STRONG FOUNDATION

STRONG FUTURE

2011-12 ANNUAL REPORT

STRONG FOUNDATION

STRONG

This annual report provides an overview of the 2011-12 crop year. It underscores the tremendous transition The Canadian Wheat Board (CWB) has undergone over the past twelve months and the activities undertaken during the 2011-12 crop year, ending July 31, 2012.

August 1, 2012 was the beginning of a new era for farmers and grain compaines in Western Canada as it was the effective date of the removal of the "single desk" and the first day CWB leveraged its strong foundation and competed in the open market. All signs indicate a strong future ahead for CWB.

Corporate profile

CWB markets western Canadian wheat, durum wheat and barley in Canada and throughout the world. Prior to August 1, 2012, all sales revenue, less marketing costs, was returned to farmers. As a key international grain trader, CWB competes successfully with other major players in the grain industry, selling wheat and barley to more than 70 countries around the globe. With annual sales of $4 billion to $8 billion, CWB has been touted as the largest marketer of wheat and barley in the world. The following is the vision and mission that guided CWB prior to August 1, 2012 and is the context within which this annual report should be read.

Vision

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

Mission

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

FUTURE

The information contained within this report is accurate and representative of CWB's operating environment as it existed during the 2011-12 crop year. Although this report is intended to be an analysis of the 2011-12 crop year, the importance of the legislative changes which resulted in the current market environment and precipitated many of CWB's activities throughout the 2011-12 crop year have been noted.

Unless otherwise stated, reference to the *Canadian Wheat Board Act* or "the Act" refers to the legislation governing CWB during the 2011-12 crop year.

Corporate structure

CWB was established by the *Canadian Wheat Board Act,* a statute of the Parliament of Canada. 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* received Royal Assent. Bill C-18 contained a number of provisions which will have a significant impact on the operations of the Corporation.

Bill C-18 provided that until July 31, 2012 the Corporation would continue to be governed under the provisions of the *Canadian Wheat Board Act,* as amended by provisions of Bill C-18. Further, it provided that effective on August 1, 2012, the Act would be repealed and the Corporation would be governed by the *Canadian Wheat Board (Interim Operations) Act,* a statute of the Parliament of Canada (the Interim Operations Act).

Financial highlights

Combined pool operating results ($millions)	**2011-12**	**2010-11***	**2009-10**	**2008-09**	**2007-08**
Revenue	$7,213.6	$5,989.1	$5,149.4	$7,828.5	$8,418.6
Payments to Pool Participants	4,853.2	3,791.8	4,278.6	6,432.1	5,240.3
Payments to PPO Participants	1,123.7	1,709.2	278.2	679.3	1,921.1
Payments to Cash Trading Participants	9.5	11.5	6.1	5.2	–
Receipts (000 tonnes)					
Wheat	13 618.9	13 668.1	15 603.3	15 931.5	13 368.1
Durum	4 056.0	3 965.4	3 413.5	4 281.4	3 581.0
Designated barley	1 307.4	681.1	1 445.0	2 411.4	2 444.9
Barley (pool A)	–	299.0	–	19.3	37.5
Barley (pool B)	–	153.0	–	11.6	418.0
Cash trading	1 000.9	735.2	593.8	561.1	1 206.9
Total	**19 983.2**	**19 501.8**	**21 055.6**	**23 216.3**	**21 056.4**

* 2010-11 revenue was restated as a result of accounting policies associated with the adoption of International Financial Reporting Standards. Previous periods were not restated.

Message from the Chairman and President and Chief Executive Officer

STRONG FOUNDATION

This year has seen more change in the grain industry than in any other year during our careers. In the midst of this change, CWB focused both on how to be successful in the new marketing environment and on fulfilling its statutory obligations by effectively marketing western Canadian farmers' wheat, durum and barley grown during the 2011-12 crop year.

As we detail in this annual report, approximately $4.8 billion will be returned to western Canadian farmers from CWB's marketing activities. The 2011-12 harvest produced a wheat and durum crop of 24.7 million tonnes, compared to 22.7 million tonnes the year before. Quality was relatively good with 75 per cent of wheat grading No. 1 or No. 2, and 68 per cent of durum grading in the top two grades which was significantly up on the poor quality crop the year before.

CWB exported a total of 18.1 million tonnes. Wheat exports were 13.0 million tonnes, durum was 3.6 million tonnes, malting barley was 1.1 million tonnes and feed barley was 400 000 tonnes. Domestically the CWB sold 2.2 million tonnes of wheat, 225 000 tonnes of durum and 1.0 million tonnes of malting barley.

Grain markets remained relatively stable for most of the 2011-2012 crop year until the deepening drought across the U.S.-mid-west, significantly diminished the size of the corn crop which pushed prices higher. The drought in the U.S. mid-west coupled with the weather conditions in Russia that reduced the size of its production, resulted in highs of $10+ per bushel for high protein wheat in mid-July. Prices settled back a little by mid August but remained at $9+ per bushel throughout the remainder of the pool period.

A focus throughout the 2011-12 crop year has been on identifying and managing restructuring and transition activities resulting from changes to CWB's mandate. Much time was spent identifying and quantifying the costs of transition. In August the Government announced that it will reimburse CWB for up to $349 million of those costs; which was the aggregate amount identified by CWB. These funds, which are referenced throughout the pages of this report, ensured that the 2011-12 pool returns appropriately reflect the revenues generated in the marketplace and will ensure that as CWB begins to operate in the open market it does so with a clean balance sheet.

STRONG FUTURE

Throughout the last year we have challenged staff at CWB and have engaged experts to look at CWB in a different way and to define its place in the new marketing environment. As we move forward we continue to leverage our strong foundation that was built up over the past 75 years and we believe that there is a substantial role for CWB to continue to play in marketing Canadian grain in the future.

With the best wheat, durum and barley sales team in Canada and the only company with a proven track record in pooling farmers' grain, not only is there a place for CWB in the new marketing environment, but we believe the future is strong.

Corporate Governance

Board of directors

CWB operates as a corporation pursuant to the Act. The Corporation is governed by a Board of Directors (the Board) that consists of four community and business leaders appointed by the Government of Canada and CWB's President and Chief Executive Officer, whose appointment by the government is made on the basis of a recommendation from the Board. Under the Board's 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 who choose to market their grain through CWB. Prior to the enactment of Bill C-18, CWB was governed by 15 directors, 10 of whom were elected by farmers.

THE BOARD'S MANDATE

The Board is accountable for establishing and achieving CWB's stated objectives. It does this by assuming responsibility for setting the overall strategic direction of the corporation and by reviewing and approving strategic plans, budgets, financial statements, and the annual corporate and borrowing plan which is ultimately approved by government. The Board oversees the conduct of the business and establishes performance measures against which long-term and annual plans can be evaluated.

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 Chief Executive Officer, all directors are independent of management. The Board has a comprehensive governance policy and process framework as part of CWB's commitment to good governance.

Director biographies

DAVID CAREFOOT

David has a strong foundation in agri-business and is currently the Chief Financial Officer (CFO) of Legumex Walker Inc. David served as the 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, together with his 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.

BRUCE JOHNSON

Bruce has worked in the grain industry for more than 25 years. He has held senior positions in both privately held and cooperative grain companies and has served on several boards. Bruce has provided consulting services to a broad range of clients in transportation, food and agriculture, and government. He holds a Bachelor of Arts from the University of Manitoba and a Chartered Director designation from the Directors College.

KEN MOTIUK

Ken, together with his family, owns and operates an 8,300-acre family farm near Mundare, Alberta, growing canola, peas and wheat. He is involved in and has investments in pork farms 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., Queensland Competition Authority, Queensland Cotton Corporation and Defiance Milling Ltd.

Pictured on facing page, from left to right: Ian White, Ken Motiuk, Bruce Johnson, Glen Findlay, David Carefoot.

Board remuneration

Total remuneration for the Board for the 2011-12 crop year totalled $420,400. Directors do not participate in any corporate pension plan or any corporate benefit plan, with the exception of travel accident and travel medical insurance. Remuneration for the President and Chief Executive Officer is not included in the above total.

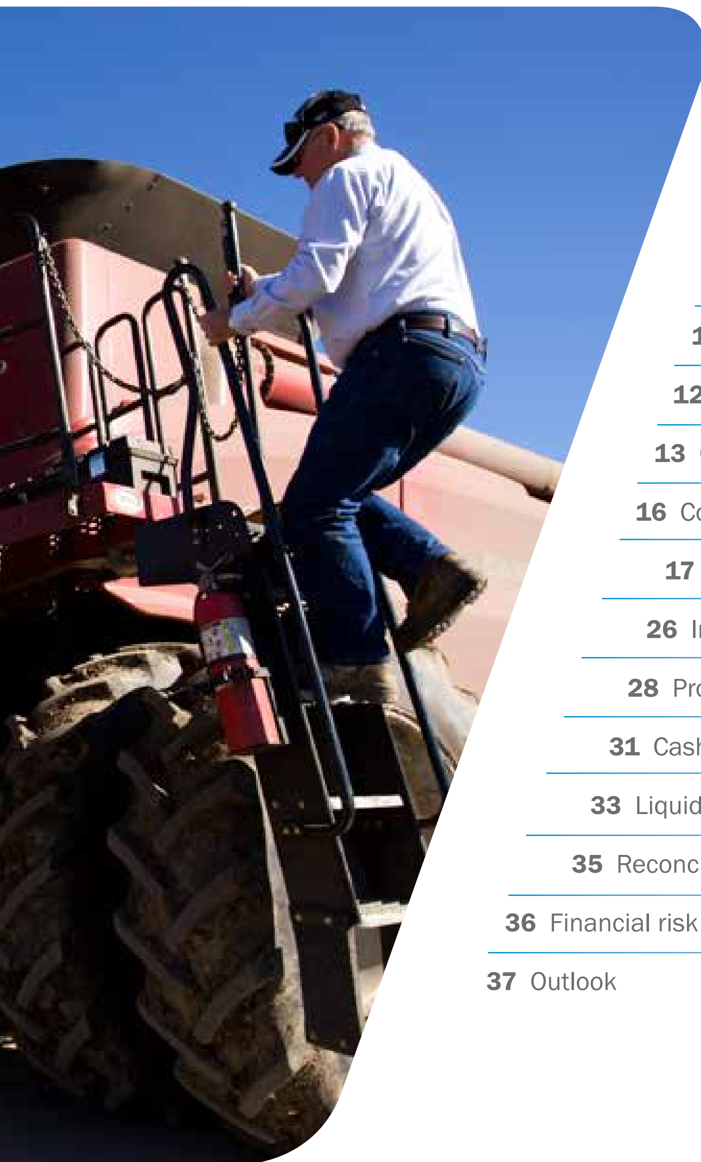
Total expenses for the Board during the 2011-12 crop year were $626,482 compared to $949,900 during the 2010-11 crop year. This change reflects the reduction in the composition of the Board part way through the year, brought about by Bill C-18.

CWB executive team

The executive team, comprising of (pictured below, clockwise from top left) Ian White, President and Chief Executive Officer; Brita Chell, Chief Financial Officer; Ward Weisensel, Chief Operating Officer; and Dayna Spiring, Chief Strategy Officer and General Counsel, is responsible for overseeing the operations and driving the achievement of CWB's strategic goals, as set by its Board.

Executive compensation is set within a formal corporate compensation structure that is benchmarked to the market and approved by the Board.

Management discussion & analysis



Responsibility

The management discussion and analysis (MD&A) is the responsibility of management as of December 18, 2012. The MD&A was reviewed and approved by the Board of Directors of CWB.

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Our business

CWB's foundation in grain marketing runs deep. Historically, CWB was the single largest wheat and barley marketer in the world. As one of Canada's biggest exporters, CWB has sold grain to more than 70 different countries and returned all sales revenue less the costs of operations, to Prairie farmers. As a result of the legislative changes enacted in December 2011 which were effective August 1, 2012, CWB is no longer the single desk for marketing western Canadian wheat, durum and barley. Subsequent to July 31, 2012, CWB has focused on creating a strong future and continues to operate on a competitive basis, with certain supports from the government.

Products

WHEAT

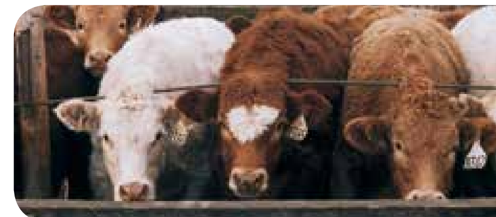
Western Canadian wheat is marketed to customers in approximately 60 countries. It enjoys an international reputation for consistency and reliability of both supply and quality. Flour made from Prairie wheat is the main ingredient in many staple foods, including pan breads, flat breads, steam breads, noodles and other products, like crackers.

DURUM

CWB markets quality durum wheat grown by western Canadian farmers to approximately 20 countries worldwide. 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% of Western Canada's barley acres are seeded to malting varieties. Of that, on average approximately 25 to 30% meet the strict quality-controlled standards set for malting-barley selection. Most of the quality barley grown in Western Canada 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. CWB markets feed barley overseas when the international price structure presents opportunities to achieve good returns for farmers, relative to the domestic feed market.

CANOLA

As CWB moves forward in the new competitive environment, it has leveraged its strong foundation in grain marketing and has begun to market canola. Canola is the predominant oilseed grown in Canada and is used primarily by the domestic crushing industry. Canola meal is valuable protein meal featuring low levels of gluconsinate and an excellent amino acid profile. Canola meal is used in the domestic and international markets as a protein supplement for dairy and beef cattle, swine and poultry. CWB's foray into canola marketing began August 1, 2012 and thus is not reflected in this annual report.

Operational environment

The vast majority of grain grown in Canada comes from farmers who live and work on the Prairies. Historically, including the year ended July 31, 2012, CWB marketed 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 has been between $4 billion and $8 billion, with all sales revenue less marketing costs, returned directly to farmers.

Global market

The global market for wheat, durum and barley is highly competitive. For more than 75 years, CWB sustained and built Western Canada's market presence and strong reputation through customer service and branding. These efforts have successfully contributed to CWB's role as one of the largest wheat and barley marketers in the world.

Each year, CWB marketed 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 but traditionally include Japan, Sri Lanka, Indonesia, Bangladesh, Saudi Arabia and China. The United States (U.S.) is also a key market for Canadian milling wheat.

Canada is a significant participant in the world durum market, capturing approximately 50% of world export trade. Canada, the European Union (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% of the total global supply – Canada producing less than 15%. Global buyers of Canadian durum include Italian pasta makers, as well as other European nations, North Africa, South America, Japan and the U.S.

In barley export markets, the main suppliers are Australia, Canada, the EU and Ukraine, which together account for nearly half of world exports. In recent years, Ukraine has been the largest exporter, followed by Australia and the EU. 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.

Canada is the world's largest exporter of canola and canola oil. Canola exports from Canada have typically ranged between 4 and 7 million tonnes. Exports of canola are primarily to Japan, Mexico, United Arab Emirates (UAE), Pakistan and China.

Business structure

CWB is a corporation created by virtue of the *Canadian Wheat Board Act.* Even though CWB was created by an Act of Parliament, it is not part of the Canadian government. The core operations and structure of CWB – the single desk, pooling and government guarantees – were defined by the Act.

The single desk

Pursuant to the Act, prior to August 1, 2012, CWB was the exclusive – or "single desk"– marketer of wheat and barley produced in the designated area in Western Canada which was destined for domestic human consumption or export.

Pooling

Pooling is the foundation of CWB's ability to manage the risks associated with pricing farmers' grain in complex and volatile global markets. CWB is uniquely positioned as the only company in Canada with experience in pooling farmers' grain. 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 from those pool accounts, less marketing costs, is returned to farmers, except in cases where farmers have chosen to participate in CWB Producer Payment Options. Farmers who chose 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, protein level, and location.

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 to CWB for grain sales.

Moving forward

On August 1, 2012, CWB began operating in an open market environment. While the competitive landscape has changed dramatically, CWB continues to be the pooling expert in Western Canada and has retained the government guarantees for initial payments to farmers, CWB borrowings, and certain credit sales. CWB has retained its key sales people and as a result, all of its customer relationships. While farmers, handling agents, multinationals and customers work to adjust to the new environment, CWB is ready to market grain and maximize returns for farmers who choose to deal with CWB.

How the financial statements capture the business

The Act required CWB to establish a separate pool account for each crop year (August 1 to July 31) for each of the crops it handles. For the year ended July 31, 2012, three pool accounts were operated: one each for wheat, durum and designated barley. The pool accounts captured the revenues and expenses for grain contracted and delivered by farmers and sales made to customers for each specific crop. A final distribution of the net earnings per pool is made to producers when all deliveries contracted for the crop year are received and all activities related to the sale of grain are completed, and the government has approved the distribution.

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. The statement of distributions which forms part of the audited annual financial statements provides the details of distributions by pool. 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. CWB has borne the risk of the PPO programs and retained the benefits of these programs as a hedge against future program risk. The net earnings (loss) of the PPO programs are credited (charged) to the Contingency Fund.

In addition, CWB engaged in cash trading of designated barley, feed barley, various wheat classes, organic wheat and organic durum. CWB has both borne the risk of these cash trading programs and retained the benefits. The net earnings (loss) attributable to these activities are credited (charged) to the Contingency Fund.

The Contingency Fund was established for certain purposes outlined in the regulations to the Act. Included in the Contingency Fund are the net surpluses or deficits of the PPO programs and 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 the Contingency Fund. Under the Act, the Contingency Fund was capped at $200 million. Under the Interim Act the cap has been removed.

Because all earnings are distributed to farmers (except surpluses of the PPO and risk management costs of cash trading programs), CWB's operations are financed by borrowings. These borrowings are made in various capital markets and are guaranteed by the Government of Canada.

CWB produces financial reports for each of its pools which capture all of the transactions attributable to the applicable pool period; including transactions which occur subsequent to the fiscal year end of July 31. The pool accounts remain open until marketing activities have been substantially completed and the remaining inventories can be fairly valued. On the completion of this activity the final distribution to producers of the net earnings of the pool is calculated and distributed.

CWB is also required to produce financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). GAAP requires that the financial statements only include transactions which have occurred during the fiscal year. As a result, there are certain differences between the GAAP financial statements and the financial reports for the pool accounts. These discrepancies are primarily related to the timing of transactions as well as to the effect of market value fluctuations on certain financial instruments.

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.

In order to meet the needs of producers and in the spirit of the Act, 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. They exclude the effect of the gains and losses from the valuation of financial instruments that do not relate to the current pool operations. These statements provide producers with an opportunity to review the results of each pool account and the resulting distributions which can be tied back to the audited statement of distributions to pool participants. Please see page 35 for a reconciliation of the individual statements in the MD&A to the audited financial statements.

The reconciling of items between the statement of individual pool accounts and the GAAP financial statements relate to the point in time during which certain transactions are recognized.

Financial statements

	Combined statements	Individual pool statements
Period	12-month fiscal period representing August 1 to July 31	No defined period of operations – remain open until all marketing activities have been substantially 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 revenue from unexecuted contracts less execution costs • Unrealized gains and losses related to recording of fair value of financial instruments • Differences in inventory valuation • Difference in capitalization of lake vessels for the year ended July 31, 2011 • GAAP statements have been retroactively restated for the impact of adoption of IFRS, the pool statements were not restated.	

* Reconciliation of differences is reported on page 35.

Our vision and strategies

The five year strategic plan developed by CWB in 2009 was rendered largely not applicable given the legislative change brought about by Bill C-18. In this regard, the key organizational objectives shifted in order to leverage CWB's strong foundation in anticipation of enabling CWB to compete in the open market. CWB's objectives for 2011-12 were as follows:

- develop a business plan based on the new marketing environment that enables CWB to be strong and viable
- ensure handling arrangements are in place to facilitate CWB access to the handling system in Western Canada
- right size corporation to reflect the new legislative and marketing environment
- retain key employees during transition
- achieve results on the final statutory pools

CWB met the above noted objectives for the 2011-12 crop year. However, while handling agreements are in place with all handling companies in Western Canada, a small number of those agreements were executed after August 1.

CWB performance highlights and results

In addition to the focus on business plan initiatives for the on-going CWB as discussed above, CWB continued to focus on performance associated with the final statutory pools and the programs associated with these pools. These results are outlined in the section immediately below.

Results

Two key indicators of CWB performance as it relates to statutory pools are performance to target on sales price comparisons and the contribution from other revenue sources. The results against targets for the 2011-12 crop year are reported below.

Measure	Target for 2011-12	Results for 2011-12
Sales price comparison	Wheat – C$6.50; US$6.50	Wheat – C$7.48; US$7.40
	Durum – C$4.50; US$4.50	Durum – C$7.70; US$7.63
	Designated barley – C$10.00; US$10.00	Designated barley – C$15.30; US$15.19
Contribution from other revenue sources	$42.21 million	$52.23 million

Sales price comparison

This measure reflects the net per-tonne price spread realized by 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 CWB, based on its best knowledge of the relevant competition for those sales. CWB's key objective as it relates to pool operations is to achieve the highest possible returns to farmers over the entire sales volume. Once 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 2011 were set in November 2011, based on sales already completed during the first three months of the crop year and additional sales projected to be made through to July 31, 2012. 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.

- For the wheat pool, the year-end result of US$7.40 per tonne for wheat sales is above the target of US$6.50 per tonne. The positive result relative to target is based upon market fundamentals for high quality wheat that allowed for better premiums than were forecasted when the targets were set.
- The year-end result of US$7.63 per tonne for durum sales is US$3.13 per tonne above the U.S. dollar target of $4.50 per tonne. Poor crop production in the Mediterranean basin and a U.S. drought were both supportive to the premiums that were achieved particularly relative to the targets set. Also helpful but unanticipated was the fact that many buyers, who had refused to make forward purchases while supplies appeared plentiful, finally needed to secure supplies in a tighter supply environment.
- The year-end result of US$15.19 per tonne for designated barley sales is above the U.S. dollar target of $10.00. Overall sales volume decreased in 2011-12 as compared to 2010-11 which made premium customers a larger portion of sales volumes than was originally anticipated. In addition, early in the selling period, CWB was able to achieve larger premiums than was anticipated at the time the targets were set.

Contribution from other revenue sources

This measure reflects the level of revenue 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 2011-12 targets were met or exceeded for all revenue sources with the exception of the savings from the prepayment of inventory plan which was slightly below target.

Current year results

FACTORS THAT SHAPED THE 2011-12 BUSINESS CONDITIONS

World production

WHEAT

World wheat production in 2011-12, estimated by USDA at 695.7 million tonnes, was the largest in history. Robust feed demand and domestic consumption helped offset the record crop and resulted in ending stocks increasing by only 237 000 tonnes. The major influence on wheat demand in 2011-12 was the smaller than expected corn crop in the U.S., which resulted in increasing feed grain prices through the year. A recovery in Black Sea (Russia, Ukraine and Kazakhstan) wheat production helped replace a portion of world corn import demand. Black Sea exports were 38.5 million tonnes in 2011-12 which is an increase of 293% over 2010-11. The available supplies of high-quality, high-protein wheat were ample in 2011-12, despite disappointing protein levels in Canada. U.S. Hard Red Winter (HRW) and Hard Red Spring (HRS) protein supplies were above average in 2011-12, which pressured protein premiums.

DURUM

Durum prices climbed throughout the fall of 2011 as markets responded to the poorer than expected production results in Canada and the U.S. Global production, however, did increase from 34.9 million tonnes in 2010-11 to 36.7 million tonnes in 2011-12. The tightness in supplies from North America supported the market until the end of 2011, when new crop conditions in the Mediterranean basin improved and the prospects for above average production were enhanced by timely rainfall. Durum exports from Canada increased in 2011-12, while the exports from the U.S. decreased sharply. Exports from Europe also decreased as lower production and quality issues limited the available tonnage.

DESIGNATED BARLEY

Global barley production recovered from the poor 2010-11 crop as total output reached 134.4 million tonnes. Barley crops in the Black Sea region recovered from the disastrously low levels of the previous year. Australian and Canadian malting barley crop size and quality also improved from the previous year, which pressured prices downwards. The smaller than expected corn crop in the U.S. helped support international barley prices.

Canadian crop

Concerns about excess moisture conditions were prevalent in the early spring as soils were still saturated from the heavy rains that fell in 2010. These fears were compounded by heavier than normal snowfall, in eastern and northern growing areas, during the winter period. Cool weather during April and May delayed the start of planting, with negligible amounts of the crop planted by the beginning of May. Dry weather in central and northern Alberta and northern Saskatchewan during May allowed farmers to make excellent progress during the remainder of May. Northern regions remained very dry through the first weeks of June, which resulted in some emergence problems in later planted fields. Southern regions of the Prairies did not fare as well during May as heavy rains flooded fields and prevented farmers from planting. Flooding and excessive moisture issues were reported from southern Alberta to Manitoba, with the heaviest flooding occurring in the south-eastern areas of Saskatchewan and south-western areas of Manitoba. Rivers in this region rose to levels that occur once every three hundred years. Temperatures during May were one to three degrees below normal in the southern regions and close to normal in the central and northern regions. Seeding progress was inched forward in May, with only 75% of the intended crop being planted. Sporadic progress was made during early June as rains continued to delay seeding however by the middle of June 86% was planted. Planting of crops other than green feed stopped at that point leaving an estimated 2.75 million hectares (6.8 million acres) unseeded.

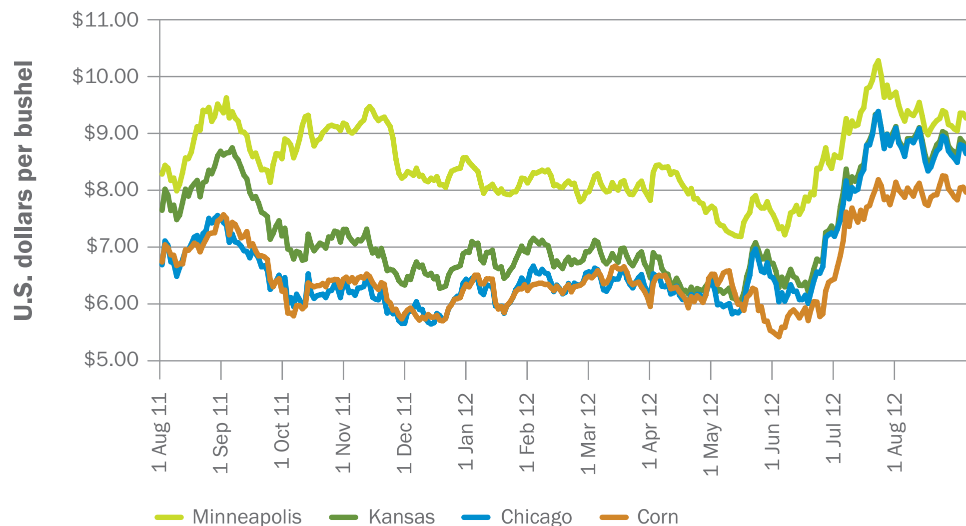
The weather during July and August was vastly different from the conditions experienced in the spring. The southern regions turned dry and hot, while moderate to heavy rains covered the northern growing areas. Temperatures were significantly above normal in Manitoba and eastern Saskatchewan with deviations ranging between two and five degree's Celsius for the month. Western areas of the Prairies were cooler than normal, which slowed crop development. These conditions remained largely intact through August. Crops entered the reproductive stage in the middle of July in eastern growing areas, while western regions were delayed. The warm temperatures in the eastern Prairies helped boost crop development and significant harvest progress occurred during the last week of August in Manitoba.

The warm dry conditions continued in September, which allowed harvest to move ahead faster than normal in all areas of the Prairies. A severe frost was reported in the middle of September in parts of Alberta, Saskatchewan and Manitoba but damage was minimal as most crops were mature. Mostly dry weather during the last half of September allowed the harvest to progress to near completion. The crop quality for wheat, durum and barley was good, with the bulk of the wheat and durum crops meeting specifications for the top two grades.

Commodity markets

Commodity markets spent most of the year trading within a $1.50 range with a year end rally beginning in June 2012 that resulted from serious drought conditions in the U.S. corn and soybean belt. Market lows occurred with the completion of U.S. spring crop seeding. Prices for all agriculture commodities were buoyed late in the year; however, the strongest impact was felt in the oilseed, feed grains, and lower quality wheat markets. Additionally, Black Sea wheat production concerns resulting from a drought during the growing season helped rally milling wheat values during July and August.

U.S. FUTURES MARKET VALUES, 2011-12



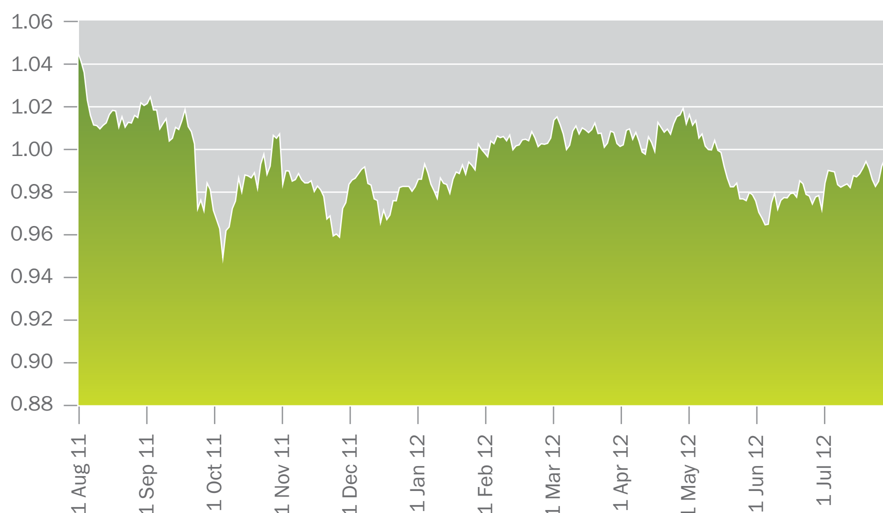
Stable Canadian dollar

Weak global economic growth, compounded by a financial crisis in Europe, kept short-term Canadian interest rates and global commodity prices stable throughout 2011-12. The Bank of Canada remained on the sidelines throughout the period, neither raising nor lowering interest rates, as economic growth remained soft. Commodities like oil and gold traded in stable ranges as well. As a result, the Canadian dollar was also stable, trading for a significant part of the year between approximately 96 and 102 US cents, and never trading above 105 US cents or below 94 US cents.

Fluctuations within the ranges were created by alternating positive and negative headlines out of Europe, along with fluctuating economic data.

Although most grain sold by CWB is priced directly in U.S. dollars, the relatively stable Canadian dollar in 2011-12 versus the previous year did not have a material impact on pool returns. Hedging strategies employed by CWB ensured that the stability of Canadian dollar was reflected in the pools. The chart below illustrates the Canadian dollar value versus the U.S. dollar value over the 2011-12 crop year.

BANK OF CANADA CAD/USD NOON RATE



Financial market conditions

The European financial crisis peaked at the opening of 2011-12, gradually stabilizing as the year progressed. While a deeper financial crisis was averted, Europe remained in recession throughout the year. With the major economies of the world experiencing either recession, soft economic growth, or slowing growth, forecasts for stronger global economic growth were gradually reduced as the year progressed. Weak economic growth implies lower global demand for commodities so commodity prices stabilized and central banks adjusted their outlooks for inflation downward. Anticipated interest rate increases from the Bank of Canada did not materialize, while the U.S. Federal Reserve, with short-term interest rates near zero, implemented measures to further lower long-term interest rates. Short-term interest rates in both Canada and the U.S. in 2011-12 remained stable throughout the year at historically low levels similar to those that prevailed in the latter half of 2010-11.

Combined pool results

For the year ended July 31, 2012, the Corporation operated three pool accounts: wheat, durum, designated barley. In the previous year two additional pool accounts were operated, 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 PPOs and cash trading.

For the year ended July 31 (dollar amounts in 000's)	2012 Total	2011 Total
STATEMENT OF POOL OPERATIONS		
Receipts (tonnes)	**18 982 327**	**18 766 584**
REVENUE	$ 6,622,583	$ 6,224,104
Direct costs		
Freight	369,815	263,121
Terminal handling	214,015	175,629
Inventory storage	102,277	98,727
Country inventory financing	4,064	2,476
Inventory adjustments	(3,386)	(32,960)
Grain purchases	69,249	23,280
Other direct expenses	46,030	63,934
Total direct costs	802,064	594,207
Net revenue from operations	5,820,519	5,629,897
Other income	149,469	152,973
Other expenses	(992)	(13,776)
Net interest earnings	7,916	7,076
Administrative expenses	(65,503)	(67,405)
Restructuring expense	(5,596)	—
Depreciation and amortization expense	(16,725)	(17,438)
Grain industry organizations	(2,024)	(2,765)
Total pool earnings	5,887,064	5,688,562
Deduct:		
Sales returns to Producer Payment Options program	1,115,867	1,809,298
Earnings for distribution	**$ 4,771,197**	**$ 3,879,264**
STATEMENT OF DISTRIBUTION		
Receipts (tonnes)		
Total receipts	18 982 327	18 766 584
Less: Producer Payment Options program receipts	3 715 630	5 804 891
Wheat Storage Program and Churchill Storage Program receipts	15 556	22 440
Receipts for pool distributions	15 251 141	12 939 253
Earnings distributed to pool participants		
Initial payments on delivery	$ 3,536,063	$ 2,565,306
Adjustment payments	626,866	717,972
Interim payment	390,888	310,181
Final payment	217,288	285,754
Total earnings distributed to pool participants	4,771,105	3,879,213
Transferred to contingency fund		
Undistributed earnings	92	51
Total distribution	**$ 4,771,197**	**$ 3,879,264**

Wheat pool

For the year ended July 31 (dollar amounts in 000's)	2012		2011	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**13 618 934**		**13 668 113**	
REVENUE	$ 4,592,923	$ 337.25	$ 4,673,807	$ 341.95
Direct costs				
Freight	199,277	14.63	173,355	12.68
Terminal handling	157,981	11.60	130,761	9.57
Inventory storage	71,770	5.27	77,312	5.66
Country inventory financing	3,112	0.23	2,149	0.16
Inventory adjustments	(2,278)	(0.17)	(25,005)	(1.83)
Grain purchases	61,444	4.51	11,560	0.85
Other direct expenses	32,445	2.38	36,032	2.64
Total direct costs	523,751	38.45	406,164	29.73
Net revenue from operations	4,069,172	298.80	4,267,643	312.22
Other income	95,161	6.99	100,668	7.37
Other expenses	(720)	(0.05)	(10,051)	(0.74)
Net interest earnings	4,954	0.36	5,432	0.40
Administrative expenses	(47,003)	(3.45)	(49,158)	(3.60)
Restructuring expense	(4,015)	(0.29)	–	–
Depreciation and amortization expense	(11,999)	(0.88)	(12,708)	(0.93)
Grain industry organizations	(1,509)	(0.11)	(2,030)	(0.15)
Total pool earnings	4,104,041	301.37	4,299,796	314.57
Deduct:				
Sales returns to Producer Payment Options program	1,097,990	299.95	1,707,359	317.19
Earnings for distribution	**$ 3,006,051**	**$ 302.34**	**$ 2,592,437**	**$ 313.74**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	13 618 934		13 668 113	
Less: Producer Payment Options program receipts	3 660 625		5 382 754	
Wheat Storage Program and Churchill Storage Program receipts	15 556		22 440	
Receipts for pool distributions	9 942 753		8 262 919	
Earnings distributed to pool participants				
Initial payments on delivery	$ 2,232,064	$ 224.49	$ 1,733,866	$ 209.84
Adjustment payments	375,860	37.81	472,994	57.24
Interim payment	260,316	26.18	213,597	25.85
Final payment	137,811	13.86	171,980	20.81
Total earnings distributed to pool participants	3,006,051	302.34	2,592,437	313.74
Total distribution	**$ 3,006,051**	**$ 302.34**	**$ 2,592,437**	**$ 313.74**

The strategy

Western Canadian wheat production (excluding durum) in 2011 was 18.6 million tonnes. Overall spring planting was slow due to excessive precipitation; however, warm and dry weather later in the growing season helped to keep overall prairie production on par with 2010. Premiums for high quality, high protein wheat moved from being wider than historical averages in the spring to being pressured towards the middle or bottom end of the market during the Canadian harvest. Seventy-five per cent of the 2011 western Canadian crop graded Nos. 1 or 2 on the quality scale, which was a huge increase from the previous year, in which only 38 per cent of the crop graded Nos. 1 and 2. CWB sales strategy, which focused on transitioning buyers to lower grade wheat in 2010, was reversed in 2011. The average Canada Western Red Spring (CWRS) protein levels of 13.1% remained below the five-year average. While western Canadian wheat protein levels were below average, the U.S. HRW crop came in with higher-than average protein which pressured mid-protein values. The EU was competitive and made sizeable exports into the Middle East and North Africa. Good yields in the Black Sea region – generally one of the cheapest sources of low and mid-quality wheat – allowed for aggressive exports. Exports from the Black Sea region slowed with the arrival of larger than average production from Argentina and record production from Australia (although harvest rains limited their higher-quality, higher-protein wheat export program). Overall, world wheat production in 2011-12 was the largest in history but prices were supported by firm feed grain prices. The U.S. corn supply, already tight in 2010-11, became critically tight in 2011-12, forcing the use of alternative feed ingredients, including wheat.

Producer receipts

Producer receipts of all non-durum wheat totalled 13.6 million tonnes, relatively unchanged from the previous year. Deliveries were accepted into the wheat pool until October 11, 2012. Keeping the pool open beyond July 31 ensured that deliveries could be receipted into the pool and producers could fulfill their contract requirements regardless of difficulties arising from external factors such as transportation and weather.

A delivery contract is a binding agreement between a farmer and CWB. It specifies the class, grade and quantity of grain the farmer wants to deliver. Farmers had the opportunity to sign a Series A Canada Western Red Winter (CWRW) delivery contract until September 30, 2011. CWRS, Canada Western Hard White Spring (CWHWS), Canada Western Soft White Spring (CWSWS) and Canada Prairie Spring Red (CPSR) Series A delivery contracts could be signed until October 31, 2011. The CWRS and CWHWS Series B delivery contract sign-up deadline was January 31, 2012 and, for Series C, the deadline was May 31, 2012.

All Series A, Series B and Series C wheat contracts were accepted at 100%.

Revenue

The domestic market was the single largest wheat market, accounting for 1.86 million tonnes of shipments, down from 2.4 million tonnes in 2010-11. The second-largest wheat customer in 2011-12 was Iraq, with shipments of just over 1 million tonnes. This was a marked increase over the prior year as Canadian wheat quality and market conditions allowed CWB to secure tender tonnage. In 2011-12, as in 2010-11, Japan was the third-largest buyer of Canadian wheat, with 960 000 tonnes of shipments. This was up slightly from the previous year. The fourth-largest wheat customer was Sri Lanka, with 826 000 tonnes of shipments. Moving into fifth place this year was Mexico, purchasing just under 800 000 tonnes.

Total revenue in the wheat pool was $4.6 billion on 13.6 million tonnes of receipted grain, representing an average gross revenue of $337.25 per tonne (2011 - $341.95). This was a decrease of $4.70 per tonne from the previous year's return but still represents the third highest per-tonne return on record. For a second year, an extremely tight supply-and-demand balance in the corn market underpinned strong prices for all the major grains.

The final pool return for No. 1 CWRS with 13.5% protein (net of all costs) was $326.04 per tonne in-store Vancouver/ St. Lawrence, compared to $344.96 per tonne a year earlier. The final pool returns for No. 3 CWRS and No. 2 CPSR were $250.81 and $252.53 per tonne respectively, compared to $283.17 and $270.28 per tonne in 2010-11.

Direct costs increased by $8.72 per tonne from the previous crop year. Higher rail freight costs mainly attributable to an increased volume of winter rail movement and an increase in the cost of grain purchases were the two major factors. Both of these costs are offset by increased revenue from the sale of the grain.

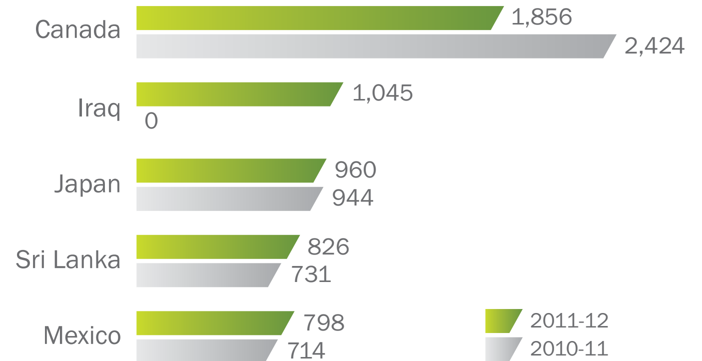
Net revenue from operations was $298.80 per tonne, down by $13.42 from the previous year.

Distribution of earnings

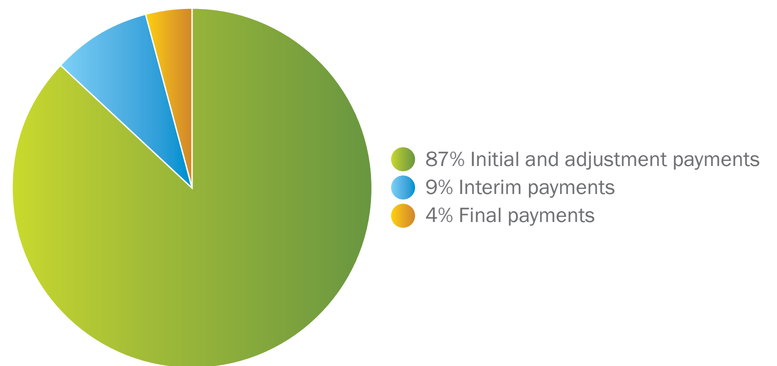
Average sales proceeds available for distribution decreased $13.20 per tonne from the previous year to $301.37 per tonne, for a total of $4.1 billion. Of this, $3.0 billion was returned to pool participants. Of this amount, 87 per cent was approved by June 4, 2012 for distribution in the form of initial and adjustment payments. A further 9 per cent was distributed as an interim payment on December 4, 2012, with the balance distributed as the final payment.

Approximately $1.1 billion of sales returns was paid from the wheat pool to the PPO programs, representing the pool return on the specific grades and classes of wheat delivered under Fixed Price Contracts (FPCs), Basis Price Contracts (BPCs), FlexPro and Early Payment Options (EPOs). The PPO programs, in turn, paid participating farmers at their respective contract prices.

LARGEST-VOLUME WHEAT CUSTOMERS (000s TONNES)



EARNINGS DISTRIBUTED TO FARMERS



Durum Pool

For the year ended July 31 (dollar amounts in 000's)	2012		2011	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**4 055 976**		**3 965 405**	
REVENUE	$ 1,616,165	$ 398.47	$ 1,250,801	$ 315.43
Direct costs				
Freight	155,802	38.41	86,740	21.87
Terminal handling	50,290	12.40	36,487	9.20
Inventory storage	23,387	5.77	16,297	4.11
Country inventory financing	800	0.20	201	0.05
Inventory adjustments	(910)	(0.22)	(7,783)	(1.96)
Grain purchases	8,241	2.03	3,310	0.83
Other direct expenses	8,722	2.15	23,466	5.92
Total direct costs	246,332	60.74	158,718	40.02
Net revenue from operations	1,369,833	337.73	1,092,083	275.41
Other income	23,422	5.77	29,223	7.37
Other expenses	(204)	(0.05)	(2,914)	(0.73)
Net interest earnings	1,174	0.29	768	0.19
Administrative expenses	(13,990)	(3.45)	(14,262)	(3.60)
Restructuring expense	(1,196)	(0.29)	—	—
Depreciation and amortization expense	(3,574)	(0.88)	(3,687)	(0.93)
Grain industry organizations	(343)	(0.08)	(491)	(0.12)
Total pool earnings	1,375,122	339.04	1,100,720	277.59
Deduct:				
Sales returns to Producer Payment Options program	9,676	336.78	13,121	271.82
Earnings for distribution	**$ 1,365,446**	**$ 339.05**	**$ 1,087,599**	**$ 277.65**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	4 055 976		3 965 405	
Less: Producer Payment Options program receipts	28 732		48 273	
Receipts for pool distributions	**4 027 244**		**3 917 132**	
Earnings distributed to pool participants				
Initial payments on delivery	$ 975,726	$ 242.28	$ 683,212	$ 174.42
Adjustment payments	219,719	54.56	224,037	57.19
Interim payment	111,568	27.70	92,249	23.55
Final payment	58,433	14.51	88,101	22.49
Total earnings distributed to pool participants	1,365,446	339.05	1,087,599	277.65
Total distribution	$ 1,365,446	$ 339.05	$ 1,087,599	$ 277.65

The strategy

Canadian durum production was slightly greater than four million tonnes in 2011, which represents approximately a one million tonne increase over 2010. However, total North American durum production was the lowest since 2006. Poor durum production in 2010 due to cool and wet conditions during the growing season and harvest looked to continue into 2011. Heavy spring rains in some growing areas in North Dakota and Western Canada left fields either unplanted or planted quite late which helped raise prices and encouraged wide quality spreads in the spring. With warmer, dryer weather in the summer months of 2011, western Canadian durum quality improved and quality spreads began to shrink. In 2011, the EU suffered from heavy spring rains and the result was a drop in durum production (one million tonnes below their five-year average). Poorer quality results in Greece and Spain were offset by good quality results in France and Italy. In Canada, producers saw a predominantly higher-quality harvest, with just under 90 per cent of the durum crop grading Nos. 1 and 2 Canada Western Amber Durum (CWAD). Given this quality profile, the marketing strategy allowed buyers to move back toward their usual quality preferences as opposed to the mainly 3 CWAD offerings of 2010. Marketing opportunities to the U.S. were maximized as quality Canadian durum moved to fill the U.S. production and delivery void. The 2011 marketing strategy saw a shift away from sales of lower-quality durum into feed markets as supplies of 4 and 5 CWAD diminished substantially (46 per cent of the 2010 crop to just over 10 per cent of the 2011 crop). In the last quarter of 2011, durum trade slowed as buyers resisted historically high durum prices. By December 2011, world durum trade for 2011-12, excluding semolina, was estimated at 6.7 million tonnes, down 630 000 tonnes from 2010-11. Global demand decreased as buyers attempted to stretch supplies, awaiting the availability of 2012 U.S., Mexican and North African durum production. This decrease in global demand more than offset the production shortfall in the U.S. As 2012 began, CWB captured a significant portion of the durum tender market for destinations such as Morocco and Algeria (two quality-conscious, high volume markets), taking advantage of the lack of U.S. competition and dwindling amounts of quality French durum stocks.

Producer receipts

Producer receipts of durum wheat totalled just over four million tonnes, almost 100 000 tonnes greater than in 2010-11. Deliveries were accepted into the durum pool until October 11, 2012. Keeping the pool open beyond July 31 ensured deliveries could be receipted into the pool and producers could 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 CWB. It specifies the class, grade and quantity of grain the farmer has committed to deliver. Farmers had the opportunity to sign a Series A delivery contract on or before October 31, 2011 or a Series B delivery contract by March 31, 2012. All Series A and Series B durum contracts were accepted at 100%.

Revenue

In 2011-12, Algeria supplanted the EU (excluding Italy) as the largest milling-durum market for Canadian durum, with shipments of over 800 000 tonnes. With a return to a predominantly higher-quality Canadian durum harvest along with significantly lower U.S. production, CWB was able to secure Algerian tender tonnage. The EU (excluding Italy), with 776 000 tonnes of shipments, became the second largest Canadian durum destination. The third largest destination again this year was Morocco, with 568 000 tonnes, up from 498 000 tonnes in 2010-11. The U.S. was the fourth largest Canadian durum customer again in 2011-12, with 470 000 tonnes, up slightly from the previous year. Repeating in fifth place was Venezuela, with 318 000 tonnes of durum sales which was down from 360 000 tonnes in 2010-11.

Gross revenues in the durum pool amounted to just over $1.6 billion on 4.06 million tonnes of receipts for an average of $398.47 per tonne. This is an increase of $83.04 per tonne from 2010-11, well above longer-term durum average values.

The final pool return for No. 1 CWAD with 13% protein was $348.05 per tonne in-store Vancouver/St. Lawrence, compared to returns of $302.94 per tonne in 2010-11. The final pool return for No. 3 CWAD was $312.92 per tonne, versus $255.03 in 2010-11.

Direct costs rose by $20.72 per tonne over the prior year, mainly due to freight, terminal handling and other direct expenses. A significant increase in the volume of durum sold to offshore customers delivered at the customer's port (C&F sales) was the primary activity which drove the higher freight and terminal handling costs. These costs on C&F sales were offset by higher sale prices. Other direct expenses were a slight offset to these increases as movement issues experienced last year which resulted in high demurrage costs did not materialize this year.

Net revenue from operations was $337.73 per tonne, up $62.32 from the previous year and consistent with the increase in durum market values.

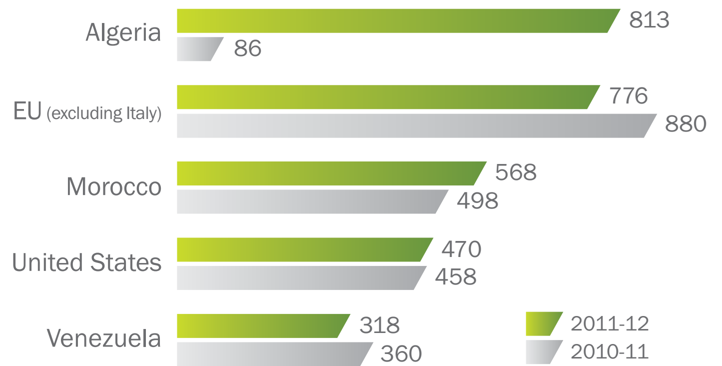
Other income decreased to $5.77 per tonne from 2010-11 levels. This was primarily due to a reduction in liquidated damages and pool buyout costs.

Distribution of earnings

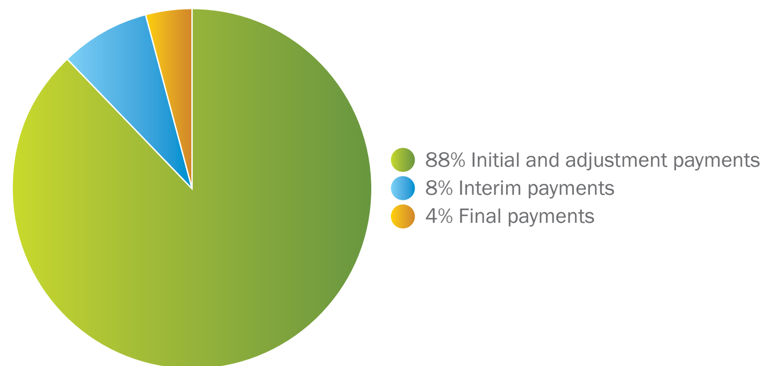
Average sales proceeds available for distribution increased by $61.45 per tonne over the previous year to $339.04. Of the $1.4 billion available for distribution, all but $9.7 million was returned to pool participants. A total of 88 per cent of the amount returned to pool participants was approved by June 4, 2012 for distribution in the form of initial and adjustment payments. Another 8 per cent was distributed as an interim payment on December 4, 2012, with the balance distributed as the final payment.

For producer receipts delivered under the PPOs, $9.7 million of sales returns was paid from the durum pool to the PPO programs, representing the return on the specific grades and classes of durum delivered under FPCs and BPCs. The PPOs, in turn, paid farmers at their respective contract prices.

LARGEST-VOLUME DURUM CUSTOMERS (000s TONNES)



EARNINGS DISTRIBUTED TO FARMERS



Designated barley pool

For the year ended July 31 (dollar amounts in 000's)	2012		2011	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**1 307 417**		**681 088**	
REVENUE	$ 413,462	$ 316.24	$ 179,655	$ 263.78
Direct costs				
Freight	14,736	11.27	2,800	4.11
Terminal handling	5,744	4.39	1,593	2.34
Inventory storage	7,120	5.45	4,570	6.71
Country inventory financing	152	0.12	86	0.13
Inventory adjustments	(198)	(0.15)	(143)	(0.21)
Grain purchases	(466)	(0.36)	6,806	9.99
Other direct expenses	4,743	3.63	2,134	3.13
Total direct costs	31,831	24.35	17,846	26.20
Net revenue from operations	381,631	291.89	161,809	237.58
Other income	30,886	23.62	22,088	32.43
Other expenses	(68)	(0.05)	(502)	(0.74)
Net interest earnings	1,579	1.21	734	1.08
Administrative expenses	(4,510)	(3.45)	(2,450)	(3.60)
Restructuring expense	(385)	(0.29)	—	—
Depreciation and amortization expense	(1,152)	(0.88)	(633)	(0.93)
Grain industry organizations	(172)	(0.13)	(177)	(0.26)
Total pool earnings	407,809	311.92	180,869	265.56
Deduct:				
Sales returns to Producer Payment Options program	8,201	312.14	2,103	265.46
Earnings for distribution	**$ 399,608**	**$ 311.91**	**$ 178,766**	**$ 265.56**
STATEMENT OF DISTRIBUTION				
Receipts (tonnes)				
Total receipts	1 307 417		681 088	
Less: Producer Payment Options program receipts	26 273		7 923	
Receipts for pool distributions	1 281 144		673 165	
Earnings distributed to pool participants				
Initial payments on delivery	$ 328,273	$ 256.23	$ 134,411	$ 199.67
Adjustment payments	31,287	24.42	17,253	25.63
Interim payment	19,004	14.83	4,039	6.00
Final payment	21,044	16.43	23,063	34.26
Total earnings distributed to pool participants	399,608	311.91	178,766	265.56
Total distribution	**$ 399,608**	**$ 311.91**	**$ 178,766**	**$ 265.56**

The strategy

Western Canadian barley producers produced a high-quality, lower-than-average-protein barley crop. This came on the heels of poor barley production and selection rates in 2010-11, caused by wet seeding and harvest weather. Canadian barley production in 2011-12 rose by 150 000 tonnes, with approximately 35 per cent of total production being selectable. Reductions in planted area along with a poor growing season in the U.S. resulted in the smallest U.S. barley crop since 1936. One segment of our sales strategy focused on supplying the increased U.S. demand at attractive premiums to feed barley. Quality problems in the EU-27 forced the usual net exporter of malting barley to become an importer, looking to supplies from Argentina to supplement their poor-quality domestic stocks. Although China had made sizeable imports of Australian and Argentinean barley in 2010-11, their strong demand continued into 2011-12 and CWB moved to capture as much of this business as possible, prior to supplies becoming available from Australia and Argentina in early 2012.

Producer receipts

The 2011-12 designated barley pool, at 1.3 million tonnes, almost doubled in size from the previous year, coming close to 2009-10 levels. Canadian barley producers enjoyed a high-quality, highly selectable crop. Combining pool receipts with malting barley receipts sold through the Cash*Plus* program resulted in total designated barley sales of almost 1.9 million tonnes during the 2011-12 marketing year. The designated barley tonnes sold in the 2011-12 crop year surpassed both 2010-11 and 2009-10 levels.

Deliveries into the designated barley pool were completed by September 21, 2012. Keeping the pool open beyond July 31 ensured that deliveries could be receipted into the pool and producers could fulfill their contract requirements regardless of challenges from external factors such as transportation and weather.

Revenue

Malting barley sales to the domestic market through the pool account in 2011-12 totalled 562 000 tonnes. This was an increase of over 100 000 tonnes from the previous year and represented 43 per cent of total malting barley pool sales. In addition to pooled sales to the domestic malt industry, an additional 600 000 tonnes were sold through the Cash*Plus* program.

For bulk barley exports, China continued as the largest export market for Canadian designated barley with 368,000 tonnes, looking to the superior quality of Canadian barley to blend with other, lower-quality supplies. The U.S. moved up to second position in 2011-12 with 166 000 tonnes. Mexico was CWB's third largest export customer, receiving just over 80 000 tonnes of designated barley and Colombia was the fourth largest export destination, at 55 000 tonnes.

Gross returns in the designated barley pool were more than $413 million on 1.3 million tonnes of receipts, up from $180 million on 681 000 tonnes of receipts the previous year. This translated into average gross revenue of $316.24 per tonne, versus $263.78 per tonne in 2010-11.

The final pool return for Select Two-Row barley in-store Vancouver/St. Lawrence was $312.94 per tonne, compared to $265.74 per tonne in 2010-11. The final pool return for Select Six-Row barley was $299.29 per tonne, compared to $247.98 per tonne the previous year.

Direct costs decreased by $1.85 per tonne from the previous year. Grain purchase costs, which includes late receipts and inventory audit settlements, were down significantly. Conversely, freight costs increased, mainly as a result of increased ocean freight chartering which was offset by higher sale prices achieved for delivered grain.

The net revenue from operations was $291.89 per tonne, an increase of $54.31 per tonne from 2010-11.

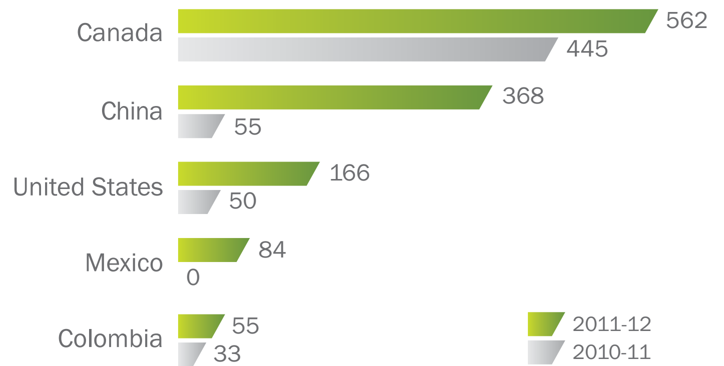
Other income decreased by $8.81 to $23.62 per tonne. This was due to a smaller proportion of the pool volume attracting freight claw-back compared to the previous year.

Distribution of earnings

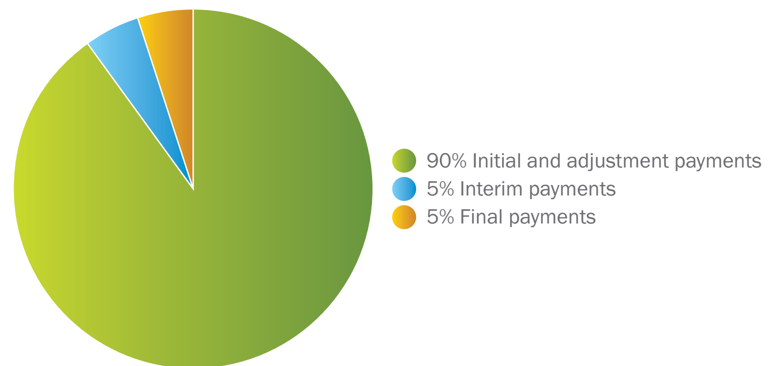
Average sales proceeds available for distribution increased $46.36 per tonne from 2010-11 to $311.92, for a total of $407.8 million. Of this amount, $399.6 million was returned to pool participants. Ninety per cent was approved by February 2, 2012 for distribution in the form of initial and adjustment payments. A further 5 per cent was distributed as an interim payment on December 4, 2012, with the balance distributed as the final payment.

A total of $8.2 million in sales returns were paid from the designated barley pool to the PPOs, representing the return on the specific grades and classes of designated barley delivered under EPOs. The PPOs, in turn, paid farmers at their respective contract prices.

LARGEST-VOLUME DESIGNATED BARLEY CUSTOMERS (000s TONNES)



EARNINGS DISTRIBUTED TO FARMERS



Indirect income and expenses

Net interest earnings

Interest revenues and expenses are allocated throughout the year based on the value of underlying interest-bearing assets and liabilities in each of the pools and programs, with any residual amounts allocated to the pools monthly on the basis of relative tonnage. 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)	2012	2011
Interest on credit sales		
Revenue on credit sales receivable	**4,237**	$ 4,267
Expense on borrowings used to finance credit sales receivables	**716**	795
Net interest on credit sales	**3,521**	**3,472**
Net interest expense on pool account balances	**(1,430)**	**(1,282)**
Other interest		
Revenue	**7,575**	6,492
Expense	**1,750**	1,606
Net "other interest" revenue	**5,825**	**4,886**
Total net interest earnings on pools	**7,916**	**$ 7,076**

Net interest of $7.9 million is comprised of interest earned on credit sales, pool account balances and other sources. The net interest on credit sales represents interest earned on amounts owed to CWB on credit grain sales made under the federal government Credit Grain Sales Program (CGSP) and Agri-food Credit Facility (ACF). When CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers until the credit is repaid to CWB. CWB is able to borrow at interest rates that are lower than the rates that CWB receives from credit customers. As a result, CWB earns an interest spread. In 2011-12, interest spread revenue was consistent with customers' credit agreements. The reduction in net interest earned was largely due to the decrease in outstanding balances.

The net interest expense on pool account balances was relatively consistent with the prior year.

Other interest revenue from customers, which includes amounts related to receipt of sales proceeds on non-credit program sales, will fluctuate year-over-year depending on interest rates, grain prices, grain volume, interest occurrence and 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

The Corporation's administrative expenses for the year ended July 31, 2012 of $71.8 million were unchanged from the prior year. Significant administrative expense variances included the following:

- Human resources expenses decreased by $1.6 million, reflecting savings from reduced staffing levels and a reduction in employee severance expenses (in 2012 employee severance was charged to restructuring expense) which was partially offset by expenditures to retain key employees through to the completion of the 2011-2012 pool year.
- Advertising and promotion expenses increased by $1.9 million as a result of a communication campaign undertaken in the period leading up to the enactment of Bill C-18 on December 15, 2011.
- Expenses in several administrative categories declined as a result of the downsizing of the Corporation and the cancelling of certain information technology projects.

Restructuring expenses

The Corporation has begun to implement the first phases of a program to make operational changes which are necessitated by the loss of the single desk structure. While the Corporation intends to operate in a similar manner during the Interim Period, it expects that the volume of the grain that it markets will be reduced. The Corporation is in the process of implementing a restructuring program which includes making a significant reduction to its workforce, decommissioning certain intangible assets and property and equipment, curtailing certain employee benefit plans, and terminating or renegotiating certain contracts. The Government has approved funding of up to $349 million to fund certain costs of this restructuring. For the year ended July 31, 2012 CWB has incurred a total of $183.2 million in expenses which have been offset by $177.3 million in government reimbursements, resulting in a net restructuring expense of $5.9 million. In addition to the net $5.9 million in restructuring expenses recognized in earnings and charged to pool accounts for the year ended July 31, 2012, $22.0 million in pension expenses incurred in prior years were recognized as a charge to the contingency fund (Note 35 of the audited annual financial statements). The pension actuarial losses were recorded as a result of the adoption of IFRS. Under previous Canadian GAAP these losses would have been amortized to pool expenses in the future. CWB elected to charge this to the contingency fund rather than to the final statutory pool accounts.

Grain industry organizations

Historically CWB has made contributions to support the research and development activities of Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC). In connection with the transition from the single desk marketing structure, the government has introduced new funding mechanisms to support these organizations. Therefore, effective April 1, 2012, CWB stopped providing financial support and does not intend to continue to provide financial support to these organizations. For the year ended July 31, 2012 and 2011 CWB contributed $1.7 million and $2.4 million, respectively, to the operations of CIGI and CMBTC.

Producer Payment Options (PPOs)

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

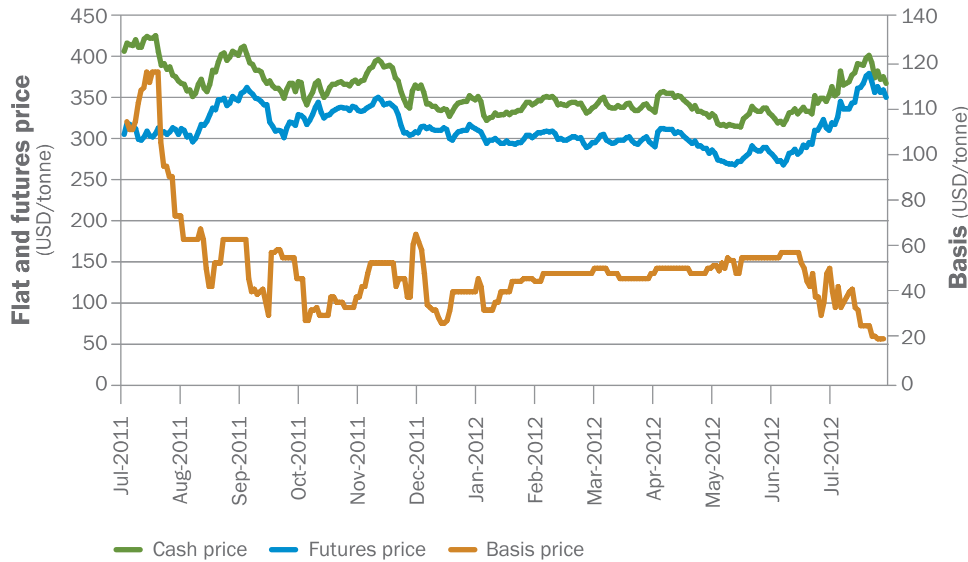
For the year ended July 31 (dollar amounts in 000's)	2012	2011
FIXED/BASIS/FLEXPRO CONTRACTS		
Receipts (tonnes)	**3 410 827**	**4 599 987**
REVENUE		
Sales returns paid to program	$ 1,017,609	$ 1,481,925
Net hedging activity	54,905	—
Pricing damages	541	5,693
	1,073,055	1,487,618
EXPENSE		
Contracted amounts paid to producers	1,029,947	1,304,534
Net hedging activity	—	76,408
Net interest	1,200	1,413
Other expense	1,381	—
Administrative expense	1,958	1,630
Depreciation and amortization expense	12	2
	1,034,498	1,383,987
Net surplus on program operations	**38,557**	**103,631**
Surplus distribution	76	53
Net program surplus, to contingency fund	**$ 38,481**	**$ 103,578**

Total deliveries under the 2011-12 programs were 3 411 000 tonnes compared to the final 2010-11 program size of 4 600 000 tonnes (a record total). Program sign-up and pricing in the FPC and BPC programs occurred in two distinct periods from program commencement until June 2011, and after September 2011. The period between June 2011 and September 2011 had very little sign-up with prices trending lower, and producers still open to significant production risk. Wheat basis levels also declined during that period which further discouraged sign-up. Most pricing in the PPO programs was completed prior to the market rally that started in June 2012.

The following table sets out the number of contracts, producers enrolled and tonnes delivered under these programs.

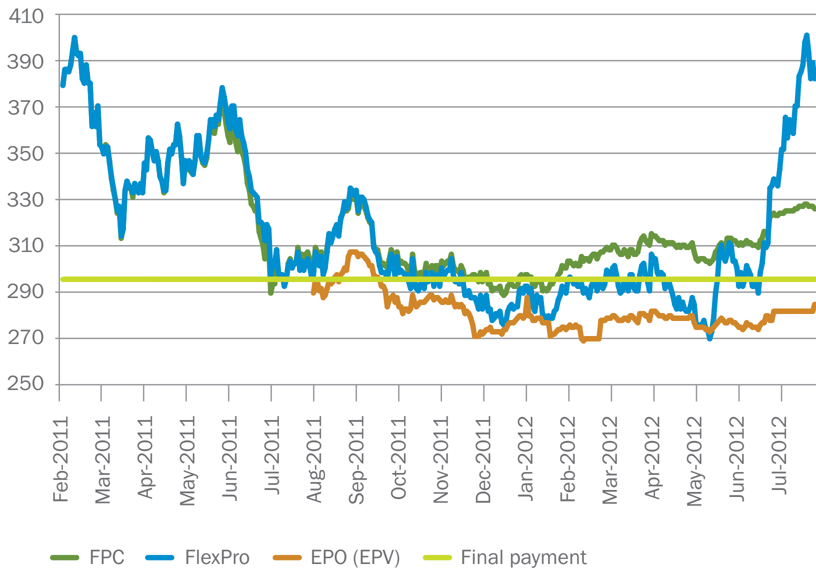
($ in 000's)	2011-12				2010-11			
Program statistics	No. of contracts	No. of producers	Tonnes delivered	Net surplus (deficit)	No. of contracts	No. of producers	Tonnes delivered	Net surplus (deficit)
Wheat	22,956	11,077	3 391 293	$ 38,554	34,257	16,530	4 476 056	$ 101,740
Wheat FlexPro	107	92	10 872	(116)	996	841	122 578	1,803
Durum	57	35	8 662	43	18	15	1 353	35
Total	**23,120**	**11,204**	**3 410 827**	**$ 38,481**	**35,271**	**17,386**	**4 599 987**	**$ 103,578**

NA INTERIOR (CHICAGO) DNS 14.0 PRICES VS. MINNEAPOLIS FUTURES (NEARBY) PRICES



Costs associated with realized basis risk and grade spread risk were adequately covered by charges embedded in the offered prices. The positive net result is predominantly attributed to improvement in basis levels in the second half of the crop year after farmers had already committed to basis levels in the programs.

2011-12 FPC, EPO (EVP), FLEXPRO, AND FINAL PAYMENT



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 $1.0 billion for wheat and $2.9 million for durum. When other revenues (net hedging results and pricing damages), program risk costs, and expenses (including interest and administration expenses) are accounted for, minus payments to farmers, the programs generated a net surplus of $38.5 million. The result is largely attributable to the wheat related programs.

The 2011-12 durum FPCPlus program generated a "plus" payout similar to 2010-11. This program generated a positive net result that is attributable to risk discounts that provided more than adequate coverage for the risks of the program resulting in a return to producers.

Early Payment Option (EPO)

For the year ended July 31 (dollar amounts in 000's)	2012	2011
EARLY PAYMENT OPTION		
Receipts (tonnes)	**304 803**	**1 204 904**
REVENUE		
Sales returns paid to program	$ 92,270	$ 313,462
Program discount	2,728	92,072
Pricing damages	–	86
Net interest	–	–
	94,998	405,620
EXPENSE		
Contracted amounts paid to producers	93,774	404,619
Net hedging activity	228	4,546
Pricing damages	10	–
Net interest	98	236
Administrative expense	547	711
Depreciation and amortization expense	2	1
	94,659	410,113
Net program surplus (deficit), to contingency fund	**$ 339**	**$ (4,493)**

In 2011-12, there were 305 000 tonnes delivered to the EPO program, compared to 1.2 million tonnes in 2010-11.

The total EPO discount charged to farmers for risk, time value of money and program administration costs was $2.7 million compared to $92 million in the previous year. The 2010-11 Wheat EPO programs included special high level EPOs that approximated the CW Feed wheat price that was offered through the Wheat FPC program. This program was particularly attractive for two reasons: first, the special EPO levels provided a mechanism to lock in price spreads for feed wheat; and second, there was a substantial amount of feed wheat offered to the Canadian Wheat Board. In 2011-12 there were limited supplies of feed wheat available to CWB, therefore the special EPO levels were not offered. After accounting for payments to producers, pricing damages charged for non-delivery, net interest expenses, net hedging results and administration, a net surplus of $0.3 million was realized.

The following table sets out the number of contracts, producers enrolled and tonnes delivered under these programs.

($ in 000's)	2011-12				2010-11			
Program statistics	**No. of contracts**	**No. of producers**	**Tonnes delivered**	**Net surplus (deficit)**	**No. of contracts**	**No. of producers**	**Tonnes delivered**	**Net surplus**
Wheat	1,503	898	258 460	$ 64	4,858	3,073	784 120	$ (6,439)
Durum	122	75	20 070	277	346	233	46 920	147
Des Barley	101	89	26 273	47	45	40	7 923	53
Feed Barley A	–	–	–	(49)*	1,466	1,261	255 247	1,084
Feed Barley B	–	–	–	–	691	602	110 694	662
Total	**1,726**	**1,062**	**304 803**	**$ 339**	**7,406**	**5,209**	**1 204 904**	**$ (4,493)**

* Related to prior year program.

Cash trading

Financial results

For the year ended July 31 (dollar amounts in 000's)	2012		2011	
	Total	Per tonne	Total	Per tonne
Receipts (tonnes)	**1 000 905**		**735 216**	
REVENUE	$ 299,909	$ 299.64	$ 186,924	$ 254.24
Direct costs				
Purchase cost	299,637	299.37	171,304	233.00
Freight	774	0.77	338	0.46
Terminal handling	5,164	5.16	4,835	6.58
Inventory storage	1,024	1.02	1,395	1.90
Country inventory financing	89	0.09	53	0.07
Inventory adjustments	(441)	(0.44)	70	0.10
Other direct expenses	1,117	1.12	2,427	3.30
Total direct costs	307,364	307.09	180,422	245.41
Net revenue (loss) from operations	(7,455)	(7.45)	6,502	8.83
Other income	23,005	22.98	11,124	15.13
Net interest earnings	557	0.56	451	0.61
Administrative expenses	(3,415)	(3.41)	(2,535)	(3.45)
Restructuring expense	(287)	(0.29)	—	—
Depreciation and amortization expense	(856)	(0.86)	(626)	(0.85)
Net surplus on program operations	11,549	11.53	14,916	20.27
Cash surplus distributions	9,466	9.46	11,486	15.62
Net program surplus, to contingency fund	**$ 2,083**	**$ 2.07**	**$ 3,430**	**$ 4.65**

Cash trading – program statistics

(in '000)	2012			2011		
Program statistics	**Tonnes**	**Surplus, net of risk management cost**	**Surplus distribution**	**Tonnes**	**Surplus, net of risk management cost**	**Surplus distribution**
Organic program	2 287	$ —	$ —	1 611	$ —	$ —
Wheat programs	15 820	193	NA	8 149	189	NA
CashPlus	601 458	5,716	5,716	275 527	2,210	2,210
Feed barley participatory	341 453	3,750	3,750	390 494	9,276	9,276
Feed barley	14 607	232	NA	—	—	—
Pre-delivery Top up	NA	(15)	NA	—	2	NA
Wheat Storage Program	3 795	—	NA	14 546	733	NA
Churchill Storage Program	21 485	—	NA	44 889	508	NA
Total	**1 000 905**	**$ 9,876**	**$ 9,466**	**735 216**	**$ 12,918**	**$ 11,486**

NA = Not applicable

The CWB cash trading programs were managed outside of the pool accounts and transactions were structured to cover operating costs, manage trading risk and generate positive trading margins, while creating added value for western Canadian wheat, durum and barley farmers. In both Cash*Plus* and the feed barley participatory cash program, the design included a final distribution of trading profits to farmers for grain they delivered to those specific programs.

As with any trading activity, CWB cash trading programs were exposed to multiple forms of risk (counterparty risk, for example). Individual trades were structured to generate sufficient margin to cover expected long term trading risk. In the event that significant and unforeseen costs resulted in program deficits, these would have been covered by the CWB contingency fund. As such, a risk management cost was included for each of the cash trading programs and transferred to the contingency fund. Each program, considered individually, was designed to be self-sufficient over time. Therefore, each program's risk management charge was commensurate with the risk of that program. The risk management cost was considered to be part of the cost of the CWB operating the cash trading program.

Feed barley cash trading

In 2011-12, 356 000 tonnes of feed barley were marketed through the cash programs, compared with 390 000 tonnes traded in 2010-11.

The price relationship between the Canadian domestic market and the world market continued to be volatile in 2011-12. The majority of feed barley cash sales occurred during a few relatively brief periods, when the combination of factors including higher offshore prices, currency relationships and buyer demand supported sales.

Two separate feed barley cash programs were operated in 2011-12.The non-participatory program generated a small surplus while the 2011 cash trading participatory program earned a net margin after all costs of approximately $3.75 million. An additional distribution of $10.98 per tonne was made to farmers for the barley they delivered to the participatory cash feed barley program.

Designated barley cash trading (Cash*Plus*)

The Cash*Plus* program purchased a total of 601 000 tonnes of designated barley from producers in 2011-12, compared to 276 000 tonnes the previous year. The program was designed to provide a market competitive up front payment to farmers with the potential for an additional payment at the end of the trading year if the net program margin was positive. For 2011-12, the cash surplus distribution at the completion of the program was $9.50 per tonne.

Organic cash trading

The 2011-12 crop year marked CWB's organic cash trading program's fifth and final year of operation. The program purchased 2 000 tonnes of organic grain, paying farmers, on average, $394.09 per tonne at the farm gate, up from $366.79 per tonne in 2010-11.

Wheat cash trading

The CWB cash wheat program was designed to target small volume and niche opportunities not readily available through the pooling system. Total tonnage marketed through the wheat cash program was 16 000 tonnes, up from the 8 000 tonnes sold in 2010-11.

Liquidity and capital resources

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

Cash flow - sources and uses

Because CWB distributes all pool account earnings to farmers, its operations are almost entirely financed by debt. The Corporation's primary uses of funds are cash distributions to farmers (initial, interim and final payments), operational expenses and capital spending. CWB makes initial payments to producers on delivery of the grain and may make additional, interim payments to farmers. Payment for grain sales occurs well after the receipt of the grain and accordingly, for much of the year CWB is in a net borrowing position relative to its operations.

For the year ended July 31, 2012, cash generated by operations was $5.1 billion, financing activities, including cash distributions to farmers, used $5.3 billion and investing activities generated $217 million.

CWB issues an initial payment to producers on receipt of grain deliveries, and it issues adjustment and interim payments during the year. After annual accounting has been concluded, CWB issues a final payment to the producers who delivered grain through the pool accounts. Distributions to producers participating in the 2011-12 pools will total $4.9 billion, $4.2 billion of which was paid during the year with the remaining $663 million payable subsequent to year end through the interim and final payments.

For 2012-13 CWB expects that the cash generated by operations will be sufficient to fund its operating cash needs. Debt will be utilized to fund the seasonality of operating cash flows and for capital expenditures, including the ongoing construction of the lake vessels.

Statement of financial position

Overall, CWB's total assets as at July 31, 2012 were $3.4 billion, $0.75 billion lower than the previous year, at $4.1 billion. Accounts receivable related to producer payments decreased $370 million because CWB no longer administers the Advance Payment Program, the grain inventory was $0.2 billion lower as a result of having less tonnes in inventory at a higher value, and derivative values were lower than at the previous year end.

Debt instruments

Under the Act, and with the approval of the federal 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 evidences 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 2011-12 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 2011-12 ranged from $1.2 billion to $2.9 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. All notes outstanding during the year matured, were bought back, or were called. No notes remain outstanding under this program as of July 31, 2012.

Net borrowings were $1.4 billion at the close of 2011-12, down from $2.0 billion at the 2010 -11 year-end. The decrease is attributed to the Corporation decreasing liquidity reserves from 2010-11 as well as decreased funding requirements due to the transfer of the Advance Payment Program from CWB during 2011-12.

Contingency fund

The Act provided for the establishment of a contingency fund to be used for specified purposes outlined in the regulations to the Act.

Under the Contingency Fund Regulation, CWB could deduct an amount from any amount it received in the course of its operations under the Act and credit the amount to the Contingency Fund. However, CWB could not make such a deduction if doing so would create a pool deficit.

In addition, the Contingency Fund Regulation provided an upper limit for the Contingency Fund of $200 million. On October 18, 2011 CWB received a directive through Order-in-Council 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 years ended July 31, 2011 and July 31, 2012 were transferred to the Contingency Fund.

Under the Act, the Contingency Fund was to be utilized to guarantee adjustments to initial payments to pool participants and to cover any losses realized from the PPO programs and cash trading activities.

Under the terms of the Interim Act, effective August 1, 2012, the balance of the Contingency Fund was transferred to a new Contingency Fund and the upper limit for the fund was removed. Under the Interim Act, in addition to the uses of the Contingency Fund previously permitted under the Act, the Corporation may utilize the Contingency Fund for any activities set out in the annual corporate plan or on the approval of the Minister of Agriculture and Agri-Food Canada with the concurrence of the Minister of Finance.

Reconciliation of non-GAAP measures

The financial statements are presented on a combined basis. They capture all aspects of the business – pools, PPOs and cash trading combined – in accordance with Canadian GAAP. In addition, CWB provides a statement of distributions to pool participants, which reports the distributions paid and payable for each of the pools, segregated by pool year. These combined statements, including the Statement of distributions to pool participants, are audited by Deloitte & Touche LLP.

In addition to the GAAP financial statements, CWB provides "Statements of Pool Operations", the "Pool Statements" in the MD&A. These statements present detailed operating results for each of the pools. Management believes that this non-GAAP statement provides useful information to producers who participated in the pools as well as other readers in that it includes all of the activity of each pool, including transactions which were executed subsequent to the fiscal year end, all of which determine the total pool return. There are a number of differences between the pool statements and the GAAP financial statements including the following:

- Sales applicable to the pool which are executed subsequent to the fiscal year are included in the revenue of the pool; sales applicable to the prior pool year are excluded from revenue of the pool.
- Costs to execute sales applicable to the pools which are executed subsequent to the current fiscal year are included in the pool statements; costs to execute sales of the prior pool year are excluded from the pool statement.
- Adjustments to reflect the fair value of unrealized financial instruments are not included in the pool statements.
- During the year-ended July 31, 2011, CWB entered into agreements to purchase two lake vessels for grain transportation. The costs incurred in the year ended July 31, 2011 associated with the construction of the lakers were charged to the pools. The Pool Statements reflect this amount as an expense of the pools. Under GAAP, the cost associated with the construction of the lake vessels was capitalized and will be depreciated over the expected useful life of the assets.
- In accordance with GAAP, CWB has adopted international financial reporting standards, retroactive to August 1, 2010. The impact of the adoption is considered in detail in Note 35 of the annual financial statements. Earnings for the year ended July 31, 2011 were restated to reflect the change in accounting standards; however, pool earnings were not restated.

Net earnings

(dollar amounts in 000's)	2012	2011
Pool operations	**$ 4,771,197**	$ 3,879,266
Cash trading	**11,549**	14,916
PPO programs	**38,896**	99,137
Total net earnings – Pool Statements	**4,821,642**	3,993,319
Net change in fair value of financial instruments	**(99,172)**	154,739
Restatement for transition to IFRS	—	844
Net adjustment for non-fiscal year sales transactions	**229,870**	(142,576)
Laker construction cost – capitalized for GAAP	—	12,973
Net earnings, per combined statement of operations	**$ 4,952,340**	$ 4,019,299

Financial risk management

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 CWB's Board, 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 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 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 Chief Executive Officer and includes the Chief Financial Officer, Chief Operating Officer and other senior management representatives who are involved in managing corporate risk.

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

Market risk

Market risk is the exposure to movements in the level or volatility of market prices that may adversely affect 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. CWB manages commodity price risk inherent to the core business for the wheat pool and the PPOs.

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. CWB also uses exchange-traded futures and option contracts to manage the commodity price risk related to the PPOs offered to Prairie farmers that provide pricing choices and cash flow alternatives.

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

To manage foreign exchange risk, 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, 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 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. 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.

CWB enters into master agreements with all over-the-counter derivative counterparties to minimize credit, legal and settlement risk. Collateral agreements have also been negotiated with the majority of our counterparties, which provide for the posting of collateral by the counterparty when market exposure increases beyond certain thresholds. 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.*

CWB sells grain under two government-guaranteed export credit programs: the CGSP and the ACF. Under the ACF, 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. CWB may also extend credit to customers outside of these government-guaranteed programs, in which case CWB will assume up to 100% of the credit risk. For more information on credit sales, see the Credit Programs Financial Statement Note 4 on page 52.

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

Investments

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 Interim Act, CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines and corporate policies. 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. 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

Strong prices are expected during the 2012-13 crop year due to a global reduction in wheat, corn and soybean supplies. The main source of the price support was a severe drought in the U.S. Midwest which lowered corn and soybean production. Canadian grain production increased during the 2012-13 crop year as increased area and return to average yields boosted production.

Drought-like conditions were the primary concern in the Prairie region at the beginning of the planting season. A warm, dry winter, followed by mild temperatures in April heightened these concerns. Planting started in the southern regions of the Prairies by the end of April and continued until the middle of May. Moderate to heavy rains covered the Prairie region from mid-May until the middle of June, causing some planting delays and acreage losses. Fortunately acreage losses were relatively minor when compared with the previous two years. The rains did provide enough moisture to sustain crops through July.

Above average temperatures and mostly dry weather prevailed through most of July and August. Winter cereal crop development was well ahead of normal with early harvest activity reported by mid-July. The hot weather during July also allowed farmers in Manitoba and eastern Saskatchewan to begin spring wheat harvest in early to mid-August. Dry conditions and warm temperatures throughout September boosted harvest progress ahead of schedule compared to the historical average. Nearly all harvest activities were concluded by the middle of October. Crop quality is very good this year with most of the wheat, durum and barley falling into the top two grades. The only crop that experienced significant disappointment is canola, which reported sharply lower yields in 2012-13.

Deregulation of the Canadian grain industry occurred on August 1, 2012. This has resulted in significant changes to the Canadian marketplace for the 2012-13 crop year. CWB expects significant competitive pressures to emerge in marketing the crop in 2012-13.

The international wheat market has seen a large drop in supplies during 2011-12, as the Black Sea region suffered through significant drought. Global wheat production is expected to reach 653 million tonnes and ending stocks are forecast to drop by 12 per cent. Production problems in the U.S. corn crop have significantly tightened supplies in the world feed grain market. As of November 2011, corn futures were mainly trading in the $7 to $8 per-bushel range. These high corn prices are expected to persist throughout most of the current 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.

Slightly reduced global durum supplies have marginally improved the outlook for durum in 2012-13. U.S. durum production is significantly higher than last year, while EU production is lower. Durum stocks are expected to remain relatively stable for the 2012-13 crop year.

Domestic barley prices have remained relatively strong, due to support by the tight U.S. feed grain situation. Malting barley prices have remained strong through the first quarter of the marketing year, but are not at a significant premium to feed barley.

The first few months of 2012-13 saw Europe embedded in a recession as EU leaders continued to work through financial and economic challenges. As forecasts for European economic growth in 2013 dwindled, an important source of global demand was weakening with negative impacts for global economies. Despite Europe's difficulties, one of the brighter spots remains China's economy which should continue to grow in 2013, although at a slower pace than experienced in recent years due to domestic measures taken to temper economic growth.

The Canadian economy was also softening during the first few months of 2012-13, partially as a result of the global economic situation, but also due to a cooling housing market. Expectations are that current low interest rates will now persist through 2013. Likewise, the U.S. Federal Reserve's strategies to keep U.S. interest rates low until at least 2014 are contributing to positive signs in U.S. housing and employment that the U.S. economy is growing. However, a key uncertainty for the U.S. economy is that the legislated tax increases which take effect at the start of 2013 may not be repealed. If the tax increases occur, they are expected to dampen economic growth in the U.S. economy in 2013. Continued low interest rates in both Canada and the U.S. mean CWB can expect interest costs to remain low for the 2012-13 crop year. CWB was not expected to have any liquidity issues as the Corporation's debt continued to be guaranteed by the Government of Canada under the CWB (Interim Operations) Act.

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 saw the deregulation of Western Canada's wheat and barley exports and domestic sales for human consumption. CWB will continue into the future and will continue to benefit from 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 required CWB to significantly transition both the size of the Corporation and its scope of activities throughout the last year. The costs of transitioning have been carefully monitored. Government has announced that it will cover certain costs associated with CWB's transition up to a maximum of $349 million.

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. Effective August 1, 2102 CWB now must compete with other companies to purchase grain from producers. Although significant planning and execution has occurred to position the CWB for success, there is uncertainty in the new marketing environment as well as CWB's ability to become a viable non-statutory corporation within the timeframe provided in the legislation. In addition, 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.

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 International Financial Reporting Standards appropriate in the circumstances and reflect the results for the 2011-12 pool accounts, Producer Payment Options, cash trading and the financial status of the Corporation at July 31, 2012.

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 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 Board.

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
December 18, 2012

Independent auditor's report

To the Board of Directors of the Canadian Wheat Board

We have audited the accompanying financial statements of the Canadian Wheat Board, which comprise the statement of financial position as at July 31, 2012, July 31, 2011 and August 1, 2010, and the combined statements of operations, cash flow, distributions to pool participants, transfers to contingency fund and administrative expenses for the years ended July 31, 2012 and July 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

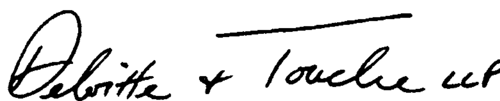
Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit 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, 2012, July 31, 2011 and August 1, 2010 and the results of its operations and its cash flows for the years ended July 31, 2012 and July 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter
We draw attention to Note 1 to the financial statement which describes the current and expected future impact of the repeal of the Canadian Wheat Board Act and the introduction of the Canadian Wheat Board (Interim Operations) Act. These legislative changes fundamentally alter both the Canadian Wheat Board and the environment in which it operates. They also require the organization to develop and implement a plan within five years to transition to a non-statutory organization that does not receive certain government support that exists today. We have not qualified our opinion with respect to this matter.



Chartered Accountants

December 18, 2012
Winnipeg, Manitoba

Statement of financial position

Dollar amounts in 000's	July 31, 2012	July 31, 2011 (Note 35)	August 1, 2010 (Note 35)
ASSETS			
Current Assets			
Short-term investments (Note 3)	$ 692,326	$ 921,739	$ 604,772
Current portion of credit sales programs (Note 4)	56,433	77,384	62,691
Advance payment programs (Note 5)	56,623	428,290	412,391
Prepayment of inventory program	177,855	214,582	144,273
Trade accounts receivable	281,303	180,692	111,612
Other accounts receivable (Note 6)	220,078	60,689	44,946
Derivatives (Note 7)	56,480	288,882	95,234
Inventory of grain (Note 9)	1,138,088	1,363,071	962,697
Prepaid expenses (Note 10)	209,845	22,409	196,908
Net pension asset (Note 32)	5,556	27,362	20,289
	2,894,587	3,585,100	2,655,813
Credit sales programs (Note 4)	173,348	184,704	213,019
Investments (Note 11)	245,203	215,773	222,688
Property, plant and equipment (Note 12)	70,645	68,276	58,919
Intangible assets (Note 13)	2,007	83,818	88,583
	$ 3,385,790	**$ 4,137,671**	**$ 3,239,022**
LIABILITIES			
Current Liabilities			
Borrowings (Note 14)	$ 1,248,732	$ 1,717,627	$ 1,259,330
Accounts payable and accrued expenses (Note 15)	211,715	310,227	186,405
Provisions (Note 16)	32,748	–	–
Liability to agents (Note 17)	736,034	1,061,124	680,341
Derivatives (Note 7)	87,359	17,489	157,551
Liability to producers – outstanding cheques	70,641	92,467	27,316
Liability to producers – current earnings (Note 18)	662,562	577,467	578,672
Post employment benefits liability (Note 32)	38,761	32,790	31,356
Current portion of long-term debt (Note 19)	1,967	17,165	104,977
	3,090,519	3,826,356	3,025,948
Long-term debt (Note 19)	199,360	307,687	426,411
	3,289,879	4,134,043	3,452,359
UNDISTRIBUTABLE EARNINGS			
Reserve for producer payment expenses (Note 20)	5,182	3,064	2,316
Special account (Note 21)	2,349	2,464	2,424
Contingency fund (Note 22)	145,248	103,551	(36)
Loss for future allocation (Note 23)	(56,868)	(105,451)	(218,041)
	95,911	3,628	(213,337)
	$ 3,385,790	**$ 4,137,671**	**$ 3,239,022**

These financial statements were authorized for issue by the board of directors on December 18, 2012.

Approved by the board of directors:

Bruce Johnson
Chair, board of directors

Ian White
President and CEO

Combined statement of operations

For the year ended July 31 (dollar amounts in 000's)	2012	2011 (Note 35)
Revenue	**$ 7,213,562**	**$ 5,989,071**
Direct costs		
Grain purchases (Note 24)	1,644,968	1,579,013
Freight	353,680	258,336
Terminal handling	218,212	172,514
Inventory storage	99,133	99,378
Country inventory financing	4,196	2,538
Inventory adjustments (Note 25)	(3,828)	(32,889)
Other direct expenses (Note 26)	49,695	65,942
Total direct costs	2,366,056	2,144,832
Net revenue from operations	4,847,506	3,844,239
Other income (Note 27)	196,744	262,235
Interest revenue	33,180	20,862
Other expenses	(2,887)	(797)
Interest expense	(25,184)	(14,942)
Administrative expenses (Note 28)	(71,423)	(71,437)
Restructuring expense (Note 6)	(5,884)	—
Depreciation and amortization expense (Note 29)	(17,689)	(18,096)
Grain industry organizations	(2,023)	(2,765)
Net earnings	**4,952,340**	**4,019,299**
Loss for future allocation, beginning of year	(105,451)	(218,041)
Earnings distributed to pool participants	(4,853,220)	(3,791,760)
Earnings distributed to cash trading participants	(9,466)	(11,486)
Earnings distributed to PPO Plus participants	(76)	(53)
Gains transferred to contingency fund (Note 22)	(40,995)	(103,410)
Loss for future allocation, end of year	**$ (56,868)**	**$ (105,451)**

Statement of cash flow

For the year ended July 31 (dollar amounts in 000's)	2012	2011 (Note 35)
Increases (Decreases) of cash during the year		
Cash from (used in) operating activities		
Net earnings	$ 4,952,340	$ 4,019,298
Adjustments to determine net cash (used in) from operations		
Net interest	(8,287)	(6,506)
Depreciation and amortization expense	17,689	18,096
Impairment loss on property, plant and equipment	72,018	—
Derecognition loss on property, plant and equipment	1,522	—
Net non-cash pension and post employment benefit gains and losses	49,906	—
Long term debt fair value adjustment	(6,378)	(4,562)
Derivative asset	198,897	(193,764)
Derivative liability	73,399	(143,217)
	5,351,106	3,689,345
Changes in operations assets and liabilities		
Accounts receivable, excluding credit sales	144,067	(170,200)
Inventory of grain	224,982	(400,374)
Prepaid expenses	(187,449)	174,512
Net pension asset	(23,699)	(7,073)
Accounts payable and accrued expenses	(97,417)	123,661
Provisions	32,748	—
Liability to agents	(325,090)	380,783
Liability to producers for outstanding cheques	(21,823)	65,151
Liability to producers program payments	9,680	18,520
Post employment benefit obligation	1,571	1,434
Cash generated from operations	5,108,676	3,875,759
Interest received	39,303	23,159
Interest paid	(26,029)	(16,473)
Reserve for producer payment expenses	1,013	(169)
Special account	(114)	40
	5,122,849	3,882,316
Cash from (used in) financing activities		
Net (decrease) increase in borrowings	(468,895)	458,297
Decrease in long-term debt	(83,642)	(201,857)
Cash distributions		
Prior year undistributed earnings	(624,416)	(538,154)
Current year distributions prior to July 31	(4,162,930)	(3,284,870)
	(5,339,883)	(3,566,584)
Cash from (used in) investing activities		
Accounts receivable - credit programs	32,379	13,464
Decrease (increase) in investments	196,453	(306,897)
Purchase of property, plant and equipment	(9,717)	(14,001)
Purchase of intangible assets	(3,037)	(8,455)
Proceeds from sale of property, plant and equipment	956	157
	217,034	(315,732)
Net increase in cash and cash equivalents	—	—
Net cash position at beginning of year	—	—
Net cash position at end of year	**$ —**	**$ —**

Statement of distribution to pool participants

For the year ended July 31 (dollar amounts in 000's)	2012				2011			
	Statement of Operations	Events After Reporting Period (Note 18)	Total Pool Year	Per Tonne	Statement of Operations	Events After Reporting Period (Note 18)	Total Pool Year	Per Tonne
WHEAT								
Receipts for pool distributions (tonnes)	**9 942 753**		**9 942 753**		**8 262 919**		**8 262 919**	
Earnings distributed to pool participants								
Initial payments on delivery	$ 2,232,064	$ –	$ 2,232,064	$ 224.49	$ 1,733,866	$ –	$ 1,733,866	$ 209.84
Adjustment payments	375,860	–	375,860	37.81	472,994	–	472,994	57.24
Interim payment	260,316	–	260,316	26.18	213,597	–	213,597	25.85
Final payment	151,481	(13,670)	137,811	13.86	145,148	26,832	171,980	20.81
Total wheat distribution	3,019,721	(13,670)	3,006,051	302.34	2,565,605	26,832	2,592,437	313.74
DURUM								
Receipts for pool distributions (tonnes)	**4 027 244**		**4 027 244**		**3 917 132**		**3 917 132**	
Earnings distributed to pool participants								
Initial payments on delivery	975,726	–	975,726	242.28	683,212	–	683,212	174.42
Adjustment payments	219,719	–	219,719	54.56	224,037	–	224,037	57.19
Interim payment	111,568	–	111,568	27.70	92,249	–	92,249	23.55
Final payment	80,216	(21,783)	58,433	14.51	79,584	8,517	88,101	22.49
Total durum distribution	1,387,229	(21,783)	1,365,446	339.05	1,079,082	8,517	1,087,599	277.65
DESIGNATED BARLEY								
Receipts for pool distributions (tonnes)	**1 281 144**		**1 281 144**		**673 165**		**673 165**	
Earnings distributed to pool participants								
Initial payments on delivery	328,273	–	328,273	256.23	134,411	–	134,411	199.67
Adjustment payments	31,287	–	31,287	24.42	17,253	–	17,253	25.63
Interim payment	19,004	–	19,004	14.83	4,039	–	4,039	6.00
Final payment	20,757	287	21,044	16.43	11,594	11,469	23,063	34.26
Total designated barley distribution	399,321	287	399,608	311.91	167,297	11,469	178,766	265.56
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
Interim payment	–	–	–	–	–	–	–	–
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
	4,806,271	(35,166)	4,771,105		3,832,264	46,949	3,879,213	
Impact of events after reporting period prior year	46,949				(40,504)			
Earnings distributed to pool participants	**$ 4,853,220**				**$ 3,791,760**			

Statement of transfers to contingency fund

For the year ended July 31 (dollar amounts in 000's)	2012	2011
PRODUCER PAYMENT OPTIONS PROGRAM		
FPC Program - earnings on program operations	$ 38,481	$ 103,578
EPO Program - earnings (losses) on program operations	339	(4,493)
	38,820	99,085
CASH TRADING OPERATIONS		
Earnings on program operations	2,083	3,430
POOL OPERATIONS		
Barley	92	51
RESTATEMENT FOR TRANSITION TO IFRS	—	844
Earnings transferred to contingency fund (Note 22)	**$ 40,995**	**$ 103,410**

Statement of administrative expenses

For the year ended July 31 (dollar amounts in 000's)	2012	2011
Human resources	38,078	39,645
Employee future benefit expense	6,873	5,451
Office services	2,473	2,954
Professional fees	5,037	5,697
Computer services	13,929	14,076
Facilities	1,663	1,792
Travel	1,282	1,845
Advertising and promotion	3,386	1,478
Other	1,221	1,416
Training	180	362
Recoveries	(2,331)	(2,963)
Total administrative expenses (Note 28)	**$ 71,791**	**$ 71,753**

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, 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. Producers in a designated area of Western Canada were required to market their wheat and barley through the Corporation. The Corporation acted as the "single desk" marketer for western Canadian wheat and barley. The Corporation primarily utilized a price pooling approach to marketing grain whereby all producers were paid the average price that the Corporation was able to realize in marketing the grain, net of its costs. In addition to purchasing grain through its various pools, the Corporation also offered producers fixed prices for their grain through various pricing contracts.

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* received Royal Assent. Bill C-18 contained a number of provisions which will have a significant impact on the operations of the Corporation. Bill C-18 provided that until July 31, 2012 the Corporation would continue to be governed under the provisions of the *Canadian Wheat Board Act* (the "Act"), as amended by provisions of Bill C-18. Further, it provided that effective on August 1, 2012, the Act would be repealed and Corporation would be governed by the Canadian Wheat Board ("Interim Operations") Act, a statute of the Parliament of Canada (the "Interim Operations Act").

There were a number of amendments to the Act which were effective on December 15, 2011. The most significant was to reduce in the size and composition of the Corporation's Board of Directors, from 15 (five appointed by the Governor-in-Council and ten elected) to five members each of whom is appointed by the Governor-in-Council.

With the repeal of the Act, effective August 1, 2012, producers in the designated area are no longer required to market their wheat and barley through the Corporation. Under the Interim Operations Act, the objective of the Corporation is "to market grain for the benefit of producers who choose to deal with the Corporation". The Interim Operations Act sets out a number of provisions which allow the Corporation to continue to operate in a similar manner on a transitional basis for up to five years (the "Interim Period"). On or before August 1, 2016, the Corporation is to submit to Government a plan to transform the Corporation into a non-statutory Corporation. In the event that the Corporation is unable to continue as a non-statutory Corporation, the Interim Operations Act sets out the manner under which it is to be dissolved.

During the Interim Period the Corporation will continue to market grain in a manner that is similar to how it marketed grain in the past by using both pooling and cash options and leveraging its marketing experience to garner good returns for producers. The Interim Operations Act contains provisions under which the operation of the pools will be governed. The Corporation is no longer restricted to marketing wheat and barley. It has introduced a canola pool and may further expand into other grains. The Interim Operations Act changed certain restrictions related to the contingency fund and the special accounts (Notes 22 and 21). During the Interim Period the government will continue to support the Corporation through government guarantees on borrowings (Note 14), government guarantees on credit sales programs (Note 4) and government guarantees on initial payment rates.

The Corporation has begun to implement the first phases of a program to make operational changes which are necessitated by the loss of the single desk structure. While the Corporation intends to operate in a similar manner during the Interim Period, it expects that the volume of the grain that it markets will be reduced. The Corporation is in the process of implementing a restructuring program which includes making a significant reduction to its workforce (Note 16), decommissioning certain intangible assets (Note 13) and property and equipment (Note 12), curtailing certain employee benefit plans (Note 32), and terminating or renegotiating certain contracts. The Government has approved funding of up to $349 million to fund certain costs associated with this restructuring (Note 6).

In addition to its restructuring activities, the Corporation has commenced a communications and marketing program to promote the Corporation and to launch new offerings to producers. It has entered into new agreements to manage the logistics of its operations which were no longer provided for by the Act. At the same time, the Corporation is developing its strategy related to its future as a non-statutory entity in the competitive grain marketing environment.

The head office of the Corporation is located at 423 Main Street in Winnipeg, Manitoba, Canada. The Corporation is exempt from income taxes pursuant to Section 149(1)(d) of the Income Tax Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles, as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and requires publicly accountable companies to apply these standards effective for years beginning on or after January 1, 2011. Consequently, these are the

Corporation's first annual financial statements prepared in accordance with IFRS as issued by the IASB. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and the term "GAAP" refers to Canadian GAAP after the adoption of IFRS.

These financial statements are prepared in accordance with IFRS. The explanation of transition to IFRS is explained in Note 35.

These financial statements include the following significant accounting policies and have been prepared on the historical cost basis except for certain financial instruments and certain employee future benefits as outlined below.

SIGNIFICANT MANAGEMENT JUDGMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES

The preparation of these financial statements, in conformity with IFRS, requires the Corporation to make judgements, estimates and assumptions that affect the application of accounting polices and 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and assumptions and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed below:

Useful lives of property, plant and equipment and intangibles
The Corporation reviews the useful lives of property, plant and equipment and intangibles annually. Management's judgment and estimates are required to determine the expected period of benefit over which the costs should be depreciated or amortized. In determining these estimates, the Corporation takes into account industry trends and company-specific factors, including changing technologies and expectations for the in-service period of these assets.

Impairment of property, plant and equipment and intangibles
The Corporation assesses impairment by comparing the recoverable amount of an asset with its carrying value. The determination of the recoverable amount involves significant management judgment, estimates and assumptions. The corporation performs its test for impairment on an annual basis in accordance with the policy as described in the Impairment of property, plant and equipment and intangibles section of this note.

Valuation of inventory
Management uses estimates in determining both the cost and the fair value of inventory in stock.

The cost of inventory is estimated because the purchase price of the grain inventory is not finally determined until the pool inventories have been substantially sold, which is subsequent to the reporting date. The cost of inventory is ultimately equal to the total distributions paid to the producers in the pool. In determining the cost of inventory, management relies on its knowledge of the pool transactions that have already been completed and those that are contracted but not completed. The proceeds related to the remaining unsold inventory are estimated based on market information available at the reporting date. In addition, management relies on its knowledge of the execution costs for the pool sales that have been completed and estimates execution costs, including rail and ocean freight, handling costs and other execution costs related to the unsold inventory.

The fair value of inventory is management's estimate of the net proceeds that will be realized from its sale. In estimating the fair value of inventory, management relies on its knowledge of the transactions that have been contracted but not completed. The proceeds related to the remaining unsold inventory is estimated based on market information available at the reporting date. In addition, management estimates execution costs, including rail and ocean freight, handling costs and other execution costs related to the unsold inventory.

Liability to producers – current earnings
The liability to producers – current earnings is estimated because the purchase price of the grain purchased from producers is not finally determined until the pool inventories have been substantially sold which occurs subsequent to the reporting date. The liability to producers is ultimately equal to the undistributed earnings of the pools, which will be distributed by way of interim and final payments subsequent to the reporting date. The final liability to producers is determined by the cost of inventory and accordingly is subject to the estimates described above.

Fair value of financial instruments
The Corporation is required to make estimates to determine the fair value of financial instruments. Refer to Note 8 for information and details about these estimates.

Employee benefits
The amounts reported in the financial statements relating to the defined benefit pension plans are determined using actuarial valuations that are based on several assumptions which are described in the employee future benefits accounting policy note below. Due to the complexity of the actuarial valuations and the long-term nature of employee future benefits, the corresponding obligation is highly sensitive to changes in assumptions.

Contingencies

The Corporation is subject to contingencies related to lawsuits. Contingent losses are recognized when it is likely that a future event will confirm that an asset has been impaired or a liability incurred at the end of the reporting period and the amount can be reasonably estimated. Significant changes in assumptions as to the likelihood and estimates of the amount of the loss could result in recognition of additional liabilities

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 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 (Note 17). 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, plus accrued interest, 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 less accumulated depreciation and accumulated impairment losses, if any, and depreciated on a straight-line method over their expected useful life as follows:

Asset Class	Term (years)
Computer equipment	3 to 9
Automobiles	3
Building and office improvements	7 to 20
Office furniture and equipment	10
Weather Farm	8
Hopper cars	15 to 30
Lake vessels	25
Building	40

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Property, plant and equipment no longer in use are derecognized.

The useful lives, deprecation method and residual values of property, plant and equipment are reviewed annually and adjusted, if appropriate.

INTANGIBLES AND AMORTIZATION

Computer software and computer system development are recorded at cost less accumulated amortization and impairment losses, if any, 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.

Computer software and computer system development no longer in use are derecognized.

The useful lives, amortization method and residual values of intangibles are reviewed annually and adjusted, if appropriate.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

The Corporation's property, plant and equipment and intangibles are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Where an asset does not generate cash flows that are independent from other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the combined statement of operations.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset or CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized.

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, 2012 are $56,229 (2011 – $3,061).

CLASSIFICATION AND DESIGNATION OF FINANCIAL INSTRUMENTS

All financial assets and liabilities are classified at initial recognition based on its characteristics and management's intentions. Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are accounted for at amortized cost using the effective interest method. Financial liabilities classified as other liabilities are accounted for at amortized cost using the effective interest method.

Financial instruments at fair value through profit or loss (FVTPL) are derivative financial assets and liabilities that are classified as held-for-trading (HFT) and non-derivative financial assets and liabilities which were designated at fair value through profit or loss (Designated FVTPL) at initial recognition.

All derivatives, including embedded derivatives, classified as HFT are 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 Investments (long-term/short-term)	Loans and receivables	Amortized cost	Recognized in net earnings in the period that the asset is derecognized or impaired
Financial liabilities	Accounts payable Accrued expenses Debt (long-term/short-term)	Other liabilities	Amortized cost	Recognized in net earnings in the period that the liability is derecognized or impaired
	Debt (long-term)	Designated FVTPL	Fair value	Recognized in net earnings in the current period
Derivatives	Single-currency interest rate swaps Cross-currency interest rate swaps Forwards Currency swaps Commodity futures contracts Options Embedded derivatives	HFT	Fair value	Recognized in net earnings in the current period

IMPAIRMENT OF FINANCIAL ASSETS

At each reporting date, the Corporation assesses all financial assets, other than those at fair value through profit and loss, for objective evidence of impairment. Evidence of impairment may consist of indications that the debtors are experiencing significant financial difficulty, default or delinquency in payments, and the probability that they will enter bankruptcy or other financial reorganization. If such evidence exists and there is an impact on the estimated future cash flows of the financial asset, the financial asset is deemed impaired. The amount of the loss for a financial asset carried at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the financial asset. The Corporation records the impairment loss in net earnings.

Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

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, 2012) 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.

Included in interest revenue for the year ended July 31, 2012 is $15,241 from investments held at amortized cost (2011 – $12,567) and $11,393 from derivatives classified as HFT related to debt and investments (2011 – $8,454).

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.

Included in interest expense for the year ended July 31, 2012 is $18,410 from debt held at amortized cost (2011 – $21,598) and $10,465 from debt designated as FVTPL (2011 – $6,520). Also included in interest expense for the year ended July 31, 2012 is a loss of $2,517 from a repurchase of a portion of long term debt held at amortized cost.

EMPLOYEE FUTURE BENEFITS

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 obligations associated with the defined benefit pension and post-employment benefits earned by employees are determined using the projected benefit method, pro-rated on service. Under this method an equal portion of the total estimated future benefit is attributed to each year of service. The determination of the benefit expense requires management to estimate the expected return on plan assets, rate of compensation increase, retirement ages of employees, expected future health care costs and other costs. In calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains and losses arise from the difference between the actual rate of return on plan assets and the expected rate of return on plan assets or from changes in other actuarial assumptions used to determine the benefit obligation. For each plan, the excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. Curtailment gains are recognized in the period in which the curtailment occurs. Gains or losses from the settlement of a plan are only recognized when the responsibility for the benefit obligation has been relieved.

The value of net pension assets recognized is restricted to the present value of the economic benefits available to the Corporation in the form of reductions of future contributions or withdrawals of plan assets adjusted for unamortized actuarial losses. Unrecognizable pension assets are written down with a corresponding charge to net earnings. If payment of a minimum funding obligation will result in a plan asset which cannot be recognized, it is accrued with a corresponding charge to net earnings.

For each plan, the plan assets and benefit obligations, including any unamortized actuarial gains or losses are presented on the balance sheet as an asset or liability on a net basis, as applicable.

For defined contribution pension plans the pension expense is equal to the amount contributed by the Corporation to the plan in the period.

TERMINATION BENEFITS

Termination benefits are payable when employment is terminated by the Corporation before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognizes termination benefits when it is demonstrably committed to a termination and when it has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal.

PROVISIONS

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, and is discounted to present value if the effect is material.

GOVERNMENT ASSISTANCE

The Corporation records a receivable for government funding in “other accounts receivable” when there is reasonable assurance that the conditions for the funding will be met and that the funding will be received. The associated earnings are recognized as a reduction, or offset, of the expense item funded when it is incurred.

FUTURE CHANGES IN ACCOUNTING STANDARDS

The Corporation has reviewed the new standards and amendments to standards that have been issued but are not yet effective. Unless otherwise noted, the following new standards and amendments are effective for fiscal years beginning on or after January 1, 2013. Accordingly, the Corporation will adopt the new or amended standards for its fiscal year beginning August 1, 2013. The Corporation is currently assessing the impact of these standards on its financial statements.

In November 2009, the IASB issued IFRS 9, Financial Instruments, which will eventually replace IAS 39, Financial Instruments: Recognition and Measurement. The development of IFRS 9 is a multi-phase project with a goal of improving and simplifying financial instrument reporting. IFRS 9 uses a single approach to determine measurement of a financial asset based on how an entity manages financial impairment, replacing the multiple classification options in IAS 39 with only two categories: amortized cost and fair value through profit or loss. This new standard will be applicable to fiscal years beginning on or after January 1, 2015 and accordingly, the Corporation will adopt the new standard for its fiscal year beginning August 1, 2015.

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities and amended IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures. The Corporation does not expect the adoption of these standards to have a material effect on its financial statements.

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. This standard defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 does not determine when an asset or liability is measured at fair value, but applies when another IFRS requires or permits fair value measurement.

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements. The amendments identify how to group items presented within other comprehensive income based on whether they may be subsequently reclassified to profit or loss. The amended standard is effective for fiscal years beginning on or after July 1, 2012. The Corporation does not expect the adoption of this standard to have a material effect on its financial statements.

In June 2011, the IASB amended IAS 19, Employee Benefits. The amendments eliminate the option to defer the recognition of actuarial gains and losses resulting from defined benefits plans, eliminate options for the presentation of gains and losses relating to those plans, and enhance disclosure requirements. The Corporation does not expect the adoption of these standards to have a material effect on its financial statements.

In December 2011, the IASB amended IFRS 7, Financial Instruments: Disclosures and IAS 32, Financial Instruments: Presentation. The amended standards enhance disclosure requirements for financial assets and liabilities that are offset and clarify the requirements for the offsetting of these financial assets and financial liabilities. These amended standard are effective for fiscal years beginning on or after January 1, 2013 and January 1, 2014, respectively and accordingly, the Corporation will adopt the amended standards for its fiscal years beginning August 1, 2013 and August 1, 2014, respectively.

3. SHORT-TERM INVESTMENTS

The Corporation uses short-term investments for cash management and liquidity risk management and maintains a short-term investment portfolio related to credit receivable pre-payments. 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 0.12% to 1.25% during the year (2011 – 0.90% to 2.25%).

Of the total investments at July 31, 2012, $230,667 represents the Canadian equivalent of $230,000 that will be receivable in U.S. funds. 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 August 1, 2010, $127,183 represents the Canadian equivalent of $123,683 that will be receivable in U.S. funds.

4. CREDIT SALES PROGRAMS

	Credit Grain Sales Program	Agri-food Credit Facility	July 31, 2012 Total	July 31, 2011 Total	August 1, 2010 Total
Due from foreign customers					
Current	$ —	$ 37,824	$ 37,824	$ 60,308	$ 50,861
Rescheduled	191,957	—	191,957	201,780	224,849
Total credit program receivables	191,957	37,824	229,781	262,088	275,710
Current portion	18,609	37,824	56,433	77,384	62,691
Non-current portion	$ 173,348	$ —	$ 173,348	$ 184,704	$ 213,019
Credit Risk					
Guaranteed by Government of Canada	$ 191,957	$ 37,068	$ 229,025	$ 260,882	$ 274,693
Assumed by CWB	—	756	756	1,206	1,017
	$ 191,957	$ 37,824	$ 229,781	$ 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 $191,957 principal and accrued interest due from foreign customers at July 31, 2012, $147,534 represents the Canadian equivalent of $147,108 repayable in U.S. funds. Of the $201,780 principal and accrued interest due from 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 August 1, 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 Indonesia, Mexico, and Peru. The July 31, 2012 balance of $37,824 principal and accrued interest due under the ACF represents the Canadian equivalent of $37,715 repayable in U.S. funds. The July 31, 2011 balance of $60,308 principal and accrued interest represents the Canadian equivalent of $63,117 repayable in U.S. funds. The August 1, 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:

	July 31, 2012	July 31, 2011	August 1, 2010
Amounts due:			
Within 1 year	$ **56,433**	$ 77,384	$ 62,691
From 1 - 2 years	**19,514**	17,894	17,466
From 2 - 3 years	**20,823**	19,083	18,551
From 3 - 4 years	**22,268**	20,389	19,745
From 4 - 5 years	**9,387**	21,829	21,056
Over 5 years	**101,356**	105,509	136,201
Overdue	**—**	—	—
	$ **229,781**	$ 262,088	$ 275,710

5. ACCOUNTS RECEIVABLE FROM ADVANCE PAYMENT PROGRAMS

	July 31, 2012	July 31, 2011	August 1, 2010
Due from producers	$ **51,932**	$ 415,149	$ 398,245
Due from Government of Canada	**4,390**	13,867	13,165
Due (to) from agents of the CWB	**301**	(726)	981
	$ **56,623**	$ 428,290	$ 412,391

The Corporation administered cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the Government of Canada, since the inception of these programs. The cash advance programs have been revised several times. The current format of the advance programs was introduced by the Government of Canada on April 1, 2007 and 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. Any remaining balances from previous programs were amalgamated into the APP program, and the combined programs are shown in the table above.

The government guarantees approximately 99% 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.

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.

Cash advances issued during the year by the Corporation under these programs totalled $249,385 (2011 – $517,513), including $226,853 (2011 – $175,292) issued under the APP-After Harvest and $22,532 (2011 – $342,221) issued under the APP-Pre Harvest.

Effective April 1, 2012 the Corporation ceased to administer this program. The Corporation will continue to collect payments related to past advances until the final payment related to its 2011- 12 pools has been made. At that time the advances will be transferred to the Government of Canada.

6. GOVERNMENT ASSISTANCE

The Government has agreed to fund certain of the Corporation's costs of restructuring. The total funding to be provided is a maximum of $349 million and will be payable to the Corporation over a period of several years. This funding is made up of several categories of costs, each of which has a maximum. The funding becomes payable when the Corporation has implemented the related restructuring activity and furnished appropriate documentation to support that the funds have been disbursed.

For the year ended July 31, 2012, the Corporation has recognized funding in the amount of $177,268, which was classified as an offset to restructuring expenses, on the restructuring expense line in the combined statement of operations. The related accounts receivable was classified in other accounts receivable.

The funding received was in relation to the following restructuring expenses which were incurred in the year ended July 31, 2012.

Derecognition loss on property, plant and equipment (Note 12)	$	1,522
Impairment loss on intangible assets (Note 13)		72,019
Employee severance expense (Note 16)		40,178
Net expenses related to the curtailment of pension and post employment benefit plans (Note 32)		67,570
Other restructuring expenses		1,863
Total restructuring expense		183,152
Less amount reimbursed by Government		177,268
Net restructuring expense	**$**	**5,884**

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 HFT 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 HFT 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 HFT 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 standalone derivative. Embedded derivatives must be accounted for as separate derivatives when their risks and characteristics are not clearly and closely related to those of the host contract and the hybrid contract is not carried at fair value.

The Corporation has reviewed contracts for embedded derivatives and has determined that there are no embedded derivatives that are required to be accounted for separate from the host contract as their risks and characteristics are clearly and closely related.

Notional amounts of derivative contracts 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.

The fair value of outstanding derivative contracts is as follows:

	Assets			Liabilities		
Derivative Instrument	**July 31, 2012**	**July 31, 2011**	**August 1, 2010**	**July 31, 2012**	**July 31, 2011**	**August 1, 2010**
Commodity Contracts	**$ —**	$ 148,642	$ —	**$ 74,470**	$ —	$ 141,681
Foreign Exchange Contracts	**16,622**	60,250	9,071	**—**	—	—
Swaps – Investments	**—**	—	—	**12,889**	17,489	15,870
Swaps – Debt	**39,858**	79,990	86,163	**—**	—	—
Total	**$ 56,480**	$ 288,882	$ 95,234	**$ 87,359**	$ 17,489	$ 157,551

Fair Value of derivative instruments by term to maturity:

	July 31, 2012				July 31, 2011	August 1, 2010
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**	**Total**	**Total**
Derivative Assets	**$ 15,816**	**$ 40,664**	**$ —**	**$ 56,480**	$ 288,882	$ 95,234
Derivative Liabilities	**$ 74,649**	**$ 12,710**	**$ —**	**$ 87,359**	$ 17,489	$ 157,551

The change in fair value of outstanding derivative contracts totals $258,684 net loss. Of the total net loss, $173,614 loss is in revenue, $87,373 loss is in grain purchases, $119 loss is in other income, $1,601 gain is in other expense, and $821 gain is in interest income. Of the $258,684 net loss, a loss of $99,172 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.

Please refer to Note 2 – Summary of Significant Accounting Policies for the summary of the Corporation's classifications of financial instruments. 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 due to the relatively short period to maturity of many of these instruments and because the longer term credit sales are guaranteed by the Government of Canada.

- Fair value for the exchange-traded commodity derivatives is based on the close price quoted on derivative exchanges. Exchange-traded futures and option contracts involve minimal credit risk as the exchanges require daily mark-to-market and settlement on negative exposures. Therefore, no change was made to fair value in relation to credit risk.

- Fair value for foreign exchange forwards and swaps is calculated using market observable inputs. The notional amounts are discounted using the respective currency's yield curve and converting the amounts using the spot Canadian dollar exchange rate. Market-observed credit spreads, where available, are used to establish valuation adjustments against the Corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.

- Fair value for foreign exchange options is derived using market standard valuation models and techniques. Inputs to the models are market observable. The value of the options is determined using market measures for interest rates, currency exchange rates and volatility levels. Market-observed credit spreads, where available, are used to establish valuation adjustments against the Corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.

- Fair value for long-term debt is derived using market standard valuation models and techniques as independent market prices for the long-term debt are not observable. The majority of 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 inputs to these models are market observable and include option volatilities and correlations in addition to interest rate yield curves and foreign exchange rates. Market-observed credit spreads, where available, are used to establish valuation adjustments against the Corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.

- Fair value for fixed rate, long-term investments is derived using market standard valuation models and techniques as independent market prices for long-term investments are not observable. Inputs to these models are market observable and include interest rate yield curves and foreign exchange rates. The investments are valued using a curve representative of the counterparty's rating to take into consideration their credit worthiness.

FAIR VALUE 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:

	July 31, 2012			
	Level 1	Level 2	Level 3	Total
Derivatives, net	$ (74,470)	$ 43,591	$ —	**$ (30,879)**
Total	$ (74,470)	$ 43,591	$ —	**$ (30,879)**

	July 31, 2011			
	Level 1	Level 2	Level 3	Total
Debt	$ —	$ (28,476)	$ (82,298)	**$ (110,774)**
Derivatives, net	148,642	99,172	23,579	**271,393**
Total	$ 148,642	$ 70,696	$ (58,719)	**$ 160,619**

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:

	Debt	Derivatives	Total
Balance at July 31, 2011	$ (82,298)	$ 23,579	**$ (58,719)**
Gain (loss) included in net income	(849)	3,005	**2,156**
Settlements	83,147	(26,584)	**56,563**
Balance at July 31, 2012	$ —	$ —	**$ —**

	Debt	Derivatives	Total
Balance at July 31, 2010	$ (272,734)	$ 33,456	**$ (239,278)**
Gain (loss) included in net income	(1,644)	7,262	**5,618**
Settlements	192,080	(17,139)	**174,941**
Balance at July 31, 2011	$ (82,298)	$ 23,579	**$ (58,719)**

9. INVENTORY OF GRAIN

Inventory of grain on hand at July 31, 2012 is valued at the lower of cost or net realizable value. The cost of grain inventory is the estimated total purchase price. 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. At July 31, 2012, the Corporation recorded inventory write-downs of $22,128 (2011 – nil).

	July 31, 2012		July 31, 2011		August 1, 2010	
	Tonnes	Amount	Tonnes	Amount	Tonnes	Amount
Wheat	**2 450 626**	**$ 742,057**	3 796 111	$ 1,134,042	3 544 573	$ 791,797
Durum	**1 027 325**	**332,504**	772 224	197,191	542 669	99,191
Designated barley	**175 438**	**53,938**	60 432	14,748	305 287	63,234
Barley	**—**	**—**	—	—	187	18
Cash trading operations	**34 051**	**9,589**	60 036	17,090	33 418	8,457
Total	**3 687 440**	**$ 1,138,088**	4 697 803	$ 1,363,071	4 426 134	$ 962,697

10. PREPAID EXPENSES

	July 31, 2012	July 31, 2011	August 1, 2010
Net results of hedging activities applicable to subsequent pool accounts [1]	**$ 63**	$ 6,191	$ 15,858
Net results of hedging activities applicable to current year [1]	**63,715**	–	–
Prepaid cost of moving inventory to eastern export position	**29,893**	11,649	22,123
Deposits on hedging accounts [2]	**115,649**	–	152,474
Other	**525**	4,569	6,453
	$ 209,845	$ 22,409	$ 196,908

[1] Net debit results of hedging activities applicable to the current year and subsequent years are recorded in prepaid expenses, while net credit results are recorded as part of accounts payable and accrued expenses (Note 15).

[2] Net debit deposits on hedging accounts applicable to subsequent pool accounts are recorded in prepaid expenses, while net credit deposits (borrowings against net hedging position) are recorded in accounts payable and accrued expenses (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 2017.

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 0.68% to 1.90% during the year (2011 – 0.35% to 1.55%).

	Investment currency		
	July 31, 2012 Carrying Value	July 31, 2011 Carrying Value	August 1, 2010 Carrying Value
Canadian notes	**$ 175,000**	$ 125,000	$ 125,000
U.S. notes	**$ 70,000**	$ 95,000	$ 95,000

	Canadian $ equivalent					
	July 31, 2012		July 31, 2011		August 1, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Canadian notes	**$ 175,000**	**$ 179,572**	$ 125,000	$ 130,545	$ 125,000	$ 129,686
U.S. notes	**70,203**	**68,958**	90,773	89,192	97,689	93,157
Long-term investments	**$ 245,203**	**$ 248,530**	$ 215,773	$ 219,737	$ 222,689	$ 222,843

12. PROPERTY, PLANT AND EQUIPMENT

	Hopper Cars	Lake Vessels	Computer Equipment	Furniture & Fixtures	Land, Building & Improvements	Automobiles	Weather Farm Equipment	Total
Cost								
Balance Aug 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 Aug 1, 2011	114,636	12,973	4,903	3,560	23,104	1,046	226	160,448
Additions	—	9,295	179	25	110	32	153	9,794
Disposals	(307)	—	(4,058)	(3,577)	(467)	(346)	(379)	(9,134)
Balance Jul 31, 2012	$ 114,329	$22,268	$ 1,024	$ 8	$ 22,747	$ 732	$ —	$ 161,108
Accumulated Depreciation								
Balance Aug 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 Jul 31, 2011	(77,652)	—	(3,808)	(1,756)	(8,575)	(375)	(6)	(92,172)
Depreciation	(2,312)	—	(481)	(425)	(1,447)	(157)	(38)	(4,860)
Disposals	216	—	3,717	2,173	210	209	44	6,569
Balance Jul 31, 2012	$ (79,748)	$ —	$ (572)	$ (8)	$ (9,812)	$ (323)	$ —	$ 90,463
Net book value								
August 1, 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
July 31, 2012	$ 34,581	$ 22,268	$ 452	$ —	$ 12,935	$ 409	$ —	$ 70,645

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 267 cars have been wrecked and dismantled, leaving 1,733 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, 21 cars have been wrecked and dismantled, leaving 1,642 in the fleet. The Corporation is reimbursed for destroyed cars under operating agreements with the Canadian National Railway and the Canadian Pacific Railway.

During 2010-11, the Corporation entered into agreements to purchase two lake vessels, as described in Note 31. The current capitalized cost of $22,268 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 available for use. The estimated additional cost to complete the construction is $45,951. The delivery dates are expected to be in 2013 and 2014.

Included in disposals are amounts related to assets that were derecognized due to the restructuring and downsizing of operations (Note 1). Computer equipment and furniture and fixtures with net book values of $301 and $1,221, respectively, were derecognized. A loss on derecognition of $1,522 is included in the restructuring expenses line item in the combined statement of operations.

Subsequent to July 31, 2012, as a result of the restructuring and downsizing of operations, the Corporation has commenced a process to sell its head office. The net proceeds and expected timing of the sale is currently unknown.

13. INTANGIBLE ASSETS

	Computer System Development	Computer Software	Total
Cost			
Balance August 1, 2010	$ 130,109	$ 5,952	$ 136,061
Additions	8,394	61	8,455
Disposals	(14,629)	(612)	(15,241)
Balance August 1, 2011	123,874	5,401	129,275
Additions	2,353	684	3,037
Balance July 31, 2012	$ 126,227	$ 6,085	$ 132,312
Accumulated amortization and impairment			
Balance August 1, 2010	$ (43,657)	$ (3,821)	$ (47,478)
Amortization	(11,480)	(877)	(12,357)
Disposals	13,765	613	14,378
Balance August 1, 2011	(41,372)	(4,085)	(45,457)
Amortization	(12,315)	(514)	(12,829)
Impairment	(71,321)	(698)	(72,019)
Balance July 31, 2012	$ (125,008)	$ (5,297)	$ (130,305)
Net book value			
August 1, 2010	$ 86,452	$ 2,131	$ 88,583
July 31, 2011	$ 82,502	$ 1,316	$ 83,818
July 31, 2012	$ 1,219	$ 788	$ 2,007

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

Certain intangible assets will not be utilized by the restructured Corporation (Note 1) and, accordingly, as at July 31, 2012 there will be no future economic benefits realized from their use. An impairment loss has been recorded for the net book value of computer system development and computer software of $71,321 and $698, respectively. An impairment loss of $72,019 is included in restructuring expenses 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 up to prescribed limits which are approved annually. The approved 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. This guarantee was continued under the Interim Operations 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 0.07% to 1.04% during the year (2011 – 0.03% to 1.30%).

Of the total borrowings at July 31, 2012, $716,409 represents the Canadian equivalent of $714,338 that will be repayable in U.S. funds. 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 August 1, 2010, $485,840 represents the Canadian equivalent of $472,469 that will be repayable in U.S. funds.

15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	July 31, 2012	July 31, 2011	August 1, 2010
Net results of hedging activities applicable to current year [(1)]	**$ –**	$ 93,925	$ 25,011
Net borrowing on hedging accounts [(2)]	**–**	33,661	–
Other accounts payable and accrued expenses	**200,199**	122,490	107,988
Deferred sales revenue	**11,516**	60,151	53,406
	$ 211,715	$ 310,227	$ 186,405

(1) Net debit results of hedging activities applicable to the current year and subsequent years are recorded in prepaid expenses (Note 10), while net credit results are recorded as part of accounts payable and accrued expenses.

(2) Net debit deposits on hedging accounts applicable to subsequent pool accounts are recorded in prepaid expenses, while net credit deposits (borrowings against net hedging position) are recorded in accounts payable and accrued expenses (Note 10).

16. PROVISIONS

As a result of the changes in its operations brought on by the enactment of Bill C-18 as described in Note 1, the Corporation has begun to implement a plan to restructure and downsize its operations. In connection with this restructuring, the Corporation has established a provision for costs of employee severance. Employee severance expenses which relate to this restructuring initiative have been classified in the combined statement of operations as restructuring expenses. Changes in the provision for the year ended July 31, 2012 are as follows:

Balance July 31, 2011	$	—
Provisions for employee severance		40,178
Payments		(7,430)
Balance July 31, 2012	$	32,748

17. LIABILITY TO AGENTS

	July 31, 2012		July 31, 2011		August 1, 2010	
Grain purchased from producer	**$**	**591,702**	$	928,296	$	581,031
Deferred cash tickets		**144,332**		132,828		99,310
	$	**736,034**	$	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.

18. LIABILITY TO PRODUCERS – CURRENT EARNINGS

The liability to producers – current earnings represents the earnings generated from the current pools that were not yet 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. As at July 31, 2012, the estimated earnings that were undistributed was $662,562 (2011 – $577,467, 2010 – $578,672).

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, 2012 have decreased the estimation of the earnings generated from the current pools by $35,166 (2011 – increased $46,949, 2010 – decreased $40,504), which decreased the liability to producers – current earnings to $627,396 (2011 - increased to $624,416, 2010 – decreased to $538,168).

Of the adjusted liability, $390,887 (2011 – $310,181, 2010 - $244,877) was approved as an interim payment on November 20, 2012; $9,506 (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 $227,003 (2011 – $293,357, 2010 – $290,475) will be distributed to producers through final payments: $217,288 (2011 – $281,233, 2010 - $284,189) to pool participants, $249 (2011 – $637, 2010 - $179) to the Wheat Storage Program (WSP), Churchill and FPCPlus participants and $9,466 (2011 – $11,486, 2010 - $6,107) to the cash trading program.

19. 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 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 0.50% to 5.11% during the year (2011 – 0.01% to 5.04%).

Total by currency (in CAD equivalent):

	Debt Currency			Canadian $ Equivalent		
	July 31, 2012	July 31, 2011	August 1, 2010	**July 31, 2012**	July 31, 2011	August 1, 2010
Canadian notes						
Amortized Cost	**$ 201,327**	$ 214,078	$ 216,205	**$ 201,327**	$ 214,078	$ 216,205
Designated FVTPL	**$ —**	$ 28,476	$ 42,448	**$ —**	$ 28,476	$ 42,448
U.S. notes						
Designated FVTPL	**$ —**	$ —	$ 102,088	**$ —**	$ —	$ 104,977
Yen notes						
Designated FVTPL	**¥ —**	¥ 6,631,617	¥ 14,097,292	**$ —**	$ 82,298	$ 167,758
				201,327	324,852	531,388
Current portion long-term debt				**1,967**	17,165	104,977
Long-term debt				**$ 199,360**	$ 307,687	$ 426,411

These borrowings mature as follows:

	Amortized Cost			Fair Value		
	July 31, 2012	July 31, 2011	August 1, 2010	**July 31, 2012**	July 31, 2011	August 1, 2010
Amounts due:						
Within 1 year	**$ 1,967**	$ 13,461	$ 102,830	**$ 1,967**	$ 17,165	$ 104,977
From 1 – 2 years	**—**	7,476	16,281	**—**	10,179	21,260
From 2 – 3 years	**166,234**	2,535	11,433	**180,410**	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	**33,126**	128,768	218,951	**40,228**	134,459	222,453
	$ 201,327	$ 318,474	$ 520,448	**$ 222,605**	$ 348,172	$ 552,851

20. RESERVE FOR PRODUCER PAYMENT EXPENSES

The amount of $ 5,182 (2011 – $3,064; 2010 – $2,316) represents the balance of the reserve for expenses related to pool accounts that have been closed. Six years after accounts have been closed and upon authorization of the Governor-in-Council, the reserves associated with those accounts are credited to the Special Account. In accordance with the Interim Operations Act, effective August 1, 2012, these reserves will be credited to the Contingency Fund instead of to the Special Account.

21. 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 claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor-in-Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers.

The activity in the Special Account is comprised of:

		2012		**2011**
Balance, beginning of year	**$**	**2,464**	$	2,424
Transfer from payment accounts		**353**		312
Expenditures		**(400)**		(249)
Payments to producers against old payment accounts		**(68)**		(23)
Balance, end of year	**$**	**2,349**	$	2,464
Ending balance comprised of:				
Unexpended authorizations		**–**		151
Not designated for expenditure		**2,349**		2,313
	$	**2,349**	$	2,464

During the 2011-12 crop year, the balances from payment accounts for 2004 wheat, 2004 durum, 2004 barley and 2004 designated barley were transferred to the Special Account under Order-in-Council P.C. 2011-436.

In accordance with the Interim Operations Act, effective August 1, 2012, the undistributed balance of the Special Account as at July 31, 2012 will be credited to the Contingency Fund.

22. CONTINGENCY FUND

The Act provided for the establishment of a contingency fund to be used for specified purposes. In February 2000, Canadian Wheat Board Contingency Fund Regulations provided further guidance related to amounts which could be credited to the contingency fund. Under the Contingency Fund Regulation, the Corporation could deduct an amount from any amount it received in the course of its operations under the Act and credit the amount to the contingency fund, however, the Corporation could not make such a deduction if doing so would create a pool deficit. In addition, the Contingency Fund Regulation provided an upper limit for the contingency fund of $200 million. On October 18, 2011 the Corporation received a directive through Order-in-Council 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 years ended July 31, 2011 and July 31, 2012 were transferred to the contingency fund.

Under the Act, the contingency fund was to be utilized to guarantee initial payments to pool participants and to cover any losses realized from the PPO programs and cash trading activities.

Under the terms of the Interim Act, effective August 1, 2012, the balance of the contingency fund was transferred to a new contingency fund and the upper limit for the fund was removed. Under the Interim Act, in addition to the uses of the contingency fund previously permitted under the Act, the Corporation may utilize the contingency fund for any activities set out in the annual corporate plan as approved by the Minister of Agriculture and Agri-Food or for other purposes that may be approved by the Minister with the concurrence of the Minister of Finance.

The components of the contingency fund as at July 31, 2012 are described below:

PRODUCER PAYMENT OPTION PROGRAMS

The Corporation has implemented payment alternatives for producers which are not part of a pool. The Fixed Price Contract and Basis Price Contract provide producers with the opportunity to lock in a fixed price or basis for all or a portion of their grain and FlexPro offers a daily flat price for wheat that can be locked in throughout the crop year. The EPO provides producers with a greater portion of their expected final pool price at time of delivery, while still allowing them to remain eligible to participate in price gains if pool returns exceed EPO values.

For the year ended July 31, 2012 the Corporation's net surpluses from these programs of $38,820 (2011 – $99,085) were credited to the contingency fund.

CASH TRADING

The Corporation transacted cash trading of barley, designated barley, various classes of wheat and organic grains under the authority of Section 39.1 of the Act and provided the Wheat Storage and Churchill Storage Programs. The Corporation's net surpluses from these programs of $2,083 (2011 – $3,430) were credited to the contingency fund.

TRANSFERRED FROM POOL ACCOUNTS

As provided for under the Act, interest earnings on CGSP which are credited to the barley pool which exceed the amounts attributable to the current year 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. For the year ended July 31, 2012 there was no barley pool. During 2011-12 $92 (2011 – $51) was transferred to the contingency fund.

The contingency fund balance at July 31 is as follows:

	2012	2011
Opening surplus, beginning of year	**$ 103,551**	$ (36)
Transferred from pool accounts	**92**	51
Current year surplus	**40,903**	102,515
Restatement for transition to IFRS	**—**	844
Interest earned	**702**	177
Closing surplus, end of year	**$ 145,248**	$ 103,551

23. LOSS FOR FUTURE ALLOCATION

Loss 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, 2012) 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 certain 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 were 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, 2012 is detailed as follows:

	2012	2011
Loss for future allocation, beginning of year	**$ (105,451)**	$ (218,041)
Net change in fair value of financial instruments	**(99,172)**	154,740
Net change in inventory valuation differences	**229,870**	(142,576)
Net change in liability to producer – current earnings valuation differences	**(82,115)**	87,453
Deposit on lake vessels paid from current operations	**—**	12,973
Loss for future allocation, end of year	**$ (56,868)**	$ (105,451)

24. GRAIN PURCHASES

Grain purchases are primarily made up of purchases under PPO contracts of $1,069,045 (2011 – $1,790,108), purchases from third party suppliers of grain in the course of cash trading of grain $298,206 (2011 – $165,997), late receipts and inventory overages and shortages $69,249 (2011 – $23,281) and other $208,468 (2011 – ($400,373)). 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 23 for further explanation) year over year.

During the year ended July 31, 2012, the total grain purchases of $1,644,968 (2011 – $1,579,013) represents the cost of goods sold. Earnings distributed to pool participants of $4,853,220 (2011 – $3,791,760) also represents the cost of grain sold during the year.

25. 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.

26. OTHER DIRECT EXPENSES

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

27. 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.

28. ADMINISTRATIVE EXPENSES

	2012	2011
Allocated as follows:		
Wheat pool	**$ 47,003**	$ 49,158
Durum pool	**13,990**	14,262
Designated barley pool	**4,510**	2,450
Barley pool A	**—**	985
Barley pool B	**—**	550
Cash trading	**3,415**	2,535
PPO programs	**2,505**	2,341
	71,423	72,281
Adjustment for adoption of IFRS	**—**	(844)
	71,423	71,437
Producer payment accounts	**368**	316
Administrative expenses	**$ 71,791**	$ 71,753

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 cash trading program on the basis of relative tonnage.

29. DEPRECIATION AND AMORTIZATION EXPENSE

	2012	2011
Allocated as follows:		
Wheat pool	$ **11,999**	$ 12,708
Durum pool	**3,574**	3,687
Designated barley pool	**1,152**	633
Barley pool A	**—**	268
Barley pool B	**—**	142
Cash trading	**856**	626
PPO programs	**14**	3
CWB lab	**56**	24
Weatherfarm	**38**	5
	17,689	18,096
Producer payment accounts	**20**	4
Depreciation and amortization expense	$ **17,709**	$ 18,100

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

30. RELATED PARTIES

Key management personnel consists of the board of directors and the executive team.

The Corporation routinely accepts deliveries from producers who are also members of key management and hence are related parties. Key management has the option of participating in the pools, PPOs, or cash buy programs. Typically, they participate in the pools and given the single desk structure of the Corporation, all such related party grain transactions are equitable to all pool producers and are at an arm's length basis. In addition, for key management who choose to participate in PPOs or cash buy programs there is a code of conduct in place that prohibits them from using commercially sensitive information in their grain marketing decisions.

Those key management transactions which were not pool transactions are noted below:

		2012		2011	
Key Management Name	**Payment Option**	**Tonnes**	**Transaction Value**	Tonnes	Transaction Value
Glen Findlay	BPC – CWRS	**100**	$ **30**	–	$ –
Jeff Nielsen[1]	Cash Buy – Des barley	**288**	**52**	–	–
Jeff Nielsen[1]	FPC – CPSR	**150**	**43**	–	–
Bill Toews[2]	FPC – CWRS	**50**	**18**	–	–
Henry Vos[3]	BPC – CWRS	**90**	**28**	–	–
Henry Vos[3]	Cash Buy – Feed barley	**18**	**4**	–	–
Ken Motiuk	EPO – Feed wheat	**—**	**—**	660	162
Jeff Nielsen[1]	EPO – CWRS	**—**	**—**	572	160
Allen Oberg[2]	EPO – Feed barley	**—**	**—**	235	54
Total		**696**	$ **175**	1 467	$ 376

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

Key management personnel compensation:

		2012		2011
Short-term compensation	**$**	**3,520**	$	3,176
Post-employment benefits		**427**		366
Termination benefits		**5,054**		—
Total*	**$**	**9,001**	$	3,542

* Reflects the aggregate amounts paid to all members of the Board of Directors and executives of the Corporation.

OTHER RELATED PARTY TRANSACTIONS

The Corporation has funded the operations of the Canadian International Grains Institute (CIGI) for a base amount of $1,400 annually along with $125 in capital expenditure reimbursements. This funding ended as at March 31, 2012 due to the change in the Corporation's mandate effective August 1, 2012, as initiated by the passing of Bill C-18. CIGI is no longer considered a related party.

The Corporation has a post-employment benefit plan, which is considered a related party. As at July 31, 2012, the Corporation had amounts payable to the plan of $147 (2011 – $13). Please refer to Note 32 for a description of the plan and its operations.

There were no other outstanding payables or receivables relating to related party transactions as at July 31, 2012.

31. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

Operating leases
The Corporation has entered into operating leases for premises 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 expensed in the year ended July 31, 2012 were $783 (2011 – $647).

Lease costs on premises are charged to administrative expenses.

Commitments under operating leases are as follows:

		Premises
2012-2013	$	346

Lake vessels
In the previous year, the Corporation entered into agreements to purchase two lake vessels. Payments in the year ended July 31, 2012 were $9,295 (2011 – $12,973). Commitments under the agreements are as follows:

		Lake Vessels
2012-13	$	28,145
2013-14		17,806

CONTINGENCIES

In January 2012, a class action lawsuit was filed by a number of producers in the Queen's Bench Judicial Centre of Saskatoon against Her Majesty the Queen in the Right of Canada, as represented by the Attorney General of Canada, Her Majesty the Queen in the Right of Canada, as represented by the Minister of Agriculture and Agri-Food and the Corporation, the Filson Class Action. The suit claims damages of $15.4 billion alleged to have resulted from the Bill C-18 legislative change. In February 2012, a similar class action lawsuit was filed by a number of producers in the Court of Queen's Bench of Alberta against the same parties, also alleging damages of $15.4 billion, the Katerenchuk Class Action. It is not possible to predict the outcome of these lawsuits and the amount of damages, if any, that may be assessed against the Corporation.

In February 2012 (and amended in March 2012), a class action law suit was filed in Federal Court of Canada against Her Majesty the Queen in the Right of Canada, as represented by the Attorney General of Canada, Her Majesty the Queen in the Right of Canada, as represented by the Minister of Agriculture and Agri-Food and the Corporation, the Dennis Class Action. The suit claims damages of $17.0 billion alleged to have resulted from the Bill C-18 legislative change. Further it seeks Charter Relief in relation to the loss of the single desk marketing structure that resulted from the enactment of Bill C-18. It is not possible to predict the outcome of this lawsuit and the amount of damages, if any, that may be assessed against the Corporation.

The Corporation is also involved in various other legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

32. EMPLOYEE FUTURE BENEFITS

DESCRIPTION OF BENEFIT PLANS

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 benefits payable under the defined benefit pension 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.

The Corporation suspended the accumulation of benefits under the pension plan and the supplemental pension plan effective July 31, 2012. This constituted plan curtailments in accordance with IAS 19 employee benefits. The Corporation has recorded, in net earnings, gains on the plan curtailments of $17,269 and expenses to recognize actuarial losses which had previously been deferred of $26,538.

Prior to the plan curtailment the Corporation recognized its net pension assets because it had the ability to recover the value of the asset in the future either through reduction of funding for current service costs (for the registered defined benefit pension plan) or by refund of the net asset (for the supplemental defined benefit pension plan). As a result of the suspension of accumulation of benefits there will be no future current service costs, and, accordingly, the Corporation will not have the ability to recover the value of the net pension assets of the registered defined benefit pension plan. As at July 31, 2012 the pension asset related to this plan in the amount of $36,236 was derecognised through a charge to net earnings. In accordance with legislation governing registered pension plans the registered defined benefit pension plan is required to fund solvency deficiencies. As at July 31, 2012 the plan had an estimated solvency deficiency of $17,665. Because the payment of this minimum funding obligation would result in a plan asset which cannot be recognized it has been expensed and accrued. The Corporation has accrued this obligation in accounts payable and accrued liabilities and recorded a charge to net earnings.

The Corporation also suspended the accumulation of benefits under the post employment benefit plan effective July 31, 2012. Employees and past employees who were eligible to receive these benefits as at July 31, 2012 will continue to be entitled to receive these benefits but there will be no additional beneficiaries of this plan. This constituted a plan curtailment in accordance with IAS 19 employee benefits. The Corporation has recorded, in net earnings, a gain on the plan curtailment of $10,156 and an expense to recognize actuarial losses which had previously been deferred of $14,556.

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 amounts recognized in the Statement of Financial Position are as follows:

	Pension Benefits		
	July 31, 2012	July 31, 2011	August 1, 2010
Present value of funded defined benefit obligations	**$ 106,289**	$ 89,731	$ 73,052
Fair value of plan assets	**148,081**	112,363	93,341
Funded status	**41,792**	22,632	20,289
Unrecognized actuarial losses	**—**	4,730	—
Provision for unrecognizable net pension asset	**(36,236)**	—	—
Net asset recognized for defined benefit pensions plans	**$ 5,556**	$ 27,362	$ 20,289

	Other Post Employment Benefits		
	July 31, 2012	July 31, 2011	August 1, 2010
Present value of funded defined benefit obligations	**$ 38,761**	$ 37,534	$ 31,356
Fair value of plan assets	**—**	—	—
Funded status	**38,761**	37,534	31,356
Unrecognized actuarial losses	**—**	4,744	—
Net liability recognized for other defined benefit plans	**$ 38,761**	$ 32,790	$ 31,356

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.

Changes in the present value of the defined benefit obligation

	2012 Pension Benefits	2011 Pension Benefits	2012 Other Benefits	2011 Other Benefits
Present value of defined benefit obligation, beginning of year	$ 89,731	$ 73,052	$ 37,534	$ 31,356
Current service cost	5,004	4,286	752	608
Contributions by employees	1,020	1,156	—	—
Interest cost	5,137	4,666	2,013	1,886
Benefit payments	(1,260)	(1,449)	(1,293)	(1,060)
Actuarial loss	23,926	8,020	9,911	4,744
Curtailment gain	(17,269)	—	(10,156)	—
Present value of defined benefit obligation, end of year	$ 106,289	$ 89,731	$ 38,761	$ 37,534

Changes in the fair value of plan assets

	2012 Pension Benefits	2011 Pension Benefits	2012 Other Benefits	2011 Other Benefits
Fair value of plan assets, beginning of year	$ 112,363	$ 93,341	$ —	$ —
Actuarial return on plan assets	6,971	6,104	—	—
Contributions by Corporation	27,889	11,077	1,293	1,060
Benefits payments	(1,260)	(1,449)	(1,293)	(1,060)
Actuarial gain on plan assets	2,118	3,290	—	—
Fair value of plan assets, end of year	$ 148,081	$ 112,363	$ —	$ —

Defined benefit costs recognized in net income

	2012 Pension Benefits	2011 Pension Benefits	2012 Other Benefits	2011 Other Benefits
Current service cost	$ 5,004	$ 4,286	$ 752	$ 608
Interest on obligation	5,137	4,666	2,013	1,886
Actuarial return on plan assets	(6,970)	(6,104)	—	—
Amortization of actuarial losses	—	—	99	—
Subtotal current year expense (1)	3,171	2,848	2,864	2,494
Provision for unrecognizable net pension asset (2)	36,236	—	—	—
Provision for solvency deficiency(2)	17,665	—	—	—
Curtailment gain (2)	(17,269)	—	(10,156)	—
Recognition of actuarial loss due to curtailment (2)	26,538	—	14,556	—
	$ 66,341	$ 2,848	$ 7,264	$ 2,494

(1) Recorded in Administrative expenses.
(2) Recorded in Restructuring expenses.

Changes in actuarial gains (losses)

	2012 Pension Benefits	2011 Pension Benefits	2012 Other Benefits	2011 Other Benefits
Unrecognized actuarial losses — beginning of year	$ 4,730	—	$ 4,744	$ —
Amortization of actuarial losses	—	—	(99)	—
Actuarial loss in the year	21,808	4,730	9,911	4,744
Recognition of actuarial loss due to curtailment	(26,538)	—	(14,556)	—
Unrecognized actuarial losses – end of year	$ —	$ 4,730	$ —	$ 4,744

Plan assets:

The percentages of plan assets by asset type for the pension plans as of July 31 are as follows:

	2012	2011
Equity securities	20.3%	33.0%
Debt securities	67.1%	52.0%
Real estate	12.5%	15.0%
Cash	0.1%	—
	100.0%	100.0%

In September 2012, the Corporation amended its investment policy for its pension assets. Over the period to December 31, 2012 the assets will be moved to 2.5% cash and 97.5% debt securities.

Significant assumptions:

The significant assumptions utilized in the computation of the benefit expenses and the benefit obligations are set out in the following table.

	2012	2011
Calculation of benefit expense		
Expected return on plan assets [1]	5.75%	6.00%
Discount rate - beginning of the year [2]	5.40%	6.00%
Assumed rate of salary escalation	2.50%	2.50%
Calculation of benefit obligation		
Discount rate - end of the year [1]	4.25%	5.40%
Assumed rate of salary escalation- end of year [3]	na	2.50%
Medical cost trend rate [4]	na	7.00%
Medical cost trend rate declines to [4]	na	3.00%
Medical cost trend rate declines over [4]	na	20 years
Drug cost trend rate	8.00%	na
Drug cost trend rate declines to	4.50%	na
Drug cost trend rate declines over	10 years	na
Other medical cost trend rate	4.50%	na
Dental cost trend rate	4.50%	4.00%

(1) The expected return on plan assets is based on capital market expectations for the asset portfolios at July 31.

(2) The discount rate assumptions are based on AA Canadian Corporate Bond Yield Curve based on the expected maturity of plan obligations.

(3) Not applicable for 2012 because the plan has been curtailed.

(4) In 2012 the medical cost assumption was broken into two components: drug costs and other medical costs.

Sensitivity analysis	Pension Benefits	Other Benefits
1% decrease in discount rates		
increase in plan obligations	$ 23,453	$ 6,020
Change in health care trend rate net impact on obligation		
1% increase	—	4,815
1% decrease	—	(3,892)

Defined contribution plan:

The expense related to the defined contribution pension plan is equal to the cash contributed by the Corporation during the year and is expensed in administration expenses as an employee future benefit expense. The expense for the year ended July 31, 2012 was $100 (2011 – $109).

33. FINANCIAL RISK MANAGEMENT

In the normal course of operations, the Corporation is exposed to various market risks such as commodity price risk, foreign exchange risk, interest rate risk, as well as credit risk and liquidity risk which impact its financial performance. To manage these risks, the Corporation utilizes a number of financial instruments. The use of financial instruments is carried out in accordance with approved exposure limits and authorized counterparties and is governed by the board-approved financial risk management policies which provide written principles on the above-noted risks, including the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Internal monitoring and compliance reporting to senior management and the board is performed on a regular basis. The Corporation's policies and processes are based on industry best practices, the Act, the Minister of Finance risk management guidelines, and the requirements of the Corporation's annual borrowing authority. Compliance with policies and exposure limits is periodically reviewed by the internal auditors.

The Corporation does not enter into or trade financial instruments, including derivatives, for speculative purposes.

MARKET RISK

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

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

COMMODITY RISK

Commodity price risk is the exposure to reduced revenue due to adverse changes in commodity prices and volatilities. The Corporation uses exchange-traded futures and options to manage risk of an adverse movement in the price of grain between the time the crop is produced and the time the crop is ultimately sold to customers. The objectives of commodity risk management for the Corporation are:

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

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

The Corporation has used one standard deviation of commodity prices over a five-year average as the sensitivity factor to represent management's best estimate of the reasonable range of variation for commodity prices. 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, 2012, assuming an immediate and sustained $2.50/bushel change in commodity prices occurs across all contract maturities, net earnings would be affected over the next 12 months as follows:

	Increase (Decrease)	
	2012	**2011**
Sensitivity factor (representing one standard deviation)	**$2.50/bushel**	$2.00/bushel
Increase in price per bushel	**$ (380,857)**	$ (589,019)
Decrease in price per bushel	**$ 380,857**	$ 588,569

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, swaps 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, 2012, assuming an immediate and sustained 5.00% change in U.S. exchange rates occurs across all maturities, net earnings would be affected over the next 12 months as follows:

	Increase (Decrease)	
	2012	**2011**
Sensitivity factor (representing one standard deviation)	**5.00%**	5.00%
Increase in exchange rates	**$ (14,210)**	$ (8,303)
Decrease in exchange rates	**$ 14,210**	$ 17,965

INTEREST RATE RISK

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

- to limit the potential for negative changes in interest income and interest expense due to significant changes in the level and term structure of interest rates.

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

Based on outstanding debt, investments and related derivatives held by the Corporation at July 31, 2012, assuming an immediate and sustained 0.50% change in interest rates occurs across all maturities and curves, net earnings would be affected over the next 12 months as follows:

	Increase (Decrease)	
	2012	**2011**
Sensitivity factor (representing one standard deviation)	**0.50%**	0.50%
Increase in interest rates	**$ 1,180**	$ 2,537
Decrease in interest rates	**$ (1,310)**	$ (2,509)

* The lowest rate on yield curve in the model was 0.01% to avoid using negative rates.

CREDIT RISK

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its contractual obligations to the Corporation. Exchange-traded futures and option contracts used to hedge the commodity risk involve minimal credit risk, as the exchanges require daily mark-to-market and settlement on negative exposures. The Corporation is exposed to credit risk on investments, over-the-counter derivative transactions that have a positive market value, and credit extended on sales outside of the government-guaranteed (CGSP and ACF) credit sales programs, referred to as commercial credit.

Investments and over-the-counter derivatives

The full principal of the investment is at risk should the counterparty default and is unable to return the funds invested. The Corporation is not exposed to credit risk for the full notional amount of the over-the-counter derivative transaction, but only to the potential replacement cost if the counterparty defaults. Changes in market rates between settlement date and maturity date of the over-the-counter derivative transaction can increase the value of the derivative to the Corporation and make the derivative costly to replace in the current market if the counterparty defaults.

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

Collateral agreements provide for the posting of collateral by the counterparty when the Corporation's exposure to that entity exceeds a certain threshold. Collateral is held by a third party and at July 31, 2012, no collateral was posted by our counterparties (2011 – $46,687 in collateral was posted). 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, 2012, was $789,687 (2011 – $1,683,986) and the largest credit risk with any institution as at July 31, 2012, was $42,098 (2011 – $75,468).

Commercial credit

The Corporation has entered into arrangements directly with its customers or their banks to provide short-term credit to the customer on grain sales. This exposure is similar to investment exposure in that the full principal value of the grain sold is at risk if the customer or their bank is unable to pay the funds. The Corporation manages this credit risk by contracting only with approved customers and banks 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 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, 2012 (2011 – nil). The Corporation does not anticipate non-performance by customers. The largest cumulative amount outstanding with any customer as at July 31, 2012, was $52,366 (2011 – $36,132).

As at July 31, 2012 the credit risk of outstanding derivative contracts, before netting and after collateral is considered, is as follows:

	2012			2011		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest rate contracts						
Single currency interest rate swaps	**$ 100,000**	**$ (180)**	**$ —**	$ 91,983	$ 6,055	$ 6,260
Cross currency interest rate swaps	**241,234**	**27,952**	**40,661**	327,534	57,711	75,146
	341,234	**27,772**	**40,661**	419,517	63,766	81,406
Foreign exchange contracts						
Forwards	**1,868,123**	**16,623**	**21,271**	4,015,961	47,246	59,548
Currency swaps	**110,848**	**(453)**	**186**	395,856	(749)	1,417
Options	**—**	**—**	**—**	756,441	13,004	13,004
	1,978,971	**16,170**	**21,457**	5,168,258	59,501	73,969
Derivatives before master netting agreements	**2,320,205**	**43,942**	**62,118**	5,587,775	123,267	155,375
Impact of master netting agreements	**—**	**—**	**—**	(43,805)	(46,687)	(46,687)
Total derivatives after master netting agreements	**$ 2,320,205**	**$ 43,942**	**$ 62,118**	$ 5,543,970	$ 76,580	$ 108,688

The following table provides a breakdown, by credit rating, of the Corporation's derivative exposure as at July 31, 2012.

Credit Rating		2012		2011	
Moody's	Standard & Poor's (S&P)	**Notional Amounts**	**Fair Value**	Notional Amounts	Fair Value
Aaa	AA–	**$ 570,325**	**$ 28,676**	$ 1,187,601	$ 54,332
Aa1	AA–	**594,463**	**5,193**	2,226,015	28,177
Aa2	AA–	**660,938**	**5,565**	—	—
Aa2	A+	**—**	**—**	1,430,549	19,124
Aa3	AA–	**412,435**	**3,768**	—	—
Aa3	A+	**—**	**—**	743,610	21,634
A3	A	**82,044**	**740**	—	—
Total		**$ 2,320,205**	**$ 43,942**	$ 5,587,775	$ 123,267

The following table provides a breakdown, by credit rating, of the Corporation's notional short-term and long-term investments as at July 31, 2012.

Credit Rating		2012		2011	
Moody's	Standard & Poor's (S&P)	**Short-term**	**Long-term**	Short-term	Long-term
Aaa	AAA	**$ 24,994**	**$ —**	$ 149,949	$ 75,000
Aaa	AA–	**—**	**—**	189,709	—
Aa1	AA	**—**	**100,000**	—	50,000
Aa1	AA–	**195,224**	**—**	288,255	23,888
Aa2	AA+	**—**	**—**	—	66,885
Aa2	AA	**—**	**75,000**	—	—
Aa2	A+	**179,993**	**—**	133,355	—
Aa2	A	**31,991**	**—**	21,000	—
Aa3	A+	**—**	**—**	95,550	—
A1	AA+	**—**	**70,203**	—	—
A2	A+	**60,174**	**—**	—	—
—	AA	**—**	**—**	43,921	—
—	AA–	**199,950**	**—**	—	—
Total		**$ 692,326**	**$ 245,203**	$ 921,739	$ 215,773

"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, 2012.

Credit Risk*	2012	2011
Customer (direct)	**Short-term**	Short-term
Very Low	**$ 106,713**	$ 80,765
Low	**91,599**	37,242
Moderate	**10,270**	24
High	**–**	10,426
Total customer (direct)	**$ 208,582**	$ 128,457

* 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 $692,326 on hand at July 31, 2012 (2011 – $921,739),
- access to short-term funding – the Corporation's commercial paper program and access to capital markets provides the Corporation with sufficient liquidity to meet daily cash requirements,
- access to committed and uncommitted lines of credit – committed lines of credit total $250,000 Canadian and $100,000 U.S. and uncommitted lines of credit total $750,000 Canadian and $250,000 U.S.; 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 Canadian $)

	Outstanding	< 1 month	1- 3 months	3- 12 months	1- 5 years	> 5 years
Non-derivative Liabilities						
Borrowings	$ (1,274,572)	$ (604,160)	$ (655,412)	$ (15,000)	$ —	$ —
Long-term debt	(201,327)	—	(625)	(1,342)	(177,443)	(21,917)
Derivative liabilities	45,183	2,130	15,954	(131)	27,230	—
	$ (1,430,716)	$ (602,030)	$ (640,083)	$ (16,473)	$ (150,213)	$ (21,917)

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

34. CAPITAL MANAGEMENT

The Act stipulated that the Corporation could not retain capital, except for the contingency fund, which was established to underwrite the risks associated with the PPO programs and cash trading activities. The Act stated that the contingency fund could be in a deficit position with no limit specified.

The contingency fund is independent of the pool accounts. The surpluses and deficits of the PPOs and cash trading activities are credited or charged to the contingency fund. Under the Act, the contingency fund was to be utilized to guarantee adjustments to initial payments to pool participants and to cover any losses realized from the PPO programs and cash trading activities.

Under the terms of the Interim Act, effective August 1, 2012, the balance of the Contingency Fund was transferred to a new Contingency Fund. Under the Interim Act, in addition to the uses of the Contingency Fund previously permitted under the Act, the Corporation may utilize the Contingency Fund for any activities set out in the annual corporate plan as approved by the Minister of Agriculture and Agri-Food Canada or for other purposes that may be approved by the Minister with the concurrence of the Minister of Finance.

Under the Act and the Interim Act the Corporation has the ability to deduct amounts from the pool accounts to recapitalize 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 are returned as quickly as possible, provided the Contingency Fund balance does not fall below zero.

35. TRANSITION TO IFRS

As stated in Note 2, these are the Corporation's first financial statements prepared in accordance with IFRS.

The Corporation's accounting policies presented in Note 2 have been applied in preparing the financial statements for the year ended July 31, 2012, the comparative figures and the opening statement of financial position at August 1, 2010, the Corporation's date of transition to IFRS.

In preparing its opening statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's statement of financial position, combined statement of operations and statement of cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of statement of financial position

Dollar amounts in 000's	July 31, 2011 Canadian GAAP	July 31, 2011 Effect of transition to IFRS	July 31, 2011 IFRS	August 1, 2010 Canadian GAAP	August 1, 2010 Effect of transition to IFRS	August 1, 2010 IFRS
ASSETS						
Current Assets						
Short-term investments	$ 921,739	$ —	$ 921,739	$ 604,772	$ —	$ 604,772
Current portion of credit programs	77,384	—	77,384	62,691	—	62,691
Advance payment programs	428,290	—	428,290	412,391	—	412,391
Prepayment of inventory program	214,582	—	214,582	144,273	—	144,273
Trade accounts receivable	180,692	—	180,692	111,612	—	111,612
Other accounts receivable	60,689	—	60,689	44,946	—	44,946
Derivatives	290,815	(1,933)	288,882	112,386	(17,152)	95,234
Inventory of grain	1,363,071	—	1,363,071	962,697	—	962,697
Prepaid expenses	22,409	—	22,409	196,908	—	196,908
Net pension asset	39,216	(11,854)	27,362	32,182	(11,893)	20,289
	3,598,887	(13,787)	3,585,100	2,684,858	(29,045)	2,655,813
Credit programs	184,704	—	184,704	213,019	—	213,019
Investments	219,737	(3,964)	215,773	222,843	(155)	222,688
Property, plant and equipment	68,276	—	68,276	58,919	—	58,919
Intangible assets	83,818	—	83,818	88,583	—	88,583
	$4,155,422	$ (17,751)	$ 4,137,671	$3,268,222	$ (29,200)	$3,239,022
LIABILITIES						
Current Liabilities						
Borrowings	$ 1,717,627	$ —	$ 1,717,627	$1,259,330	$ —	$1,259,330
Accounts payable and accrued expenses	310,227	—	310,227	186,405	—	186,405
Liability to agents	1,061,124	—	1,061,124	680,341	—	680,341
Derivatives	98,785	(81,296)	17,489	253,248	(95,697)	157,551
Liability to producers – outstanding cheques	92,467	—	92,467	27,316	—	27,316
Liability to producers – current earnings	577,467	—	577,467	578,672	—	578,672
Post employment benefit liability	23,464	9,326	32,790	21,225	10,131	31,356
Current portion of long term debt	17,165	—	17,165	104,977	—	104,977
	3,898,326	(71,970)	3,826,356	3,111,514	(85,566)	3,025,948
Long-term debt	331,007	(23,320)	307,687	447,874	(21,463)	426,411
	$4,229,333	$ (95,290)	$4,134,043	$3,559,388	$ (107,029)	$3,452,359
UNDISTRIBUTABLE EARNINGS						
Reserve for producer payment expenses	3,064	—	3,064	2,316	—	2,316
Special account	2,464	—	2,464	2,424	—	2,424
Contingency fund	124,731	(21,180)	103,551	21,988	(22,024)	(36)
Loss for future allocations	(204,170)	98,719	(105,451)	(317,894)	99,853	(218,041)
	(73,911)	77,539	3,628	(291,166)	77,829	(213,337)
	$4,155,422	$ (17,751)	$ 4,137,671	$3,268,222	$ (29,200)	$3,239,022

Reconciliation of combined statement of operations

For the year ended July 31 (dollar amounts in 000's)	2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue	$ 6,071,330	$ (82,259)	$ 5,989,071
Direct costs			
Grain purchases	1,664,965	(85,952)	1,579,013
Freight	258,382	(46)	258,336
Terminal handling	172,514	–	172,514
Inventory storage	99,378	–	99,378
Country inventory financing	2,538	–	2,538
Inventory adjustments	(32,889)	–	(32,889)
Other direct expenses	65,942	–	65,942
Total direct costs	2,230,830	(85,998)	2,144,832
Net revenue from operations	3,840,500	3,739	3,844,239
Other income	265,156	(2,921)	262,235
Interest revenue	22,814	(1,952)	20,862
Other expenses	(797)	–	(797)
Interest expense	(14,942)	–	(14,942)
Administrative expenses	(72,281)	844	(71,437)
Depreciation and amortization expense	(18,096)	–	(18,096)
Grain industry organizations	(2,765)	–	(2,765)
Net earnings	4,019,589	(290)	4,019,299
Loss for future allocation, beginning of year	(317,894)	99,853	(218,041)
Earnings distributed to pool participants	(3,791,760)	–	(3,791,760)
Earnings distributed to cash trading participants	(11,486)	–	(11,486)
Earnings distributed to PPO Plus participants	(53)	–	(53)
Gains transferred to contingency fund	(102,566)	(844)	(103,410)
Loss for future allocation, end of year	$ (204,170)	$ 98,719	$ (105,451)

NOTES TO THE RECONCILIATIONS

(a) Employee benefits

On adoption of IFRS, the Corporation elected to recognize all cumulative actuarial gains and losses for its defined benefit plans as at the transition date. The transitional adjustment to the contingency fund related to this item was a charge of $22,024 as at August 1, 2010.
The impact of this item as at and for the year ended July 31, 2011 was an increase in net earnings of $844, a decrease in the net pension asset of $11,854, an increase in the other post retirement benefit liability of $9,326 and a cumulative charge to the contingency fund of $21,180.

(b) Financial Instruments

Debt and Investments

Under Canadian GAAP, CWB elected to designate its short-term and long-term debt and investments, as held for trade using the fair value option, and accordingly short-term and long-term debt and investments were carried at fair value. Under IFRS, the Corporation carries these assets and liabilities at amortized cost. The transitional adjustment to earnings for future allocations related to this item was a credit of $21,308. The impact of this item as at and for the year ended July 31, 2011 was a decrease in net earnings of $1,952, a decrease in long term investments of $3,964, a decrease in long-term debt of $23,320 and a cumulative credit to earnings for future distribution of $19,356.

Sale/Purchase Contracts and Embedded Derivatives

Under Canadian GAAP, the Corporation treated sales, purchase and certain other contracts as financial instruments held for trading because they contained embedded derivatives in the form of a functional currency that was different from the Corporation's reporting currency. Under IFRS this is not considered to constitute an embedded derivative and accordingly under IFRS these contracts are not carried on the balance sheet at fair value. The transitional adjustment to earnings for future allocations related to this item was a credit of $78,545. The impact of this item as at and for the year ended July 31, 2011 was an increase in net earnings of $818, a decrease in derivative assets of $1,933, a decrease in derivative liabilities of $81,296 and a cumulative credit to earnings for future allocations of $79,363.

EXEMPTIONS

IFRS 1, First-time Adoption of International Financial Reporting Standards, provides guidance for the first time adoption of IFRS. IFRS 1 provides certain exemptions from full retrospective application as well as mandatory exceptions. The Corporation has applied the following optional exemptions and the applicable mandatory exceptions:

Optional exemptions:

Leases
Under IFRS 1, a first-time adopter may elect to apply the transitional provisions in IFRIC 4, Determining whether an Arrangement contains a Lease. The Corporation has elected to take this exemption and has used the facts and circumstances existing at August 1, 2010 to determine whether an arrangement contains a lease.

Employee benefits
IAS 19, Employee benefits requires disclosure of a five year history of defined benefit obligations and plan assets, and of experience adjustments. A first-time adopter may elect to disclose these amounts prospectively from the date of transition to IFRS. The Corporation has elected to take this exemption and has provided the required disclosure of the defined benefit obligations and plan assets, and experience adjustments for each annual period prospectively from August 1, 2010.

Borrowing costs
A first-time adopter may apply the transitional provision in IAS 23, borrowing costs. The Corporation has elected to take this exemption and capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after August 1, 2010. Previously, the Corporation expensed borrowing costs of qualifying assets. This change in accounting policy did not have an effect on the transition to IFRS.

Mandatory exception:

Estimates
Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Corporation under Canadian GAAP are consistent with their application under IFRS.

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