note 5)		77,384		62,691
Advance payment programs (Note 6)		428,290		412,391
Prepayment of inventory program		214,582		144,273
Trade accounts receivable		180,692		111,612
Other accounts receivable		60,689		44,946
Derivatives (Note 7)		290,815		112,386
Inventory of grain (Note 9)		1,363,071		962,697
Prepaid expenses (Note 10)		22,409		196,908
Deferred pension asset (Note 30)		39,216		32,182
		3,598,887		2,684,858
Credit programs (Note 5)		184,704		213,019
Investments (Note 11)		219,737		222,843
Property, plant and equipment (Note 12)		68,276		58,919
Intangible assets (Note 13)		83,818		88,583
	$	**4,155,422**	**$**	**3,268,222**
LIABILITIES				
Current liabilities				
Borrowings (Note 14)	$	1,717,627	$	1,259,330
Accounts payable and accrued expenses (Note 15)		310,227		186,405
Liability to agents (Note 16)		1,061,124		680,341
Derivatives (Note 7)		98,785		253,248
Liability to producers – outstanding cheques		92,467		27,316
Liability to producers – current earnings (Note 17)		577,467		578,672
Deferred pension liability (Note 30)		23,464		21,225
Current portion of long term debt (Note 18)		17,165		104,977
		3,898,326		3,111,514
Long-term debt (Note 18)		331,007		447,874
	$	**4,229,333**	**$**	**3,559,388**
UNDISTRIBUTABLE EARNINGS				
Reserve for producer payment expenses (Note 19)		3,064		2,316
Special account (Note 20)		2,464		2,424
Contingency fund (Note 21)		124,731		21,988
(Loss) earnings for future allocation (Note 22)		(204,170)		(317,894)
		(73,911)		(291,166)
	$	**4,155,422**	**$**	**3,268,222**

Approved by the board of directors:



Allen Oberg, Chair, board of directors

Ian White, President and Chief Executive Officer

Combined statement of operations

For the year ended July 31 (dollar amounts in 000s)		**2011**		2010
Revenue	**$**	**6,071,330**	**$**	**5,149,380**
Direct costs				
Grain purchases (Note 23)		1,664,965		804,027
Freight		258,382		299,581
Terminal handling		172,514		176,824
Inventory storage		99,378		86,447
Country inventory financing		2,538		2,737
Inventory adjustments (Note 24)		(32,889)		32,381
Other direct expenses (Note 25)		65,942		44,504
Total direct costs		2,230,830		1,446,501
Net revenue from operations		3,840,500		3,702,879
Other income (Note 26)		265,155		188,391
Interest revenue		22,815		18,055
Other expenses		(797)		(534)
Interest expense		(14,942)		(8,072)
Administrative expenses (Note 27)		(72,281)		(70,287)
Depreciation and amortization expense (Note 28)		(18,096)		(17,593)
Grain industry organizations		(2,765)		(2,251)
Net earnings		**4,019,589**		**3,810,588**
(Loss) earnings for future allocation, beginning of year		(317,894)		174,836
Earnings distributed to pool participants		(3,791,760)		(4,278,603)
Earnings distributed to cash trading participants		(11,486)		(6,107)
Earnings distributed to PPO Plus participants		(53)		–
Gains transferred to contingency fund (Note 21)		(102,566)		(18,608)
(Loss) earnings for future allocation, end of year	**$**	**(204,170)**	**$**	**(317,894)**

Statement of cash flow

For the year ended July 31 (dollar amounts in 000s)	**2011**	2010
Increases (decreases) of cash during the year		
Cash (used in) from operating activities		
Net earnings	$ 4,019,589	$ 3,810,588
Adjustments to determine net cash (used in) from operations		
Net interest	(6,506)	(11,032)
Depreciation and amortization expense	18,096	17,593
Investment fair value adjustment	(3,811)	(4,615)
Long-term debt fair value adjustment	(2,704)	12,948
Derivative asset	(178,546)	308,362
Derivative liability	(157,617)	204,281
	3,688,501	4,338,125
Changes in operations assets and liabilities		
Accounts receivable, excluding credit sales	(170,200)	346,536
Inventory of grain	(400,374)	442,802
Prepaid expenses	174,512	(172,608)
Deferred pension asset	(7,034)	(2,769)
Accounts payable and accrued expenses	123,661	12,475
Liability to agents	380,783	(539,264)
Liability to producers for outstanding cheques	65,151	(81,140)
Liability to producers program payments	18,520	(2,854)
Deferred pension liability	2,239	801
Cash generated from operations	3,875,758	4,342,104
Interest received	23,159	19,019
Interest paid	(16,473)	(11,273)
Reserve for producer payment expenses	(169)	1,322
Special account	40	(1,094)
	3,882,315	4,350,078
Cash (used in) from financing activities		
Net increase (decrease) in borrowings	458,297	248,224
Increase in long-term debt	–	51,000
Decrease in long-term debt	(201,857)	(265,360)
Cash distributions		
Prior year undistributed earnings	(538,154)	(792,047)
Current year distributions prior to July 31	(3,284,870)	(3,709,034)
	(3,566,584)	(4,467,217)
Cash (used in) from investing activities		
Accounts receivable – credit programs	13,464	29,840
Net decrease in short-term investments	(318,727)	156,939
Increase in investments	11,830	(38,923)
Purchase of property, plant and equipment	(14,001)	(14,334)
Purchase of intangible assets	(8,455)	(16,678)
Proceeds from sale of property, plant and equipment	157	295
	(315,732)	117,139
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)	2011				2010			
	Statement of operations	Events after reporting period (Note 17)	Total pool year	Per tonne	Statement of operations	Events after reporting period (Note 17)	Total pool year	Per tonne
WHEAT								
Receipts for pool distributions (tonnes)	**8 262 919**		**8 262 919**		**14 411 915**		**14 411 915**	
Earnings distributed to pool participants								
Initial payments on delivery	$ 1,733,866	$ –	$ 1,733,866	$ 209.84	$ 2,631,842	$ –	$ 2,631,842	$ 182.62
Adjustment payments	472,994	–	472,994	57.24	194,016	–	194,016	13.46
Interim payment	213,597	–	213,597	25.85	230,591	–	230,591	16.00
Final payment	145,148	26,832	171,980	20.81	245,545	(45,608)	199,937	13.87
Total wheat distribution	2,565,605	26,832	2,592,437	313.74	3,301,994	(45,608)	3,256,386	225.95
DURUM								
Receipts for pool distributions (tonnes)	**3 917 132**		**3 917 132**		**3 409 419**		**3 409 419**	
Earnings distributed to pool participants								
Initial payments on delivery	683,212	–	683,212	174.42	618,720	–	618,720	181.47
Adjustment payments	224,037	–	224,037	57.19	–	–	–	–
Interim payment	92,249	–	92,249	23.55	–	–	–	–
Final payment	79,584	8,517	88,101	22.49	60,408	6,613	67,021	19.66
Total durum distribution	1,079,082	8,517	1,087,599	277.65	679,128	6,613	685,741	201.13
DESIGNATED BARLEY								
Receipts for pool distributions (tonnes)	**673 165**		**673 165**		**1 428 633**		**1 428 633**	
Earnings distributed to pool participants								
Initial payments on delivery	134,411	–	134,411	199.67	247,736	–	247,736	173.41
Adjustment payments	17,253	–	17,253	25.63	16,719	–	16,719	11.70
Interim payment	4,039	–	4,039	6.00	14,286	–	14,286	10.00
Final payment	11,594	11,469	23,063	34.26	18,740	(1,509)	17,231	12.06
Total designated barley distribution	167,297	11,469	178,766	265.56	297,481	(1,509)	295,972	207.17
BARLEY A								
Receipts for pool distributions (tonnes)	**43 753**		**43 753**		**–**		**–**	
Earnings distributed to pool participants								
Initial payments on delivery	7,037	–	7,037	160.84	–	–	–	–
Adjustment payments	1,741	–	1,741	39.78	–	–	–	–
Final payment	1,593	–	1,593	36.41	–	–	–	–
Total barley A distribution	10,371	–	10,371	237.03	–	–	–	–
BARLEY B								
Receipts for pool distributions (tonnes)	**42 284**		**42 284**		**–**		**–**	
Earnings distributed to pool participants								
Initial payments on delivery	6,780	–	6,780	160.34	–	–	–	–
Adjustment payments	1,947	–	1,947	46.04	–	–	–	–
Interim payment	296	–	296	7.00	–	–	–	–
Final payment	886	131	1,017	24.05	–	–	–	–
Total barley B distribution	9,909	131	10,040	237.43	–	–	–	–
	3,832,264	46,949	3,879,213		4,278,603	(40,504)	4,238,099	
Impact of events after reporting period prior year	40,504							
Earnings distributed to pool participants	**$ 3,791,760**				**$ 4,278,603**			

Statement of transfers to contingency fund

For the year ended July 31 (dollar amounts in 000s)	2011	2010
Producer Payment Options program		
FPC program – earnings on program operations	$ 103,578	$ 17,483
EPO program – losses on program operations	(4,493)	(310)
	99,085	17,173
Cash trading operations		
Earnings on program operations	3,430	1,104
Pool operations		
Barley	51	331
	51	331
Earnings transferred to contingency fund (Note 21)	**$ 102,566**	**$ 18,608**

Statement of administrative expenses

For the year ended July 31 (dollar amounts in 000s)	2011	2010
Human resources	$ 39,645	$ 38,946
Employee future benefit expense	6,295	4,553
Office services	2,954	3,363
Professional fees	5,697	6,483
Computer services	14,076	11,870
Facilities	1,792	1,778
Travel	1,845	1,717
Advertising and promotion	1,478	2,518
Other	1,416	1,648
Training	362	402
Recoveries	(2,963)	(2,771)
Total administrative expenses (Note 27)	**$ 72,597**	**$ 70,507**

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* made the Corporation a shared governance Corporation, without share capital, effective December 31, 1998.

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

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

2. Events after reporting period

On October 18, 2011, the Government of Canada introduced Bill C-18: *An Act to reorganize the Canadian Wheat Board and to make consequential and related amendments to certain Acts*. If passed, Bill C-18 will implement significant changes to the Corporation's governance and business structure and operations, including the removal of the Corporation's single-desk structure for Western Canada's wheat and barley for milling and export. Changes to the Corporation's governance structure would take effect immediately upon the Bill receiving Royal Assent. Removal of the single desk is expected to be effective August 1, 2012. In its current form, the Bill provides for the continuity of the Corporation into the future. The Corporation would receive certain supports from government for a maximum of five years or until it becomes a non-statutory corporation through a transition plan that is approved by government.

The removal of the single-desk structure will reduce the scope of the Corporation's business and will impact how it conducts that business in the future. The Corporation is continuing its analysis of the legislation's impact on the business and on the Corporation's future operations. The Corporation's future decisions regarding its operations after the effective date of the Bill will need to be assessed to determine their impact on the Corporation's financial reporting of its financial position and the results of its operations in the future. Such impact, if any, will not be able to be determined until Bill C-18 receives Royal Assent and formulation of the Corporation's future operating plans are completed. Such impact will therefore be recorded at some time in the future, as stipulated by International Financial Reporting Standards, for which the Corporation must apply for the first time in its July 31, 2012 financial statements, as more fully described in Note 3.

The Corporation will monitor and assess the parliamentary process, including any amendments to Bill C-18, on an ongoing basis.

3. 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 statement of financial position 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 for 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 may enter into arrangements with commercial banks, which will assume the credit risk without recourse, or enter into arrangements directly with 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 16). Amounts are repaid when grain is delivered to the Corporation by the agents to a terminal or mill processing 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 9
Automobiles	2 to 3
Building and office improvements	10 to 20
Office furniture and equipment	7 to 10
Hopper cars	15 to 30
WeatherFarm™	8
Lake vessels	25
Building	40
Leasehold improvements	Term of lease

* Computer equipment is reviewed annually for obsolescence.

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 retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. 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, 2011 are $3,061 (2010 – $54,896).

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 classified or 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 classified or 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 prices are 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 statement of financial position at the settlement date and are removed from the statement of financial position when they expire or are terminated. Derivatives with a positive fair value are reported as derivative instruments within assets, while derivatives with a negative fair value are reported as derivative instruments within liabilities.

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

	Financial instrument type	Classification	Measurement	Gains/losses
Financial assets	Accounts receivable	Loans and receivables	Amortized cost	Recognized in net income in the period that the asset is derecognized or impaired
	Investments (long-term/short-term)	Designated held-for-trading	Fair value	Recognized in net income in the current period
Financial liabilities	Accounts payable Accrued expenses	Other liabilities	Amortized cost	Recognized in net income in the period that the liability is derecognized or impaired
	Debt (long-term/short-term)	Designated held-for-trading	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-trading	Fair value	Recognized in net income in the current period

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, 2011) be recorded in the financial statements. The difference between these two calculations is recorded in this account.

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 include 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 (2010 – 10 years) for defined benefit pension plans and 10 years (2010 – 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.

Future changes in accounting standards

International financial reporting standards

Effective January 1, 2011, International Financial Reporting Standards (IFRS) replaced Canadian GAAP for publicly accountable enterprises. For July 31, 2012, the Corporation will issue financial statements in accordance with IFRS including the preparation and reporting of one year of comparative figures.

As of August 1, 2011, changes from the adoption of IFRS on the financial statements will primarily relate to IAS 19 employee benefits. These changes will impact both the July 31, 2012 statement of financial position and the combined statement of operations. Further IFRS updates will be monitored and assessed on an ongoing basis by the Corporation.

4. 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 pre-payment. 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 0.90 per cent to 2.25 per cent during the year (2010 – 0.18 per cent to 1.10 per cent).

Of the total investments at July 31, 2011, $95,550 represents the Canadian equivalent of $100,000 that will be receivable in U.S. funds. 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.

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.

5. Credit sales programs

	Credit Grain Sales Program	Agri-food Credit Facility	2011 Total	2010 Total
Due from foreign customers				
Current	$ –	$ 60,308	**$ 60,308**	$ 50,861
Rescheduled	201,780	–	**201,780**	224,849
Total credit program receivables	201,780	60,308	**262,088**	275,710
Current portion	17,076	60,308	**77,384**	62,691
Non-current portion	$ 184,704	$ –	**$ 184,704**	$ 213,019
Credit Risk				
Guaranteed by Government of Canada	$ 201,780	$ 59,102	**$ 260,882**	$ 274,693
Assumed by CWB	–	1,206	**1,206**	1,017
	$ 201,780	$ 60,308	**$ 262,088**	$ 275,710

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, Iraq and Pakistan. Of the $201,780 principal and accrued interest due from foreign customers at July 31, 2011, $149,077 represents the Canadian equivalent of $156,020 repayable in U.S. funds. Of the $224,849 principal and accrued interest due from customers at July 31, 2010, $164,826 represents the Canadian equivalent of $160,290 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, Indonesia, Mexico and Peru. The July 31, 2011 balance of $60,308 principal and accrued interest due under the ACF represents the Canadian equivalent of $63,117 repayable in U.S. funds.

The July 31, 2010 balance of $50,861 principal and accrued interest represents the Canadian equivalent of $49,461 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:

	2011	2010
Amounts due:		
Within 1 year	**$ 77,384**	$ 62,691
From 1 - 2 years	**17,894**	17,466
From 2 - 3 years	**19,083**	18,551
From 3 - 4 years	**20,389**	19,745
From 4 - 5 years	**21,829**	21,056
Over 5 years	**105,509**	136,201
Overdue	**–**	–
	$ 262,088	$ 275,710

6. Accounts receivable from advance payment programs

	2011	2010
Due from producers	**$ 415,149**	$ 398,245
Due from Government of Canada	**13,867**	13,165
Due (to) from agents of the CWB	**(726)**	981
	$ 428,290	$ 412,391

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the Government of Canada. Since their inception, the cash advance programs have been revised several times, with advances being issued under the *Prairie Grain Advance Payments Act* (PGAPA), the AMPA, the SCAP, the ESCAP, the Unharvested Grain Advance Program and the APP.

The current format of the advance programs was introduced by the Government of Canada on April 1, 2007. The new agreement under the AMPA is referred to as the APP. 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. Any remaining balances from previous programs have been amalgamated into the APP program, and the combined programs are shown in the table above.

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.

Cash advances issued during the year by the Corporation under these programs totalled $517,513 (2010 – $645,350), including $175,292 (2010 – $381,965) issued under the APP After-Harvest and $342,221 (2010 – $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.

7. 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 statement of financial position 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, the change in fair value is recorded as a component of revenue. When hedging currency risk from PPOs or cash trades, 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 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 and cash trades are 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, the change in fair value is recorded as a component of revenue. When hedging price risk from PPOs or cash trades, 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 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 and cash trades 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, leases on hopper cars and laker payments have a functional currency embedded derivative. These embedded derivatives have been classified as held-for-trading and are fair valued at the statement of financial position date with change in fair value recorded in the combined statement of operations as a component of freight and other direct expenses respectively.

The Corporation's grain sales and purchase contracts are derivatives because their prices are based on an index. The grain sales and purchase contracts are classified as held-for-trading and are fair valued at the statement of financial position 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, 2011, the fair value of outstanding derivative contracts is as follows:

	Assets		**Liabilities**	
	2011	2010	**2011**	2010
Derivative Instrument				
Commodity contracts	**$ 148,642**	$ –	**$ –**	$ 141,681
Foreign exchange contracts	**60,250**	9,071	**–**	–
Swaps – investments	**–**	–	**17,489**	15,870
Swaps – debt	**79,990**	86,163	**–**	–
PPO purchase contracts	**–**	17,111	**68,841**	–
Sales contracts	**–**	–	**12,331**	94,591
Embedded derivatives	**1,933**	41	**124**	1,106
Total	**$ 290,815**	$ 112,386	**$ 98,785**	$ 253,248

Fair value of derivative instruments by term to maturity:

		2011			**2010**
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**	**Total**
Derivative assets	**$ 203,956**	**$ 63,279**	**$ 23,580**	**$ 290,815**	$ 112,386
Derivative liabilities	**$ 80,482**	**$ 18,303**	**$ –**	**$ 98,785**	$ 253,248

The change in fair value of outstanding derivative contracts totals $335,444 net gain. Of the total net gain, $416,527 gain is in revenue, $85,952 loss is in grain purchases, $46 loss is in freight, $987 gain is in other income, $1,933 gain is in other expense, and $1,995 gain is in interest income. Of the $335,444 net gain, a gain of $155,874 is not related to the current year's pool operations and as a result is included in the earnings for future allocation.

8. 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 long-term debt that is 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 that 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	$ –	$ 169,422	$ 50,315	**$ 219,737**
Debt	–	(265,874)	(82,298)	**(348,172)**
Derivatives, net	148,642	100,981	(57,593)	**192,030**
Total	$ 148,642	$ 4,529	$ (89,576)	**$ 63,595**

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, beginning of year	$ 50,023	$ (272,734)	$ (44,024)	**$ (266,735)**
Gain (loss) included in net income	292	(1,644)	3,569	**2,217**
Purchases	–	–	–	**–**
Sales	–	–	–	**–**
Issues	–	–	–	**–**
Settlements	–	192,080	(17,138)	**174,942**
Transfers in (out)	–	–	–	**–**
Balance, end of year	$ 50,315	$ (82,298)	$ (57,593)	**$ (89,576)**

9. Inventory of grain

Inventory of grain on hand at July 31, 2011 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, 2011, the Corporation recorded inventory write-downs of $0 (2010 – $386).

	2011		2010	
	Tonnes	**Amount**	Tonnes	Amount
Wheat	**3 796 111**	**$ 1,134,042**	3 544 573	$ 791,797
Durum	**772 224**	**197,191**	542 669	99,191
Designated barley	**60 432**	**14,748**	305 287	63,234
Barley	**–**	**–**	187	18
Cash trading operations	**69 036**	**17,090**	33 418	8,457
Total	**4 697 803**	**$ 1,363,071**	4 426 134	$ 962,697

10. Prepaid expenses

	2011	2010
Net results of hedging activities applicable to subsequent pool accounts	**$ 6,191**	$ 15,858
Prepaid cost of moving inventory to eastern export position	**11,649**	22,123
Deposits on hedging accounts*	**–**	152,474
Other	**4,569**	6,453
	$ 22,409	$ 196,908

* Net debit deposits on hedging accounts are recorded in prepaid expenses, while net credit deposits (borrowings against net hedging position) are recorded as part of accounts payable and accrued expenses. Please refer to Note 15.

11. 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 0.35 per cent to 1.55 per cent during the year (2010 – 0.70 per cent to 0.93 per cent).

Total by currency (in Canadian $ equivalent):

	Investment currency		**Canadian $ equivalent**			
	2011 Carrying value	2010 Carrying value	**2011 Carrying value**	**2011 Fair value**	2010 Carrying value	2010 Fair value
Canadian notes	**$ 125,000**	$ 125,000	**$ 125,000**	**$ 130,545**	$ 125,000	$ 129,686
U.S. notes	**95,000**	95,000	**90,773**	**89,192**	97,689	93,157
Long-term investments			**$ 215,773**	**$ 219,737**	$ 222,689	$ 222,843

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

12. Property, plant and equipment

	Hopper cars	Lake vessels	Computer equipment	Furniture & fixtures	Land, building & improvements	Automobiles	WeatherFarm equipment	Total
Cost								
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 August 1, 2010	114,729	–	5,498	3,440	22,603	970	–	147,240
Additions	–	12,973	181	120	501	393	226	14,394
Disposals	(93)	–	(776)	–	–	(317)	–	(1,186)
Balance July 31, 2011	$ 114,636	$ 12,973	$ 4,903	$ 3,560	$ 23,104	$ 1,046	226	$ 160,448
Accumulated depreciation								
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 August 1, 2010	(75,387)	–	(4,089)	(1,340)	(7,168)	(337)	–	(88,321)
Depreciation	(2,318)	–	(480)	(416)	(1,407)	(205)	(6)	(4,832)
Disposals	53	–	761	–	–	167	–	981
Balance July 31, 2011	$ (77,652)	$ –	$ (3,808)	$ (1,756)	$ (8,575)	$ (375)	$ (6)	$ (92,172)
Net book value								
July 31, 2010	$ 39,342	$ –	$ 1,409	$ 2,100	$ 15,435	$ 633	$ –	$ 58,919
July 31, 2011	$ 36,984	$ 12,973	$ 1,095	$ 1,804	$ 14,529	$ 671	$ 220	$ 68,276

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 262 cars have been wrecked and dismantled, leaving 1,738 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, 18 cars have been wrecked and dismantled, leaving 1,645 in the fleet. The Corporation is reimbursed for destroyed cars under operating agreements with the Canadian National Railway Company and the Canadian Pacific Railway.

During the year, the Corporation entered into agreements to purchase two lake vessels, as described in Note 29. The current capitalized cost of $12,973 represents progress payments made to date and is not being amortized as the vessels are still under construction. Depreciation will commence when the lake vessels are put into service. The estimated completion cost is approximately $65,573 with an estimated delivery time of 2013.

During the year, the Corporation acquired automobiles amounting to $393 (2010 – $85) under capital leases.

13. Intangible assets

	Computer system development	Computer software	Total
Cost			
Balance August 1, 2009	$ 114,519	$ 4,865	$ 119,384
Additions	15,590	1,090	16,680
Disposals	-	(3)	(3)
Balance August 1, 2010	130,109	5,952	136,061
Additions	8,394	61	8,455
Disposals	(14,629)	(612)	(15,241)
Balance July 31, 2011	$ 123,874	$ 5,401	$ 129,275
Accumulated amortization			
Balance August 1, 2009	$ (33,749)	$ (2,902)	$ (36,651)
Amortization	(9,908)	(922)	(10,830)
Disposals	-	3	3
Balance August 1, 2010	(43,657)	(3,821)	(47,478)
Amortization	(11,480)	(877)	(12,357)
Disposals	13,765	613	14,378
Balance July 31, 2011	$ (41,372)	$ (4,085)	$ (45,457)
Net book value			
July 31, 2010	$ 86,452	$ 2,131	$ 88,583
July 31, 2011	$ 82,502	$ 1,316	$ 83,818

The amortization expense has been included in the line item "Depreciation and amortization expense" in the combined statement of operations.

14. 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 0.03 per cent to 1.30 per cent during the year (2010 – 0.17 per cent to 0.69 per cent).

Of the total borrowings at July 31, 2011, $601,312 represents the Canadian equivalent of $629,317 that will be repayable in U.S. funds. 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.

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.

15. Accounts payable and accrued expenses

	2011	2010
Net results of hedging activities applicable to current year	**$ 93,925**	$ 25,011
Net borrowings on hedging accounts*	**33,661**	–
Other accounts payable and accrued expenses	**122,490**	107,988
Deferred sales revenue	**60,151**	53,406
	$ 310,227	$ 186,405

* Net debit deposits on hedging accounts are recorded in prepaid expenses, while net credit deposits (borrowings against net hedging position) are recorded as part of accounts payable and accrued expenses. Please refer to Note 10.

16. Liability to agents

	2011	2010
Grain purchased from producer	**$ 928,296**	$ 581,031
Deferred cash tickets	**132,828**	99,310
	$1,061,124	$ 680,341

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.

17. 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, $577,467 (2010 – $578,672) was the estimated earnings that remained undistributed as at July 31, 2011.

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, 2011 have increased the estimation of the earnings generated from the current pools by $46,950 (2010 – decreased $40,504), which increased (2010 – decreased) the liability to producers – current earnings to $624,417 (2010 – $538,168).

Of the adjusted liability, $310,181 (2010 – $244,877) was approved as an interim payment on October 27, 2011; $20,879 (2010 – $2,816) was a payment to Early Payment Option (EPO) participants where the pool price exceeded the contract price; and the balance of $293,357 (2010 – $290,475) will be distributed to producers through final payments: $281,234 (2010 – $284,189) to pool participants, $637 (2010 – $179) to the Wheat Storage Program (WSP), Churchill and FPC*Plus* participants and $11,486 (2010 – $6,107) to the cash trading program.

18. 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 Corporation has long-term notes that 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 (2010 – 0.01 per cent to 5.04 per cent).

Total by currency (in C$ equivalent):

	Debt currency		**Canadian $ equivalent**	
	2011	2010	**2011**	2010
Canadian notes	**$ 265,874**	$ 280,116	**$ 265,874**	$ 280,116
U.S. notes	**$ –**	$ 102,088	**$ –**	$ 104,977
Yen notes	**¥ 6,631,617**	¥ 14,097,292	**$ 82,298**	$ 167,758
			348,172	552,851
Current portion long-term debt			**17,165**	104,977
Long-term debt			**$ 331,007**	$ 447,874

These borrowings mature as follows:

	Carrying value		Fair value	
	2011	2010	**2011**	2010
Amounts due:				
Within 1 year	**$ 13,461**	$ 102,830	**$ 17,165**	$ 104,977
From 1 – 2 years	**7,476**	16,281	**10,179**	21,260
From 2 – 3 years	**2,535**	11,433	**3,354**	15,179
From 3 – 4 years	**166,234**	4,719	**183,015**	6,009
From 4 – 5 years	**–**	166,234	**–**	182,973
Over 5 years	**128,768**	218,951	**134,459**	222,453
	$ 318,474	$ 520,448	**$ 348,172**	$ 552,851

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

19. Reserve for producer payment expenses

The amount of $3,064 (2010 – $2,316) 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.

20. 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 comprising:

	2011	2010
Balance, beginning of year	**$ 2,424**	$ 3,518
Transfer from payment accounts	**312**	–
Expenditures	**(249)**	(742)
Payments to producers against old payment accounts	**(23)**	(352)
Balance, end of year	**$ 2,464**	$ 2,424
Ending balance comprised of:		
Unexpended authorizations	**$ 151**	$ 158
Not designated for expenditure	**2,313**	2,266
	$ 2,464	$ 2,424

During the 2010-11 crop year, the balances from payment accounts for 2002 wheat were transferred to the Special Account under Order-in-Council P.C. 2010-1115. Furthermore, the balances from payment accounts for 2003 barley were transferred under Order-in-Council P.C. 2011-747.

Program activity during the 2010-11 crop year is detailed as follows:

	Unexpended at beginning of year	Authorized	Expended	Expired	Unexpended at end of year
Scholarship program	$ 158	$ 242	$ (249)	$ –	$ 151

21. Contingency fund

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

Pursuant to the Act, the contingency fund balance can be negative with no limit specified. The Contingency Fund Regulation provides the upper limit to the contingency fund. Subsequent to year end, the Contingency Fund Regulation was amended to provide that the balance of the fund cannot exceed $200 million. On October 18, 2011 the Corporation received a directive through Order-in-Council P.C. 2011-1182 (the OIC) that all profits or gains be transferred to the contingency fund unless a different disposition of those profits or gains is required under the Act. As a result, all surpluses from the PPO programs and cash trading, relating to the year ended July 31, 2011, have been transferred to the contingency fund pursuant to the OIC.

The components of the contingency fund are described below:

Producer Payment Options program

The Corporation has implemented payment alternatives for producers. The Fixed Price Contract (FPC) and Basis Price Contract (BPC) provide producers with the opportunity to lock in a fixed price or basis for all or a portion of their grain through sign-up by January 31. 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 2010-11, the Corporation transacted the cash trading of barley, designated barley, soft white spring wheat and organic grains under the authority of Section 39.1 of the Act. A total of 675 781 (2010 – 525 825) tonnes were traded at a profit of $2,188 (2010 – $1,151).

The Wheat Storage Program (WSP) provides producers a contract premium and storage payment to store their high-quality, high-protein No. 1 Canada Western Red Spring wheat on farm. It ensures a consistent stock of high-quality, high-protein wheat to satisfy the needs of farmers' premium customers. During the year, 51 producers delivered 14 546 tonnes for a value of $4,802 (compared to $2,511 of payments to 28 producers for delivery of 7 702 tonnes in 2009-10). The program revenue received from the wheat pool was sufficient to cover this cost.

The Churchill Storage Program 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, 123 producers delivered 44 889 tonnes for a value of $12,848 (compared to $18,400 of payments to 356 producers for delivery of 60 275 tonnes in 2009-10).

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 2010-11, $51 (2010 – $331) was transferred to the contingency fund.

Consistent with the treatment applied to the pools and PPO program, 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, 2011 is detailed as follows:

	2011	2010
Opening surplus, beginning of year	**$ 21,988**	$ 3,407
Transferred from pool accounts	**51**	331
Current year surplus	**102,515**	18,277
Interest earned (expensed)	**177**	(27)
Closing surplus, end of year	**$ 124,731**	$ 21,988

22. 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, 2011) 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, as well as deposits on lake vessels paid from current operations which must be capitalized for GAAP purposes. 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 (loss) earnings for future allocation balance at July 31, 2011 are detailed as follows:

	2011	2010
(Loss) earnings for future allocation, beginning of year	**$ (317,894)**	$ 174,836
Net change in fair value of financial instruments	**155,874**	(320,213)
Net change in inventory valuation differences	**(142,576)**	(132,013)
Net change in liability to producer – current earnings valuation differences	**87,453**	(40,504)
Deposit on lake vessels paid from current operations	**12,973**	–
(Loss) for future allocation, end of year	**$ (204,170)**	$ (317,894)

23. Grain purchases

Grain purchases are primarily made up of purchases under PPO contracts of $1,790,108 (2010 – $243,729), purchases from third-party suppliers of grain in the course of the cash trading of grain $165,997 (2010 – $153,542), late receipts and inventory overages and shortages $23,281 (2010 – $19,720) and other inventory charges ($314,421) (2010 – $387,036). 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 benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks. Other inventory charges primarily represents the change in inventory calculated under GAAP (rather than under the Act – please refer to Note 22 for further explanation) year over year.

During the year ended July 31, 2011, the total grain purchases of $1,664,965 (2010 – $804,027) represents the cost of goods sold. Earnings distributed to pool participants of $3,791,759 (2010 – $4,278,603) also represents the cost of grain sold during the year.

24. Inventory adjustments

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

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

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

25. Other direct expenses

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

26. 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.

27. Administrative expenses

	2011	2010
Allocated as follows:		
Wheat pool	**$ 49,158**	$ 50,588
Durum pool	**14,262**	11,074
Designated barley pool	**2,450**	4,688
Barley pool A	**985**	–
Barley pool B	**550**	–
Cash trading	**2,535**	1,881
PPO programs	**2,341**	2,056
Total	**72,281**	70,287
Producer payment accounts	**316**	220
Administrative expenses	**$ 72,597**	$ 70,507

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

28. Depreciation expenses

	2011	2010
Allocated as follows:		
Wheat pool	**$ 12,708**	$ 13,028
Durum pool	**3,687**	2,850
Designated barley pool	**633**	1,207
Barley pool A	**268**	–
Barley pool B	**142**	–
Cash trading	**626**	436
PPO programs	**3**	70
CWB lab	**24**	2
WeatherFarm™	**5**	–
Total	**18,096**	17,593
Producer payment accounts	**4**	3
Depreciation and amortization expense	**$ 18,100**	$ 17,596

Depreciation expenses are allocated to each pool and cash trading program on the basis of relative tonnage.

29. 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, 2011 were $678 (2010 – $735).

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

Commitments under operating leases are as follows:

	Premises and office equipment
2011-2012	$ 549
2012-2013	308
2013-2014	104
2014-2015	104
After 2015	87

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 8.24 per cent in 2011-12 and 7.90 per cent thereafter.

Commitments under capital leases are as follows:

	Vehicles
2011-12	$ 42
2012-13	2
2013-14	–

Lake vessels

During the year, the Corporation entered into agreements to purchase two lake vessels. Remaining payment commitments under the agreements are as follows:

	Lake vessel
2011-12	$ 15,000
2012-13	26,500
2013-14	11,100

Other

The Corporation has agreed to fund the operations of the Canadian International Grains Institute for a base amount of $1,400, through to March 31, 2012.

30. 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 employees and beneficiaries and third-party service providers for the benefit plans, were $11,059 (2010 – $6,496).

Expenses

The Corporation's expenses for its defined benefit and other post-employment benefit plans, for the year ended July 31, 2011 was $6,186 (2010 – $4,455).

Financial position of the benefit plans

The Corporation measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at July 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes were prepared as at July 31, 2010. The next valuation, which is in progress, will be as at July 31, 2011. The preliminary results are indicating a solvency deficit of approximately $22,000 that is not reflected in the table below. The most recent actuarial valuation of the other post-employment benefit plan was prepared as of July 31, 2009 with the next valuation as of July 31, 2011.

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.

	2011 Pension benefits	2010 Pension benefits	**2011 Other benefits**	2010 Other benefits
Change in fair value of plan assets				
Balance at beginning of year	**$ 93,342**	$ 83,807	**$ –**	$ –
Contributions by Corporation	**9,921**	4,296	**1,060**	2,127
Contributions by employees	**1,156**	1,142	**–**	–
Expected return on plan assets	**6,104**	5,733	**–**	–
Actual return on plan assets	**3,290**	36	**–**	–
Benefits paid	**(1,449)**	(1,672)	**(1,060)**	(2,127)
Fair value, end of year	**$ 112,364**	$ 93,342	**$ –**	$ –
Change in accrued benefit obligation				
Balance at beginning of year	**$ 73,052**	$ 59,218	**$ 30,273**	$ 27,114
Current service cost	**4,286**	3,457	**690**	595
Interest cost on benefit obligation	**4,666**	4,251	**1,826**	1,799
Contribution by employees	**1,156**	1,142	**–**	–
Benefits paid	**(1,449)**	(1,672)	**(1,060)**	(2,127)
Actuarial gain on Accrued Benefit Obligation	**8,020**	6,656	**2,859**	2,892
Benefit obligation, end of year	**$ 89,731**	$ 73,052	**$ 34,588**	$ 30,273
Funded status				
Plan surplus (deficit)	**$ 22,633**	$ 20,290	**$ (34,588)**	$ (30,273)
Unamortized net actuarial loss	**19,224**	15,097	**8,135**	5,526
Unamortized transition (asset) obligation	**(2,641)**	(3,205)	**2,989**	3,522
Accrued benefit asset (obligation), end of year	**$ 39,216**	$ 32,182	**$ (23,464)**	$ (21,225)

Defined benefit costs

	2011 Pension benefits	2010 Pension benefits	**2011 Other benefits**	2010 Other benefits
Defined benefit costs				
Current service cost	**$ 4,286**	$ 3,457	**$ 690**	$ 595
Interest cost on benefit obligation	**4,666**	4,251	**1,826**	1,799
Actuarial return on plan assets	**3,290**	36	**–**	–
Actuarial gain on Accrued Benefit Obligation	**8,020**	6,656	**2,859**	2,892
Costs arising in the period	**20,262**	14,400	**5,375**	5,286
Adjustments for difference between costs arising in the period and costs recognized in the period in respect of				
Return on plan assets	**(9,394)**	(5,769)	**–**	–
Actuarial loss	**(7,417)**	(6,540)	**(2,609)**	(2,892)
Transition (obligation) asset	**(564)**	(564)	**533**	533
Total expense included in administrative expenses	**$ 2,887**	$ 1,527	**$ 3,299**	$ 2,928

Significant assumptions:

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

	2011	2010
Expected return on plan assets	**6.00%**	7.00%
Discount rate	**5.40%**	6.00%
Rate of compensation increase	**2.50%**	2.50%
Medical cost trend rate	**7.00%**	9.00%
Medical cost trend rate declines to	**3.00%**	5.00%
Medical cost trend rate declines over	**20 years**	8 years
Dental cost trend rate	**4.00%**	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 2011:

	Increase	Decrease
Accrued benefit obligation	**$ 3,207**	$ (2,620)
Current service and interest cost	**$ 249**	$ (200)

Plan assets:

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

	2011	2010
Equity securities	**33%**	34%
Debt securities	**52%**	51%
Other	**15%**	15%
	100%	100%

Defined contribution plan:

The Corporation expensed $109 (2010 – $98) to the defined contribution component of the Corporation's pension plan. Employees contributed $434 (2010 – $400) to the defined contribution component of the Corporation's pension plan as at July 31, 2011. Benefits paid from the defined contribution component were $156 (2010 – $191).

31. 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 that 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. Compared to last year this factor has increased as expected in response to significant increases in futures price and volatility levels.

Based on outstanding sales, purchase contracts and commodity derivatives held by the Corporation at July 31, 2011, assuming an immediate and sustained $2.00/bushel change in commodity prices occurs across all contract maturities, net earnings would be affected over the next 12 months as follows:

	Increase (decrease)	
	2011	2010
Sensitivity factor (representing one standard deviation)	**$ 2.00/bushel**	$ 0.90/bushel
Increase in price per bushel	**$ (589,019)**	$ (299,261)
Decrease in price per bushel	**$ 588,569**	$ 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 year's practice of the Corporation.

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

Based on outstanding sales, debt, investments and related derivatives held by the Corporation at July 31, 2011, 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:

	Increase (decrease)	
	2011	2010
Sensitivity factor (representing one standard deviation)	**5.00%**	5.00%
Increase in exchange rates	**$ (8,303)**	$ 15,010
Decrease in exchange rates	**$ 17,965**	$ (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 other risks. The Corporation's financial assets generally comprise investments and credit receivables arising from sales of grain. In practice, most of the assets re-price in staggered amounts every six months. These financial assets are financed with short-term debt, which re-prices at least once per year, or long-term debt, which has been swapped to re-price at least once per year. The Corporation accesses diverse sources of financing and manages borrowings in line with liquidity needs, maturity schedules, and currency and interest rate profiles. The Corporation uses interest rate swaps and cross-currency interest rate swaps, executed concurrently with long-term debt or investments, to lock in a floating 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, 2011, 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:

	Increase (decrease)	
	2011	2010
Sensitivity factor (representing one standard deviation)	**0.50%**	0.50%
Increase in interest rates*	**$ 2,537**	$ 3,669
Decrease in interest rate*	**$ (2,509)**	$ (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 are addenda 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, 2011, $46,687 in Canada Government Treasury Bills was posted as collateral by our counterparties. The counterparties must have a minimum credit rating of A- from at least two external credit rating agencies. The Corporation's exposure and the credit ratings of approved counterparties are continuously monitored and counterparty exposure 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, 2011 was $1,493,986 (2010 – $897,908) and the largest credit risk with any institution as at July 31, 2011, was $75,468 (2010 – $65,483).

Commercial credit

The Corporation has entered into arrangements directly with its customers or their banks to provide short-term credit to customers 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 its bank is unable to pay the funds. The Corporation manages this credit risk by contracting only with approved customers and banks who 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 over-the-counter (OTC) derivative counterparties. Customers that 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 amongst approved customers and their banks. The Corporation's financial risk-management policies provide limits within which management must operate.

There was no exposure to customer banks as at July 31, 2011 (2010 – nil). The Corporation does not anticipate non-performance by customers. The largest cumulative amount outstanding with any customer as at July 31, 2011, was $36,132 (2010 – $21,182).

As at July 31, 2011, the credit risk of outstanding derivative contracts, before netting and after collateral is considered, is as follows:

	2011			2010		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest rate contracts						
Single currency interest rate swaps	**$ 91,983**	**$ 6,055**	**$ 6,260**	$ 205,868	$ 10,880	$ 11,022
Cross currency interest rate swaps	**327,534**	**57,711**	**75,146**	415,317	63,322	75,293
	419,517	**63,766**	**81,406**	621,185	74,202	86,315
Foreign exchange contracts						
Forwards	**4,015,961**	**47,246**	**59,548**	2,281,529	9,072	17,992
Currency swaps	**395,856**	**(749)**	**1,417**	185,294	(1,804)	672
Options	**756,441**	**13,004**	**13,004**	–	–	–
	5,168,258	**59,501**	**73,969**	2,466,823	7,268	18,664
Derivatives before master netting agreements	**5,587,775**	**123,267**	**155,375**	3,088,008	81,470	104,979
Impact of master netting agreements	**(43,805)**	**(46,687)**	**(46,687)**	(44,923)	(45,266)	(45,266)
Total derivatives after master netting agreements	**$ 5,543,970**	**$ 76,580**	**$ 108,688**	$ 3,043,085	$ 36,204	$ 59,713

The following table provides a breakdown, by credit rating, of the Corporation's derivative exposure as at July 31, 2011.

Credit rating		**2011**		2010	
Moody's	Standard & Poor's	**Notional amounts**	**Fair value**	Notional amounts	Fair value
Aaa	AA-	**$ 1,187,601**	**$ 54,332**	$ 956,018	$ 55,320
Aa1	AA-	**2,226,015**	**28,177**	363,339	2,470
Aa2	AA-	**–**	**–**	174,001	1,131
Aa2	A+	**1,430,549**	**19,124**	1,220,571	2,837
Aa3	AA-	**–**	**–**	102,830	2,150
Aa3	A+	**743,610**	**21,634**	271,249	17,562
Total		**$ 5,587,775**	**$ 123,267**	$ 3,088,008	$ 81,470

The following table provides a breakdown, by credit rating, of the Corporation's notional short-term and long-term investments as at July 31, 2011.

Credit rating *		2011		2010	
Moody's	Standard & Poor's	**Short-term**	**Long-term**	Short-term	Long-term
Aaa	AAA	**$ 149,949**	**$ 75,000**	$ 24,992	$ 75,000
Aaa	AA-	**189,709**	**–**	180,000	–
Aa1	AA	**–**	**50,000**	–	50,000
Aa1	AA-	**288,255**	**23,888**	152,121	25,708
Aa2	AA+	**–**	**66,885**	–	71,981
Aa2	A+	**133,355**	**–**	69,525	–
Aa2	A	**21,000**	**–**	75,000	–
Aa3	A+	**95,550**	**–**	74,038	–
–	AA	**43,921**	**–**	29,096	–
Total		**$ 921,739**	**$ 215,773**	$ 604,772	$ 222,689

* "Credit rating" means the credit rating of the counterparty's long-term unsecured and unsubordinated debt, as determined by two different rating agencies, one of which must be either S&P or Moody's, and the other one of which must be selected among the other credit rating agencies, either Dominion Bond Rating Service or Fitch. 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, 2011.

Credit Risk* Customer (direct)	**2011 Short-term**	2010 Short-term
Very low	**$ 80,765**	$ –
Low	**37,242**	35,054
Low to medium	**–**	9,208
Moderate	**24**	–
High	**10,426**	13,139
Total customer (direct)	**$ 128,457**	$ 57,401

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

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 $921,739 on hand at July 31, 2011 (2010 – $604,772),
- 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 C$250,000 and US$100,000 and uncommitted lines of credit total C$1,150,000 and US$250,000, 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 C$)

	Outstanding	< 1 month	1- 3 months	3- 12 months	1- 5 years	> 5 years
Non-derivative liabilities						
Borrowings	$ (1,733,373)	$(890,137)	$ (658,236)	$ (185,000)	$ –	$ –
Long-term debt	(318,475)	(12,410)	(13,011)	(12,860)	(188,951)	(91,243)
Derivative liabilities	24,492	11,488	24,338	(64,558)	33,794	19,430
	$ (2,027,356)	$(891,059)	$ (646,909)	$ (262,418)	$ (155,157)	$ (71,813)

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 Corporation's practices in prior years.

32. Capital management

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

The Act stipulates that the Corporation cannot retain capital, except for the contingency fund, which was established to underwrite the risks associated with the PPOs and cash trading activities. The Act states that the contingency fund can be negative with no limit specified.

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

33. 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.

Mark-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 control and, typically, reduce selected types of risk.

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

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

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