

CONFIDENTIAL



Corporate Plan:  
2006/07

| <b>Page</b> | <b>Contents</b>                                   |
|-------------|---|
| 2           | Executive Summary                                 |
| 3           | Reasons for and Objectives of the Corporate Plan  |
| 4           | Specific Approval Requested                       |
| 5           | Vision, Mission, Values                           |
| 6           | The Environment                                   |
| 13          | Emerging Priorities                               |
| 14          | The Strategic Direction                           |
| 16          | Focus Areas                                       |
| 20          | Directing Financial Operations                    |
| 26          | Initiatives                                       |
| 39          | Appendix A: Report on 2005-06 Activities          |
| 44          | Appendix B: Financial Statements                  |
| 51          | Appendix C: Borrowing Plan                        |
| 68          | Appendix D: Sales and Movement Program Highlights |

# 1 Executive Summary

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As a farmer-driven organization, the CWB's highest priority is to earn the highest returns possible from the market in order to ensure western Canadian farmers remain profitable and viable over the long-term. Through the consistency of their product, strength of their brand, and effectiveness of their marketing system Canadian farmers have established a position as a major exporter of wheat, durum, and barley, commanding a sizable share of the world market. However, this position is under significant pressure from existing and emerging exporters who continue to improve their offerings, largely through advancements in technology. This, coupled with volatile and often depressed commodity prices, poses a severe risk to the earning power of western Canadian farmers over the long-term. Compounding this issue is the fact that farmers are at a competitive disadvantage in the supply chain compared to the large vertically-integrated companies with which they compete, to which they sell, and from which they source inputs.

The CWB board of directors has recognized the urgency of these issues and has developed a long-term strategy to assist farmers in addressing them. However, a major challenge in implementing the strategy is the fact that the CWB's competitive advantage is not entirely within the company's control, meaning that the organization's ability to enact change for the benefit of farmers is constrained.

A company's competitive advantage is what differentiates it from its competitors and allows it to compete effectively in the marketplace. The CWB derives its competitive advantage from:

- The single desk;
- A high quality / differentiated product; and
- Service excellence (pertaining to both farmers and end customers).

However, as cited above, the CWB is not entirely in control of this competitive advantage. The organization is dependent on outside parties, as follows:

- The single desk is maintained by *the Canadian Wheat Board Act*;
- The level of quality of the CWB's products is dependent on the CGC and the level of research being conducted in Canada; and
- The CWB's ability to provide excellent service is largely dependent on handling and transportation service providers, who in some cases are also the organization's competitors.

Therefore, the first step in implementing the long-term strategy is to increase the organization's ability to manage its competitive advantage for the benefit of western Canadian farmers. Once this is accomplished, the board of directors and management can take definitive steps to enhance existing competencies and build new ones.

Going forward, the CWB's basis of competition will be driven by:

- The single desk;
- High quality / differentiated product;
- Service excellence (pertaining to both farmers and end customers); and
- Cost effectiveness.

These factors are critical to ensuring that the CWB can continue to provide value to western Canadian farmers over the long-term to address the significant issues they are facing.

This Corporate Plan is a one-year snapshot of the CWB's long-term plan and is consistent with its strategic direction. The long-term plan will enhance the effectiveness of the CWB as farmers' marketing agency and will ensure that the company continues to build on the many improvements that have been introduced, focusing on accountability, responsiveness and flexibility.

As we head into 2006-07, we look forward to furthering our pursuit of the best markets for western Canadian wheat and barley, and continuing to strengthen the CWB's relationship with Prairie farmers.

## 2 Reasons for and Objectives of the Corporate Plan

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The corporate plan is a summary of the CWB's operating environment as well as the strategies the company intends to implement over the coming years to achieve its goals.

The corporate plan is submitted in fulfilment of the requirements of Sections 19(1) and (2) of Chapter 17 of the Statutes of Canada 1998, an act that amends the *Canadian Wheat Board Act* passed June 11, 1998. As outlined in Sections 19(1), 19(2), and 19(3), the CWB is required to submit an annual corporate plan and borrowing plan:

*19(1) The Corporation shall submit annually a corporate plan to the Minister for the approval of the Minister in consultation with the Minister of Finance.*

*19(2) The corporate plan shall encompass all the business and activities of the Corporation and shall contain any information that the Minister considers appropriate.*

*19(3) The Corporation shall submit annually to the Minister of Finance for approval a plan indicating the amount of money that the Corporation intends to borrow in the coming crop year for the purposes of carrying out its corporate plan.*

An authorization to borrow is required from the Minister of Finance by July 31, 2006 in order for the CWB to continue to finance its operations in the market, as outlined in Section 19(4):

*19(4) The Corporation shall not undertake any borrowings described in the borrowing plan approved under subsection (3) unless the Minister of Finance has approved the time, terms and conditions of the borrowings.*

The CWB therefore requests approval of the 2006-07 Corporate Plan by the Minister responsible for the CWB, in consultation with the Minister of Finance.

As well, the CWB requests approval of its 2006-07 Borrowing Plan by the Minister of finance (contained in Appendix C - *Borrowing Plan*).

### 3 Specific Approval Requested

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As outlined in Sections 19(1) and 19(2) of Chapter 17 of the Statutes of Canada 1998, an act that amends the *Canadian Wheat Board Act*, the CWB submits an annual corporate plan, which requires approval by the Minister responsible for the CWB. In accordance with Section 19(3), the CWB submits an annual borrowing plan to the Minister of Finance, which requires approval by July 31 of each year. Please see the enclosed borrowing plan (Appendix C) for the 2006-07 fiscal year, including borrowing authority request in the following letter to the Minister of Finance.

## Vision

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

## Mission

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

## Values

In the pursuit of our commitment to **add value for farmers** in everything we do, we value:

### **Teamwork**

The premise of single desk selling is simple: farmers marketing as one are stronger than if they were to market individually. Working as one is the foundation of teamwork. Demonstrating a level of commitment rarely found in the corporate world, CWB staff work together and rely on each other to deliver the best service to farmers and the best products to customers.

### **Innovation**

When faced with a problem or challenge, we don't rely on what we did previously or take the path of least resistance. We gravitate towards innovation. It is at the core of our DNA since it defines what we are -- a truly unique organization that markets quality Prairie grain in an innovative way that maximizes returns to farmers.

### **Respect**

Respect is not something that can be demonstrated with words -- it comes through in behaviour and actions. For the CWB, respect means that we treat everyone fairly, whether they are our farmer stakeholders, customers or our staff. It also means listening without bias and placing a value on others' opinions and ideas even if they differ from our own.

### **Service Excellence**

In today's competitive marketplace the distinguishing factor is service. We understand that excellence in service delivery is key to becoming a world class organization. That's why we continue to broaden our service package to both farmers and customers, striving to anticipate and meet their needs with innovative solutions.

### **Integrity**

We operate according to a strict code of conduct that gives a framework and purpose to our daily activities. This code demands that we are fair, honest, and ethical in all business transactions.

## 4 The Environment

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The CWB operates in a dynamic environment. Success ultimately depends on the organization's ability to accurately assess the environment in which it operates in order to predict changes that are likely to occur, identify opportunities and threats, draw the appropriate conclusions and critical priorities and take the necessary measures to position the corporation for the future. The CWB's strategic direction is driven by this assessment.

### **Farmer**

The CWB continues to be the organization that most western Canadian farmers consider to be closest to their own views regarding farming issues, reflecting the corporation's strong farmer focus. In addition, farmer support for the single-desk (the single desk refers to the CWB's exclusive authority to market wheat and barley for export and for domestic human consumption) and support for the organization overall continues to increase. This increase in support for the CWB can be largely attributed to the introduction of new, and refinement of existing, payment options as evidence that the CWB is listening to and accountable to farmers. These payment options have been very successful due to the fact that they provide farmers with the ability to price their grain with the CWB using different methods according to the needs of their own farming operations.

Farmers perceive the challenging agricultural industry as getting worse. An increasing number of farmers are indicating that they are in imminent danger of going out of business if current trends continue. As a reflection of this sentiment, Statistics Canada is projecting that total farm net income for the Prairie provinces in 2005 will be negative for the first time in history. The prolonged downward trend in farm income indicates that the issues farmers are facing are not short term or cyclical but rather long term and systemic in nature. As a result, the number of farms decreases each year, resulting in larger farm sizes and increasingly capital-intensive operations without a corresponding increase in profitability. The younger population is tending to avoid farming and agricultural careers, resulting in a sharp increase in the average age of the farmers that remain. A continuation of this trend will have a significant impact on the future of western Canadian farming.

The cost of farm inputs continues to be the most pressing issue cited by farmers. Increasing energy prices have led to a sharp rise in the costs of farming, impacting farmers' already challenged cash flow situation. In addition, the strengthening Canadian dollar has impacted farmers' sales returns from international markets, further exacerbating the issue. To combat this situation, farmers are seeking alternative means to earn an acceptable return. This has resulted in additional crop diversification and the exploration of ventures such as short-line railways, producer car groups, farmer-owned grain terminals, input purchasing groups and intermediate processing.

The impending elimination of the payment and borrowing guarantees through the current World Trade Organization (WTO) discussions, if an agreement is reached, is also an item of concern for western Canadian farmers. They are concerned that this may make an already challenging environment even worse. As a result, farmers are urging the CWB to work with the federal government to determine how the industry will operate without the guarantees.

A greater number of farmers continue to recognize that the CWB is run by a majority farmer-elected board of directors and have embraced the CWB as their marketing organization. This is demonstrated by the fact that, irrespective of individuals' affinity to the CWB and the single desk, a strong majority considers the retention or elimination of the CWB to be a decision that should be made by Canadian farmers through a plebiscite or referendum.

## **Customer**

Through the CWB as their marketing agent, western Canadian farmers have developed a strong reputation as a supplier of consistently high-quality, safe food. This is complimented by the CWB's reputation for superior customer service to provide a compelling value proposition for Canadian wheat and barley. However, customers continue to increase their expectations regarding the level of quality and service they require. As a result, demands placed on the CWB continue to escalate in terms of quality attributes and logistics.

Food safety and food security are also becoming increasingly important to customers and their demands are likely to change more abruptly, particularly if and when highly visible food safety scares become more frequent. In order to continue to earn premium prices, customers will increasingly require assurance that they can be confident in the ability of western Canadian wheat and barley to meet their consumers' needs better than any of their other suppliers worldwide.

Increasing competition in lower quality markets is resulting in additional choice for customers as to who they buy from, which is in turn impacting world prices. Also, new technology continues to enable improved utilization of medium or lower quality wheat than in the past. These circumstances have the potential to limit the CWB's ability to continue extracting premiums from the market. Conversely, the increasing market segmentation that is occurring creates an opportunity for the CWB to intensify its focus on servicing higher-end markets.

As evidenced by the 2004 Customer Survey (the most recent information available), customers rate the CWB's image, product quality and supply reliability very highly. The CWB's top three competitive product advantages are considered by customers to be product quality, quality consistency between shipments and product cleanliness. Customer service is also rated very highly and CWB marketing managers are viewed as professional, honest, respectful and knowledgeable. Being Canadian is also considered a distinct advantage among customers.

## **Market**

### ***Market Profile and Strategy***

As 2006-07 approaches, there is still considerable uncertainty with respect to the quantity and quality of crops that will be produced in Western Canada and other exporting countries. Uncertainty regarding importing countries' domestic crops is also a key factor, as growing and harvest conditions in those regions greatly influence trade flows. Weather patterns throughout the growing season as well as the harvest period will affect our own supply profile, the aggressiveness of other exporters, and the quantities and qualities sought by importers. At this time, our marketing strategy must remain general and flexible as we move forward through potentially volatile marketing conditions.

Our primary objective is to optimally match our product mix to our customer portfolio in order to maximize net returns to western Canadian farmers. We plan to market higher quality sales more evenly throughout the year in order to match the typical buying patterns of quality conscious customers. We will optimize our loading and blending flexibility through grade options and quality programs in order to meet demand under a wide range of marketing conditions.

The domestic industry is likely to continue to be our largest customer in 2006-07. In terms of exports, we will continue our long-term and beneficial relationship with Japan. Other major volume customers for wheat, durum and barley include but are not limited to China, Algeria, Morocco, the Andean region Mexico, Philippines, Venezuela, the U.S., Italy and the U.K. We are projecting a normal grade pattern in Western Canada based on the assumption of average weather during the 2006-07 growing season.

**Market Highlights for 2006-07**

The CWB is currently forecasting 2006-07 pool returns for non-durum wheat to increase from last year's level. Global production is expected to decrease slightly from last year. We are projecting production declines in the United States, the Black Sea Region, and India. This is partially offset by higher production levels in the EU-25, Canada, and the Southern Hemisphere (Australia and Argentina). Lower global wheat supplies are expected to result in higher global prices (on a U.S. dollar basis); however, the gain in global wheat prices is forecast to be partially offset by the rise in the Canadian dollar.

Durum pool returns for 2006-07 are expected to decline from last year's price level. Large North American supplies continue to impact the global durum market. Durum stocks at the start of the 2006-07 marketing year in both Canada and United States are at decade high levels. North Africa and Europe are key importing regions. Durum production levels in both Europe and North Africa are forecast to increase over last year. These factors combined with a strong Canadian dollar are expected to result in a lower durum PRO in 2006-07.

Offshore feed barley returns are expected to be similar to the 2005-06 Pool B. Overall corn stocks in the U.S. continue to be at a high level. In addition, we continue to see competitive pressures from the Black Sea region of the world.

Malting barley returns are also expected to soften in 2006-07. Chinese import demand is expected to remain stable in the coming year. Australia (Canada's major malting barley competitor) had an exceptionally good quality crop last year and is expected to have significant carry-over stocks as the CWB starts the 2006-07 marketing campaign.

|               | <b>No. 1 CWRS<br/>13.5</b>                                    | <b>No. 1 CWAD<br/>13.0</b> | <b>No. 1 CW<br/>Barley</b> | <b>SS CW<br/>Six-Row</b> | <b>SS CW<br/>Two-Row</b> |
|---------------|---|----------------------------|----------------------------|--------------------------|--------------------------|
|               | Canadian dollars per tonne in store Vancouver or St. Lawrence |                            |                            |                          |                          |
| 2006-07 PRO*  | 207   | 188                        | 113***                     | 156                      | 161                      |
| 2005-06 PRO** | 201   | 193                        | 117****                    | 162                      | 170                      |

\*as of May 25, 2005

\*\* as of May 25, 2005

\*\*\*feed barley A Pool

\*\*\*\*feed barley B Pool

**Abbreviations**

|      |                            |    |                |
|------|----------------------------|----|----------------|
| CWRS | Canada Western Red Spring  | CW | Canada Western |
| CWAD | Canada Western Amber Durum | SS | Special Select |

Determining the Pool Return Outlook (PRO) for the upcoming crop year is a comprehensive process that starts in February, well before planting decisions are finalized. In early July, initial payment recommendations are provided to the Government of Canada for approval by Order in Council. The initial payment recommendations balance the important objective of minimizing the risk of incurring a deficit in the pool accounts while ensuring farmers receive as much money as quickly as possible following delivery. Subsequent increases to the initial payments, based on realized sales and/or improvements in market expectations are likewise recommended as soon as appropriate.



Exports of CWB grains (including products) in 2006-07 are projected at 16.8 million tonnes, up from 16.1 million tonnes forecast in 2005-06. Durum exports in 2005-06 are expected to fall from 4.4 MMT to 3.6 MMT due to reduced global durum demand.

**Exports of Wheat and Wheat Flour by Principal Exporters  
Distribution by Quantity and Percentage of World Trade Total  
1999-2000 to 2006-07 (July-June)**

| Crop Year            |           |           |        |                |               |        | (million tonnes) |
|----------------------|-----------|-----------|--------|----------------|---------------|--------|------------------|
|                      | Argentina | Australia | Canada | European Union | United States | Others | Total            |
| 1999-00              | 11.1      | 17.1      | 18.5   | 19.4           | 29.4          | 17.2   | <b>112.7</b>     |
|                      | 9.8%      | 15.2%     | 16.4%  | 17.2%          | 26.1%         | 15.3%  | 100.0%           |
| 2000-01              | 11.4      | 16.7      | 16.9   | 16.8           | 28.0          | 14.3   | <b>104.1</b>     |
|                      | 10.9%     | 16.0%     | 16.2%  | 16.1%          | 26.9%         | 13.8%  | 100.0%           |
| 2001-02              | 11.7      | 16.5      | 16.1   | 14.2           | 26.3          | 26.1   | <b>110.8</b>     |
|                      | 10.5%     | 14.9%     | 14.5%  | 12.8%          | 23.7%         | 23.5%  | 100.0%           |
| 2002-03              | 6.3       | 10.9      | 8.7    | 19.9           | 22.8          | 41.4   | <b>110.1</b>     |
|                      | 5.7%      | 9.9%      | 7.9%   | 18.1%          | 20.7%         | 37.6%  | 100.0%           |
| 2003-04              | 7.3       | 15.1      | 14.9   | 10.9           | 32.3          | 23.9   | <b>104.5</b>     |
|                      | 7.0%      | 14.4%     | 14.3%  | 10.5%          | 30.9%         | 22.9%  | 100.0%           |
| 2004-05              | 13.5      | 15.8      | 14.5   | 14.4           | 28.5          | 26.3   | <b>113.0</b>     |
|                      | 11.9%     | 14.0%     | 12.8%  | 12.7%          | 25.2%         | 23.3%  | 100.0%           |
| 2005-06 <sup>4</sup> | 8.0       | 16.4      | 16.1   | 13.0           | 27.6          | 25.8   | <b>106.9</b>     |
|                      | 7.5%      | 15.3%     | 15.1%  | 12.2%          | 25.8%         | 24.1%  | 100.0%           |
| 2006-07 <sup>5</sup> | 10.0      | 17.6      | 16.8   | 16.0           | 26.0          | 17.7   | <b>104.1</b>     |
|                      | 9.6%      | 16.9%     | 16.1%  | 15.4%          | 25.0%         | 17.0%  | 100.0%           |

1 Includes durum (grain and semolina) and Former U.S.S.R. intra-trade.

2 Canada - bulk grain adjusted to July-June marketing year.

3 EU-25; excludes intra-trade.

4 CWB Estimate

5 CWB Forecast

Because of rounding, percentages may not add.

Sources: Canada - Canadian Grain Commission - Exports of Canadian Grain  
All other countries/total - United States Department of Agriculture

May-2006

**Exports of Durum Wheat (excluding semolina) by Principal Exporters  
Distribution by Quantity and Percentage of World Trade Total  
1999-2000 to 2006-07 (July-June)**

(thousand tonnes)

| Crop Year            | Canada         | European Union | United States  | Others         | Total                  |
|----------------------|----------------|----------------|----------------|----------------|------------------------|
| 1999-00              | 3 747<br>57.2% | 115<br>1.8%    | 1 279<br>19.5% | 1 411<br>21.5% | <b>6 552</b><br>100.0% |
| 2000-01              | 3 370<br>48.2% | 456<br>6.5%    | 1 435<br>20.5% | 1 726<br>24.7% | <b>6 987</b><br>100.0% |
| 2001-02              | 3 572<br>51.2% | 332<br>4.8%    | 1 225<br>17.5% | 1 852<br>26.5% | <b>6 981</b><br>100.0% |
| 2002-03              | 2 858<br>45.1% | 1 053<br>16.6% | 857<br>13.5%   | 1 575<br>24.8% | <b>6 343</b><br>100.0% |
| 2003-04              | 3 331<br>49.6% | 712<br>10.6%   | 1 120<br>16.7% | 1 550<br>23.1% | <b>6 713</b><br>100.0% |
| 2004-05              | 3 349<br>47.7% | 1 229<br>17.5% | 742<br>10.6%   | 1 700<br>24.2% | <b>7 020</b><br>100.0% |
| 2005-06 <sup>3</sup> | 4 400<br>55.7% | 750<br>9.5%    | 950<br>12.0%   | 1 804<br>22.8% | <b>7 904</b><br>100.0% |
| 2006-07 <sup>4</sup> | 3 600<br>55.4% | 650<br>10.0%   | 800<br>12.3%   | 1 450<br>22.3% | <b>6 500</b><br>100.0% |

1 Canada: bulk grain adjusted to July-June marketing year.

2 EU-15 to 2002-03; EU-25 from 2003-04; excludes intra-trade.

3 CWB Estimate

4 CWB Forecast

Because of rounding, percentages may not add.

Sources: Canada - Canada Grain Commission - Exports of Canadian Grain  
United States - Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics  
EU and Others - International Grains Council

## **Political, Legal and Governmental**

The CWB will continue to face pressures both domestically and internationally. Despite numerous failed U.S. attempts to demonstrate that the CWB distorts trade, the CWB is likely to remain an issue in the U.S. and trade actions may continue. Efforts by the U.S. and the EU to constrain the operations of the CWB within the WTO negotiations are also expected to continue. As a result of the Doha round of WTO negotiations, the government's borrowing and payment guarantees will be withdrawn if an agreement is reached. In addition, disciplines on STEs are expected, although the precise disciplines and timelines are not yet known. The Canadian position that WTO rules should not eliminate the ability to use single desk marketing systems is supported by several key countries. Despite these risks, the WTO negotiations have the potential to improve the trade environment for western Canadian farmers by reducing trade distorting domestic support, improving market access, eliminating export subsidies and ensuring credit and food aid are not used as disguised export subsidies. The CWB has engaged in discussion with the new federal government on several agricultural topics, and is looking forward to future discussions. Items for discussion include grain transportation reform, the review of the Canadian Grain Commission, bi-lateral trade agreements, and the CWB's Harvesting Opportunity proposal.

The CWB continues to work with the provincial governments as well. Manitoba and Saskatchewan have been very supportive of the CWB both domestically and on the international trade front, while the Government of Alberta continues to prefer an open market for Alberta farmers despite increasing support for the CWB among farmers in that province.

## **Grain handling and transportation**

Rationalization of the western Canadian grain handling system is expected to continue. This, coupled with the possibility of further consolidation among grain companies, may have significant implications for farmers. Rationalization will result in grain moving longer distances to primary delivery points and thus higher costs for farmers. Consolidation may reduce the number of options for farmers in choosing where to deliver – an issue for some farmers already due to rationalization. In the absence of further competition in the rail industry, freight costs are also likely to increase. With the increasing cost pressures that are anticipated, the issues facing farmers are expected to continue.

On May 12, 2006, the Competition Bureau announced that Agricore United will divest of one of its Vancouver terminals through a trustee sale. The trustee has four months to complete the sale, and the terms of the sale agreement must reflect the Consent Agreement from 2002.

The Competition Bureau has yet to rule on the proposed JRI – SWP merger of their Vancouver terminal operations, as they have been awaiting a decision regarding the Agricore United divestiture. It is not yet clear how a decision regarding the proposed JRI-SWP merger might proceed. Likely, the Agricore matter will need to be concluded before the Bureau moves ahead on this matter.

## **Macro**

Global turmoil, war, and terrorism coupled with global health concerns will continue to cause food safety and food security concerns. The CWB's ability to guarantee and assure food safety in the future is uncertain and will require significant effort to ensure customers are provided with the assurances that they are seeking. A grain handling system that has evolved to handle large shipments of bulk commodities may not be adequately suited to smaller-volume, highly specified shipments. This will become more certain as further research and analysis is conducted on systems that would be required to segregate and preserve the identity of the CWB's products to meet the quality and food safety demands being sought by our customers.

Volatile oil prices and continued strength in the Canadian dollar relative to the U.S. dollar will also have negative implications for farmers through increases in production costs and reductions in sales revenues, as previously outlined.

### **Internal**

National demographic trends suggest that future recruitment of employees may become more difficult for the CWB and organizations in general. Canada's aging workforce and the overall decrease in university graduates specializing in agriculture are contributing to a declining pool of resources for the CWB to draw upon to fill required positions, which will lead to a higher level of competition when sourcing new employees.

In order to ensure the organization attracts and retains employees with the necessary skill-sets, having a competitive total compensation framework and an organizational commitment to training will become increasingly important. Also, efforts will continue to be made to ensure employee satisfaction remains high.

### **Technological**

Technology will become increasingly important as further advancements are achieved. As such, access to and use of information will continue to be a significant critical success factor and competitive advantage for organizations. Improved IT communication between supply chain partners will also gain increasing importance. Industry partners will increasingly share IT resources, human resources and supply chain processes to remove the need for expensive data reconciliation and redundant processes.

Within the next several years, a high percentage of farmers will no longer have communication bandwidth restrictions or remote location limitations. As such, farmers will require relevant, real-time information to effectively manage their businesses. The CWB must keep abreast of these changes and adequately prepare itself to ensure it is serving the needs of its farmer-owners by taking advantage of the opportunities technological advancements provide.

### **Financial**

The strong Canadian dollar is expected to continue to impact returns to farmers in the upcoming year. The Canadian dollar continues to be driven by broad-based US dollar weakness against most major currencies, high crude oil and non-energy commodity prices, the interest rate tightening cycle, the strong performance of Canadian equities as a result of high commodity prices, strong economic fundamentals, and acquisitions of Canadian companies by foreign investors. As a result, the Canadian dollar is expected to remain volatile for the upcoming year with bank forecasts at the end of 2007 (the horizon for most currency forecasts), currently ranging from par to the US dollar to approximately 81 US cents (1.2345). However, most analysts are predicting the currency will remain below 88 US cents (1.1364).

In addition to the strong Canadian dollar, returns to farmers are being impacted by large reductions in the CWB's net interest earnings. Net interest earnings resulting from the CWB's rescheduled credit receivables are estimated to be approximately C\$33 million in 2005-06 (down from an average of about \$60 million per year over the past nine years) and are expected to further decline by approximately 87 per cent to C\$4 million in 2009-10 due to large reductions in receivables through normal repayment schedules negotiated at the Paris Club. In addition to planned repayments, early prepayments from countries such as Russia, Algeria and Brazil will further erode farmers' net interest earnings.

## 5 Emerging Priorities

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The ability to respond to environmental indicators, which include both external and internal forces, is essential in the successful implementation of a strategic plan. Through a review of the environment, the following priorities have been identified as important elements of the strategic direction, and as such the need to modify the affected strategies or develop new strategies is required.

- Continue to improve our ability to meet farmers' business needs in terms of advocacy, support for value added, and creation of viable farmer returns.
- Continue to strengthen our competitive advantage by differentiating our products and focusing on the needs of our customers.
- Implement harvesting opportunity or a similar strategy to cement full farmer control of the organization and address the possible loss of the financial guarantees.
- Invest in research & development to increase market competitiveness, explore new products, and improve quality control and assurance.
- Finalize and implement the CWB's branding strategy.
- Continue to work with governments in Canada to maintain Canadian farmers' competitive advantage and their democratic right to their marketing system.
- Acquire, build, and maintain the organizational capabilities and culture required to achieve the CWB's objectives.
- Develop and implement a long-term grain handling and supply chain strategy.

## 6 The Strategic Direction

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A company's competitive advantage is what differentiates the organization from its competitors and allows it to compete effectively in the marketplace. The CWB derives its competitive advantage from:

- The single desk;
- A high quality / differentiated product; and
- Service excellence (pertaining to both farmers and end customers).

Through analysis and discussion, the CWB has identified several threats to these advantages, as captured in the environmental analysis. The most substantial threats are summarized below:

The Single Desk:

- Continuing WTO / international challenges
- Ongoing domestic challenges

High Quality / Differentiated Product:

- Technology is enabling some use of lower grades
- New and established market participants are improving their quality to compete more effectively
- Some customers view the market as homogeneous

Service Excellence:

- Overbuilt industry capacity and ongoing consolidation creates financial pressures and strained relationships
- Transportation costs continue to increase
- Access to some markets is being challenged
- Service competency can be replicated by some competitors
- Although farmers and customers want good service, price is also a factor

In addition, the current WTO negotiations could have a significant impact on the CWB's ability to operate under its current model.

These threats to the company's competitive advantage must be addressed in order to secure the organization's ability to add value to western Canadian farmers over the long term. However, the issue is compounded by the fact that the CWB is dependent on outside parties to maintain its advantage, as follows:

- The single desk is maintained by the *Canadian Wheat Board Act*;
- The level of quality of the CWB's products is dependent on the CGC and the level of research being conducted in Canada; and
- The CWB's ability to provide excellent service is largely dependent on handling and transportation service providers, who in some cases are also competitors.

Therefore, the CWB's competitive advantage is not completely in the company's control. As such, the elements that allow the CWB to compete in the marketplace as a means to add value for farmers cannot currently be defended or strengthened by the company independently; the involvement of other groups and organizations is required.

The CWB must therefore take action to gain additional control over the company's basis of competition to ensure its continued ability to serve farmers' needs over the long term. Once this is accomplished, the board of directors and management can take definitive steps to enhance existing competencies and build new ones to address the issues farmers are facing.

## Looking to the Future

The CWB's basis of competition going forward will be based upon:

- The single desk;
- High quality / differentiated product;
- Service excellence (pertaining to both farmers and end customers); and
- Cost effectiveness.

The company will focus on gaining additional control over and strengthening these areas to increase its ability to compete in the marketplace on behalf of western Canadian farmers. This will be accomplished as follows:

- 1) The single desk
  - Work with farmers to ensure the single desk meets their needs to make the CWB their preferred business partner
  - Strengthen relationships with government officials to increase support for the single desk
- 2) High quality / differentiated product
  - Implement a branding strategy to differentiate CWB products
  - Invest in R&D to increase Canadian product competitiveness, explore new products, and improve quality control
  - Make strategic investments to increase product quality
- 3) Service Excellence
  - Adopt a customer relationship management approach with both farmers and customers
  - Implement an inventory management system
  - Invest / partner in the supply chain to gain additional control over logistics
- 4) Cost effectiveness
  - Form industry relationships to reduce overall supply chain expenses
  - Manage internal costs efficiently
  - Invest in the supply chain

The organization has articulated these actions in the form of specific goals and strategies that will be implemented through four focus areas:

- Strategic relationships
- Supply chain management
- Corporate
- Business development

## 7 Focus Areas

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### **Strategic Relationships**

**Primary Objective** - To be recognized and respected as a valued business partner by our farmer-owners and our customers.

#### **Goals and Strategies**

**Goal** – To expand and achieve recognition of farmer control of the CWB.

Strategy – Become more independent of government.

Strategy – Meaningfully engage farmers in the strategic direction of the CWB.

**Goal** – To be responsive and accountable to farmers.

Strategy – Actively represent Prairie farmers' interests by seeking out, listening, and responding to farmers' needs on an individual basis.

Strategy – Be transparent by providing farmers with relevant, accurate and timely information.

Strategy – Actively communicate CWB services available to farmers.

**Goal** – To have broad recognition among farmers of the value created by their single desk.

Strategy – Demonstrate and communicate the value of the single-desk to farmers and the competitive advantage it brings them.

Strategy – Provide farmers with flexibility to determine their return from the single desk system.

**Goal** – To be the preferred supplier of differentiated products and superior services to our customers.

Strategy – Promote Canada and the CWB as first in products and services.

Strategy – Develop a comprehensive customer relationship management system.

Strategy – Develop a comprehensive set of marketing services that fully meets customer needs.

**Goal** – To have full support of the CWB mandate among legislators and federal and provincial governments.

Strategy – Build and strengthen relationships with legislators and government officials at all levels.

Strategy – Strengthen the government of Canada's resolve to vigorously defend the single desk and Canadian farmers' democratic right to their marketing system.



## **Supply Chain Management**

**Primary Objective** - Develop and manage an effective supply chain that maximizes net value for farmers, fully satisfies customers' needs, and enhances market opportunities.

### **Goals and Strategies**

**Goal** – To provide effective business services to farmers.

Strategy – Ensure appropriate delivery tools and discipline to enable timely and flexible movement of grain from the farm to country elevator.

Strategy – Ensure adequate risk management and cash flow services for farmers.

**Goal** – To be considered by customers as an innovative and reliable supplier of safe, high quality products and superior services.

Strategy – Develop a comprehensive inventory management system to ensure product integrity.

Strategy – Position Canada and the CWB as first in quality and quality control.

**Goal** – To manage commercial relationships with service providers to optimize cost, service, and quality.

Strategy – Develop a logistics long-term plan to drive cost reduction in the supply chain and achieve quality and service improvements.

**Goal** – To maximize net returns through defined service levels for customers.

Strategy – Further develop and implement a cost / margin and level of service optimization model to increase sales into high return markets.

## **Corporate**

**Primary Objective** - To have the structure, capabilities and culture to realize the CWB's vision and mission.

### **Goals and Strategies**

**Goal** – To build and sustain the capabilities and culture required to achieve our vision.

Strategy – Develop, acquire, and reward people's skill sets required to achieve the company's goals.

Strategy – Establish and maintain an enterprise-wide architecture and business processes that support organizational goals, objectives, and evolution.

Strategy – Transform the culture to enable the strategic direction of the CWB.

**Goal** – To establish a business model that enables the desired evolution of the CWB.

Strategy – Achieve changes to the legislative mandate that enable the corporate evolution of the CWB.

**Goal** – To prudently manage corporate risk.

Strategy – Incorporate best practices in financial reporting, security infrastructure, corporate risk management, and governance.

## **Business Development**

**Primary Objective** - To identify and develop opportunities to grow the CWB by strengthening our market position, capitalizing on strategic business prospects consistent with the CWB's marketing mandate, and developing products and services that add value.

### **Goals and Strategies**

**Goal** – To expand markets through product positioning, market access, and strategic investments.

Strategy – Expand the base of customers that place a higher value on our products and services (both geographically and in new potential uses).

Strategy – Encourage the federal government to pursue bilateral trade agreements with key customer nations.

Strategy – Ensure development and production of grain product lines that meet farmer and customer requirements.

**Goal** – To enhance farmer returns through provision of services and strategic investments in the value chain.

Strategy – Increase corporate capacity to effectively engage in new business opportunities.

Strategy – Actively investigate and pursue opportunities to enhance farmer returns.

**Goal** – To increase the volume of value added processing in support of farmers' business interests.

Strategy – Investigate and pursue opportunities in value added processing and marketing of products processed in Canada.

Strategy – Investigate and pursue opportunities to encourage others to invest in value added processing.

## 8 Directing Financial Operations

This section highlights the credit sales programs currently in place, the CWB's borrowing programs, risk management activity and associated reporting and controls, and financial accounting as well as reporting practices. The borrowing plan is included in Appendix C.

### **Credit Sales Programs**

The CWB is able to sell grain under two Government of Canada supported export credit programs: the Credit Grain Sales Program (CGSP) and Agri-food Credit Facility (ACF). Grain is sold to sovereign buyers under the CGSP, and the government guarantees the CWB share of the receivable. Grain is sold to non-sovereign buyers under the ACF, and the government guarantees a declining percentage of the receivable, based on the repayment term.

### **Non-Rescheduled Credit Receivables:**

#### **CWB Credit Exposure - CGSP**

The long-standing CGSP was last used in 2001-02 to support sales to Iran. There are no indications that the CGSP will be used for any future new sales.

#### **CWB Credit Exposure - ACF**

The ACF was used by the CWB for the first time in October 1997. For 2005-06, the CWB anticipated credit sales of US\$203 million to commercial customers. However, the expected total will be approximately US\$186 million. Next year 2006-07, the CWB expects sales under the ACF to total approximately US\$236 million (Table 1).

|              | Actual           |                |                                | Projected        |                |                                | Projected        |                |                                |
|--------------|------------------|----------------|--------------------------------|------------------|----------------|--------------------------------|------------------|----------------|--------------------------------|
|              | Sales<br>2004-05 | ACF<br>Portion | ACF<br>Receivable<br>31-Jul-05 | Sales<br>2005-06 | ACF<br>Portion | ACF<br>Receivable<br>31-Jul-06 | Sales<br>2006-07 | ACF<br>Portion | ACF<br>Receivable<br>31-Jul-07 |
| China        |                  |                |                                | 24.0             | 24.0           | 7.0                            | 20.0             | 20.0           |                                |
| Guatemala    | 11.2             | 5.6            | 2.7                            | 10.0             | 5.0            |                                | 5.0              | 2.5            |                                |
| Indonesia    | 111.4            | 55.7           | 26.4                           | 60.0             | 30.0           | 10.0                           | 114.0            | 57.0           | 20.0                           |
| Mexico       | 57.3             | 28.6           | 9.1                            | 61.0             | 30.5           | 19.0                           | 82.0             | 41.0           | 20.0                           |
| Peru         | 5.8              | 2.9            | 1.9                            | 30.0             | 15.0           | 14.0                           | 12.0             | 6.0            | 5.0                            |
| Thailand     |                  |                |                                | 1.0              | 0.5            |                                | 3.0              | 3.0            |                                |
| <b>Total</b> | <b>185.7</b>     | <b>92.8</b>    | <b>40.1</b>                    | <b>186.0</b>     | <b>105.0</b>   | <b>50.0</b>                    | <b>236.0</b>     | <b>129.5</b>   | <b>45.0</b>                    |

\*principal only (sales include credit shared with CWB partners)

ACF receivables at July 31, 2006 are forecasted to be US\$50 million. The balance outstanding at July 31, 2007 is expected to be approximately US\$45 million.

The CWB and government risk share in the ACF program. For credit up to one year, the CWB assumes two per cent of the risk. For credit greater than one year but less than two years, the CWB assumes four per cent risk. For credit greater than two years up to a three year ceiling, the CWB assumes eight per cent risk. Nearly all business to date has been for one year or less.

At July 31, 2005 the CWB's risk portion including accrued interest was US\$0.8 million. The projected CWB risk portion for July 31, 2006 is US\$1 million and July 31, 2007 is US\$0.9 million. The CWB monitors its risk portion and reports monthly to the government.

### Rescheduled Credit Receivables:

#### CWB Credit Exposure - CGSP

US dollar rescheduled receivables are expected to be US\$1.60 billion at July 31, 2006 and US\$1.41 billion at July 31, 2007 (Table 2). Algeria will prepay its outstanding debt of US\$94 million in May, 2006.

Note - Table 2 does not reflect the potential for Russia to completely prepay its total outstanding debt of US\$804.7 million in August in accordance with its discussions at the Paris Club.

| Rescheduled       | 31-Jul-05      | 31-Jul-06      | 31-Jul-07      |
|-------------------|----------------|----------------|----------------|
| Algeria           | 100.2          | 0.00           | 0.00           |
| Irac              | 586.5          | 250.3          | 264.4          |
| Peru              | 8.5            | 4.7            | 4.7            |
| Pakistan          | 16.6           | 16.6           | 16.2           |
| Poland            | 676.1          | 528.3          | 369.3          |
| Russia (see note) | 867.6          | 804.7          | 756.7          |
|                   |                |                |                |
| <b>Total</b>      | <b>2,255.5</b> | <b>1,604.6</b> | <b>1,411.3</b> |

\*principal only

In July, 2005 Russia prepaid US\$485 million of its outstanding debt. In 2005-06 the Government of Canada on behalf of Iraq paid US\$352 million. Poland is scheduled to complete its debt repayments in 2008-09.

Canadian dollar rescheduled receivables are expected to be Cdn\$803 million at July 31, 2006 and Cdn\$582 million at July 31, 2007 (Table 3).

| Rescheduled  | 31-Jul-05      | 31-Jul-06    | 31-Jul-07    |
|--------------|----------------|--------------|--------------|
| Brazil       | 43.6           |              |              |
| Egypt        | 85.2           | 81.4         | 77.1         |
| Haiti        | 2.4            | 2.3          | 2.3          |
| Jamaica      | 1.6            | 1.1          | 0.6          |
| Poland       | 919.0          | 718.2        | 502.0        |
|              |                |              |              |
| <b>Total</b> | <b>1,051.8</b> | <b>803.0</b> | <b>582.0</b> |

\*principal only

In January, 2006 Brazil prepaid all its outstanding debt. Poland is scheduled to complete its debt repayments in 2008-09.

#### Financing Programs

The CWB borrows money to finance rescheduled credit receivables, new credit sales, payments to farmers, administrative and operating expenses, and advances to farmers under the Agricultural Marketing Programs Act, Prairie Grain Advance Payments Act and the Spring Credit Advance Program. To date in 2005/06, the Canadian dollar (C\$) debt portfolio has fluctuated between C\$1.3 and \$1.9 billion while the U.S. dollar (US\$) portfolio ranged between US\$2.0 and \$2.8 billion.

The Canadian dollar debt portfolio decreased by a small amount in 2005/06 due to planned repayments on credit receivables totalling C\$250 million. The US dollar debt portfolio, however, decreased substantially below forecasted levels in 2005/06 due to two contributing factors.

Firstly, in May 2005 Russia made a formal proposal to the Paris Club to prepay 40 per cent of its debt. Up to this point in time, the CWB did not consider this debt to be pre-payable based on its bi-lateral agreement with Russia. The Paris Club accepted Russia's proposal for early repayment resulting in a payment of US\$485 million to the CWB in July 2005. The Government of Canada sits at the Paris Club table on behalf of the CWB and other impacted creditors. The prepayment has a significant impact on the organizations interest earnings, reducing them by an estimated US\$3.4 million in 2005-06 and US\$24 million over the remaining life of the receivable versus the original payment schedule. Secondly, in June 2005 the Government of Canada agreed to reduce Iraq's principal balances due to the CWB by US\$469 million between 2005 and 2008. Payments were made to the CWB in September and December 2005 on behalf of Iraq totaling US\$352 million. These payments further reduced net interest earnings by approximately US\$2.3 million annually. The CWB also received repayment of approximately US\$232 million of normally scheduled receivable repayments. Overall, the early prepayments reduced the credit receivables financed by the CWB at the end of the 2005/06 crop year to approximately US\$1.7 billion, from prior expectations of US\$2.5 billion.

The CWB funds itself by borrowing in the global financial markets, primarily by issuing its own debt through three commercial paper programs (domestic, U.S. and Euro), a Euro medium-term note program and a domestic medium-term note program. Various dealers act as the CWB's agents to sell its paper and notes. Several operating lines support and complement the borrowing programs. The CWB evaluates each borrowing program's performance against acceptable market benchmarks to ensure that the most aggressive market pricing is achieved for an issuer of its creditworthiness.

The CWB also invests in short-term debt instruments for cash management purposes and to minimize liquidity risk. When funding requirements are large, the CWB will borrow additional money in advance of the re-financing date to minimize the CWB's liquidity risk. All investment transactions comply with the terms set out in the *Canadian Wheat Board Act*, the annual borrowing authority from the Minister of Finance and the Department of Finance's credit rating guidelines. Lines of credit with financial institutions are also maintained to provide liquidity for the CWB's funding operations.

CWB borrowings are 100 per cent guaranteed by the Government of Canada. An explicit guarantee is included in the *Canadian Wheat Board Act*. The CWB's credit ratings are equal to those of the Government of Canada.

#### **Borrowing Requirements in 2006-07**

The CWB's debt requirements for 2006-07 are expected to decrease by a moderate amount from the prior year due to planned repayment of credit receivables extended to customers. Normally scheduled credit sale repayments are expected to be approximately US\$250 million and C\$223 million in 2006/07, reducing the overall credit receivables financed by the CWB at the end of the 2006/07 crop year to about US\$1.45 billion and C\$580 million. Overall, the Canadian dollar portfolio is expected to fluctuate between C\$1.0 to \$1.8 billion during the 2006-07 crop year, while the U.S. dollar portfolio should be approximately US\$1.7 to \$2.0 billion, depending on the CWB's new credit sales activity.

There is a possibility, however, of further early repayment of credit receivables to the CWB in 2006/07, or earlier, further reducing the CWB's US dollar funding requirements. Algeria presented a proposal to the Paris Club in May 2006 which was accepted to further prepay their debt, totaling US\$94 million to the CWB at the end of May. The CWB is also at risk of receiving a further US\$805 million from Russia, as early as August 2006. Should both these prepayments materialize, the CWB's financing requirements related to credit receivables will drop to US\$550 million by the end of 2006/07 (Canadian dollar requirements will remain at C\$580 million). In the event that the Russian repayment occurs, the CWB would invest the monies in short term investments until a more comprehensive strategy of dealing with the prepayment is approved by

the Minister of Finance. Further details are included in borrowing authority request in Section 7: *Specific Approval Requested*.

The majority of the CWB's Canadian dollar requirements will continue to be funded in the domestic commercial paper market through the Wheat Board Note Program in the 2006-07 year. The CWB's financing strategy for US dollars depends largely on whether the additional prepayments on US dollar Paris Club receivables materialize in 2006-07. If repayments occur as scheduled, the CWB plans to finance its short-term USD requirements primarily through the U.S. commercial paper program. Use of the Euro Commercial Paper (ECP) program diminished this past year due to the unexpected receivable repayments and higher comparative funding costs in the ECP market versus the other markets. The CWB will continue to maintain the ECP program to provide liquidity to the organization and to provide an alternative market, should funding costs decrease to competitive levels. The CWB will continue to examine medium term note opportunities under the Euro and domestic medium term note programs. The CWB intends to implement a formal buyback program for its private placement debt prior to the end of 2005-06 in the Euro medium-term note (EMTN) market to allow the CWB more flexibility in terms of maintaining a presence in the Euro medium-term note market during times of declining funding requirements. The CWB will continue to focus its medium term note issuance on callable transactions with a shorter duration.

The CWB purchased approximately 1,660 hopper cars during the 2005-06 crop year, which was approved by the Minister responsible for the CWB through a Corporate Plan amendment in December 2005. Because the hopper cars are a fixed, long-term asset, fixed rate financing is desirable to provide proper financial matching. To date, the car purchases have been financed by floating rate debt, in accordance with the CWB's 2005-06 borrowing authority. Further information on hopper car financing and on the CWB's financing activities for 2005-06 and planned activities and borrowing levels for the 2006-07 crop year are contained within the CWB's borrowing plan submission in Section 7: *Specific Approval Requested*.

**Risk Management:**

The CWB is exposed to market risk in the areas of foreign exchange, interest rates and commodity price.

***Foreign Exchange Risk Management***

Given the nature of its business, the CWB is exposed to substantial foreign exchange risk. Because the world price for grain is established in U.S. dollars, all sales made by the CWB are priced either directly or indirectly in U.S. dollars. Based on price and pool size estimates for the coming year, the CWB expects to manage between US\$3.0 billion and US\$4.0 billion of foreign exchange exposure during the 2006-07 crop year spread amongst all four pools. The CWB uses derivative contracts to manage foreign exchange risk associated with sales revenue and other operations.

Foreign exchange risk for the wheat, durum and designated barley pools is managed in accordance with a "target pricing pace" which is set by the board of directors. The target pricing pace ensures the foreign exchange risk in the three pools is priced consistently throughout the pool year and establishes controls over discretionary pricing activity by limiting the allowable deviation from the target pricing pace. Foreign exchange pricing can stay within the allowable limits by either hedging risk through derivative contracts, or by locking in foreign exchange rates through cash sales made in Canadian dollars.

The objective of the "target pricing pace" approach is to reduce volatility in foreign exchange returns. To achieve this, the strategy requires relatively stable estimates of the pool size. The high volatility in the estimates of the size of the feed barley pool precludes the use of a "target pricing pace" approach for this pool. As a result, foreign exchange risk is hedged when USD sales contracts

are executed. Sales made in Canadian dollars also represent a pricing of foreign exchange risk in the pool.

The CWB also manages the foreign exchange risk associated with Producer Payment Options. Enhancements to Producer Payment Options in 2006-07 will be evaluated for foreign exchange risk, and new risk management strategies will be implemented, where required.

Lastly, the CWB hedges currency risk associated with funding in currencies other than U.S. or Canadian dollars, or between the U.S. and Canadian markets when the opposite currency is desired. When funding in these alternate currencies, a currency swap agreement is simultaneously entered into which converts the debt into Canadian or U.S. dollars, thereby eliminating currency risk.

#### ***Interest Rate Risk Management***

The variable maturity profile of the CWB's debt creates an interest rate pricing mismatch when compared with the maturity profile of the CWB's assets. The mismatch is controlled due to the fact that the CWB's borrowing authority from government stipulates that all borrowings must be re-priced within one year. In turn, the interest rates on virtually all of the assets being financed are also reset within one year. The remaining mismatch is reduced through the use of derivative transactions. The maturity mismatch is maintained within Board-approved tolerance limits, currently set at 180 days.

#### ***Commodity Risk Management***

The CWB is exposed to adverse changes in commodity prices on grain sales. Commodity Risk Management manages price risk that results as a consequence of movement in grain prices. Commodity Risk Management is authorized to use various exchange-traded futures and options to assist Marketing in managing price risk in the wheat pool account.

Commodity Risk Management also has responsibility for managing the price risk associated with CWB Producer Payment Options programs. When producers lock in a value for a futures price or a basis contract, or price through the Early Payment Option, the CWB enters into futures and option contracts to minimize the associated price risk.

The Wheat Pool Pricing Model for 2006-07 is directed at ensuring that the CWB wheat pool is priced throughout the pool year. In addition to establishing the pricing pace for the 2006-07 wheat pool, the model establishes controls over discretionary pricing activity from either cash sale, commodity or foreign exchange risk management activity by limiting the allowable deviation from the target pricing pace throughout the pool year. It provides an estimate of pool revenue potentially at risk due to discretionary pricing activity. Control of discretionary pricing activity will improve price risk management for the wheat pool. The model provides a mechanism for ongoing performance measurement throughout the pool year that includes both cash sale and risk management pricing activity.

In January 2006 a 'target pricing pace' that sets the desired pricing pace in the 2006-07 pool was presented for approval by the board of directors. The recommendations were approved by the board of directors in January 2006.

#### ***Risk Management Reporting and Control***

Risk control and Reporting provides an independent risk management function that controls, analyses, measures and reports on all treasury, financial and commodity risk management activities (derivative and non-derivative) of the CWB. Risk Control and Reporting ensures that these activities are independently settled, controlled and reported providing the essential segregation between those who transact and manage the risk and those who settle, monitor and report on the activities. Risk Control and Reporting continues to enhance the CWB's credit and market risk analysis and reporting capability while providing independent controls based on best-in-class practices.



The CWB actively manages exposure to market risks in accordance with the financial risk management policies. The CWB is exposed to credit risk on investments and over-the-counter derivative transactions used to manage the CWB's market risks. The CWB manages its credit risk by contracting only with highly rated counterparties that meet the rating requirements of our financial risk management policies approved by the board of directors. These financial risk management policies meet or exceed the Minister of Finance's credit policy guidelines. Risk Control and Reporting monitors all CWB counterparties and ensures that all derivative counterparties have a signed master agreement with the CWB in accordance with the financial risk management policies. The corporation is also currently pursuing new International Swaps and Derivatives Association (ISDA) Master Agreements and Credit Support Agreements with its derivative counterparties to provide further protection from credit risk.

Risk Control and Reporting independently reports on risk management activities to CWB management, the Audit, Finance and Risk Committee of the board of directors, and to the Department of Finance of the Canadian Government. The CWB continues to enhance the evaluation and control of risk through the addition of new systems, analytical techniques and reporting.

## **Harvesting Opportunity**

**Note: This initiative is included for information purposes only. Approval of the corporate plan does not constitute approval of the Harvesting Opportunity initiative.**

**This initiative supports the strategies:**

- Become more independent of government.
- Meaningfully engage farmers in the strategic direction of the CWB.
- Actively represent Prairie farmers' interests by seeking out, listening, and responding to farmers' needs on an individual basis.
- Build and strengthen relationships with legislators and government officials at all levels.
- Transform the culture to enable the strategic direction of the CWB.
- Achieve changes to the legislative mandate that enable the corporate evolution of the CWB.
- Expand the base of customers that place a higher value on our products and services (both geographically and in new potential uses).
- Increase corporate capacity to effectively engage in new business opportunities.
- Actively investigate and pursue opportunities to enhance farmer returns.
- Investigate and pursue opportunities in value added processing and marketing of products processed in Canada.

### **Initiative Description:**

This initiative will provide for the CWB to operate without the payment and borrowing guarantees and permit the CWB to enter into new businesses in support of its marketing mandate.

The objective of the CWB's pursuit of the Harvesting Opportunity proposal is twofold:

- to increase farmer support for the CWB by establishing farmer ownership and complete farmer control of the corporation, and
- to empower the corporation to pursue new business ventures that will provide and sustain long-term value for farmers. This legislative change will also be guided by the principles of retaining a level of certainty for farmers with respect to their rights vis a vis the corporation and preparing the organization for the eventual removal of its payment and borrowing guarantees.

Premised on sufficiency of a capital base, the CWB will pursue a new *CWB Act* that would:

- retain the single-desk and ensure the regulatory powers and relationships with service providers necessary to make it effective to continue to exist;
- retain the credit receivable guarantee;
- establish farmer ownership of the CWB (consistent with what farmers perceive as farmer ownership and what structure would best suit their business needs); establish complete farmer control; remove the payment guarantee; remove the borrowing guarantee; and permit the CWB to enter into new businesses in support of its marketing mandate.

## **Implement a corporate-wide relationship management approach for farmers**

This initiative supports the strategies of:

- Meaningfully engage farmers in the strategic direction of the CWB
- Actively represent Prairie farmers' interests by seeking out, listening, and responding to farmers' needs on an individual basis
- Be transparent by providing farmers with relevant, accurate and timely information
- Actively communicate CWB Services available to farmers.
- Demonstrate and communicate the value of the single-desk to farmers and the competitive advantage it brings them
- Provide farmers with flexibility to determine their return from the single desk system
- Ensure adequate risk management and cash flow services for farmers
- Transform the culture to enable the strategic direction of the CWB

### **Initiative Description:**

The CWB has a complex relationship with farmers. Farmers are:

- Shareholders in the CWB because they fund its activities as their marketing agent;
- Suppliers of the products that the CWB sells; and
- Customers of the CWB because they utilize products that are provided by the CWB (cash advance, PPOs, etc.).

To continue to improve its relationship with farmers, the CWB must be able to take a multi-faceted approach and work to improve its processes and policies at many different levels.

As shareholders of the CWB, farmers must be treated with respect and their concerns addressed in a diligent manner. Systems for ensuring that this is the case and for managing the business relationships with our farmer-owners must be developed. A key component of this relationship management is a commitment on the CWB's part to develop, enhance and deliver services that effectively meet farmers' business needs. The implementation of quality policies and programs is key to improving the CWB's relationship with farmers as suppliers and owners as well. For example, improvements to delivery policy should increase the CWB's inventory knowledge and should enable the CWB to bring grain into the logistics pipeline when it is required. As well, farmer satisfaction with the CWB as a whole will improve if services from payments to cash advance to producer car administration to contracting are delivered in a professional manner.

Therefore, this initiative focuses on three separate areas of activity:

- I and T solutions;
- Continued enhancements to CWB programs; and
- Improved information flow

#### *I and T solutions*

Key to the CWB's goal of providing better service to farmers is the ability to put in place better I and T systems for recording farmer interactions in a central, common repository as well as for delivering services to farmers. Part of this will be addressed through the Supply Chain Transformation (SCT) project. Improvements in the technology that supports CWB logistics, contracting, payments and farmer registration will facilitate the provision of a broader range of farmer delivery and payment options in addition to more timely and accurate service. The other component from an I and T perspective is the implementation of a corporate-wide system for capturing farmer interactions in terms of questions, comments and concerns so that all CWB staff can deal with farmers from a position of knowledge.

#### *Continued enhancements to CWB programs*

Areas where the CWB will concentrate its efforts to provide a higher level of service include enhanced contracting and delivery options including commercial contracts, tradeable delivery opportunity, choice of delivery period, on-farm payments, storage payments and web-based options for the service/information delivery.

CWB payment options contribute significantly to farmer support for the CWB. Improving these programs will make them more useful to farmers. The CWB will also undertake a review of existing producer payment options (PPOs) and develop new options where warranted.

Effective business alignment linking farmer grain stocks with logistics coordination will be critical in the implementation of all new initiatives. Communicating these changes and creation of value for farmers will facilitate early adoption of new processes.

*Improved information flow*

Improving the flow of information with farmers as it relates to their business dealings with the CWB is also key. Farmers need to be kept informed of deadlines, products and services. One possibility could be regular statements that would provide producers with updates on the status of their deliveries and their payments. This could be sent out electronically or in hard copy. Enhancing the flow of information between the CWB and producers is therefore another priority area.

## **Strengthen and grow our human resource capabilities**

**This initiative supports the strategies of:**

- Develop, acquire, and reward people's skill sets required to achieve the company's goals
- Transform the culture to enable the strategic direction of the CWB
- Achieve changes to the legislative mandate that enable the corporate evolution of the CWB
- Increase corporate capacity to effectively engage in new business opportunities

**Initiative Description:**

To strengthen and grow our staff capabilities, Human Resources, with input from the business, has developed a long-term human resources strategy.

The core foundation of the Human Resource (HR) strategy is to inspire excellence throughout the CWB (HR vision). The CWB looks to the HR department to lead the design and delivery of programs and services that will enable employees to be successful in their jobs, and as a result significant contributors to the execution of the long-term plan. Employees are considered to be a primary asset of the CWB, and as a result, focussing on employee success will contribute to organization success. To achieve this vision, HR must focus on the following:

- 1) HR Solutions and delivery - re-engineering ourselves, and delivering effective and efficient HR programs and services that meet or exceed the needs of the business;
- 2) Corporate Culture and Change - as a catalyst for change, provide expertise, innovative ideas, guidance and support to the leadership team in driving the required future state CWB culture. Develop strategies and tools for CWB managers to support ever-increasing change.
- 3) Strategic Partner - continued evolution of HR as a value-added and strategic partner within the organization.

A number of initiatives in support of the strategy have been delivered in prior crop years. In addition, several initiatives have been committed to for implementation over a number of upcoming crop years including:

- Bi-annual employee survey
- Strategic and resource support for corporate culture change
- Implementation of a comprehensive learning and development strategy with specific development initiatives
- Implementation of Total Compensation initiative decisions
- Continue to grow corporate commitment to and application of CWB competencies

## **Strengthen the CWB's trade position in international agreements**

### **This initiative supports the strategies:**

- Actively represent Prairie farmers' interests by seeking out, listening, and responding to farmers' needs on an individual basis
- Build and strengthen relationships with legislators and government officials at all levels
- Strengthen the government of Canada's resolve to vigorously defend the single desk and Canadian farmers' democratic right to their marketing system.
- Encourage the federal government to pursue bilateral trade agreements with key customer nations.

### **Initiative Description:**

The primary objectives of this initiative are:

- 1) To maintain farmers' right to determine their marketing structure.
- 2) To maintain and/or enhance the CWB's competitive position in international markets.

The most immediate priority for the CWB is to ensure that the current round of WTO negotiations does not require the elimination of the CWB's single desk. On behalf of western Canadian farmers, the CWB is also seeking benefits from the current round of WTO negotiations, including: greater market access; disciplines on the non-commercial use of export credit and food aid; the elimination of export subsidies; and reduced production and trade distorting domestic support. U.S. efforts to constrain the operations of the CWB within the WTO negotiations will continue. The CWB will undertake to reduce pressures from the U.S. by educating farmers and farm groups on the CWB. Efforts will also be made to demonstrate the value of the CWB business model to other WTO member countries to encourage them to maintain WTO rights to operate state trading enterprises. Reaffirming support amongst current STE supporters will also be a priority. This initiative will be implemented in congruence with implementation of the trade strategy.

In addition, the CWB will continue to work with the federal government to pursue bilateral trade agreements with priority countries to ensure that Canadian wheat and barley is not disadvantaged relative to products from competitor countries.

## **Develop best practice disciplines that enable the CWB to deliver against the Long Term Plan**

**This initiative supports the strategies:**

- Be transparent by providing farmers with relevant, accurate, and timely information
- Establish and maintain an enterprise-wide architecture and business processes that support organizational goals, objectives, and evolution
- Transform the culture to enable the strategic direction of the CWB
- Incorporate best practices in financial reporting, security infrastructure, corporate risk management, and governance

### **Initiative Description:**

The Long Term Plan recognizes that the CWB is, and will be, operating in an increasingly complex and competitive environment. To meet the vision of 'innovatively leading the way in the global grain market', the CWB must ensure that its key business practices support the achievement of its long term goals and strategies. In order to be successful the CWB must be committed to reviewing our business processes on an ongoing basis to ensure they are consistent with best practices and meeting the needs of the corporation and farmers. The CWB must enhance and maintain formalized processes to ensure they are consistent with best practices that are appropriate for the organization. Specific areas of focus include:

#### *Governance*

Create a framework for reviewing our governance practices on an ongoing basis to ensure they are consistent with best practices and meeting the needs of the corporation and farmers.

#### *Stakeholder and Financial Reporting*

Farmers are the primary stakeholders of the CWB and should be receiving financial and other stakeholder information similar to what shareholders in a corporation receive. Disclosure requirements are continuously evolving and the CWB needs to ensure its disclosure is meeting or exceeding current best practices which are appropriate for the CWB, and meeting the needs of farmers.

#### *Performance Measurement and Reporting*

Management has established corporate performance measures which are aligned with the strategic goals and priorities of the CWB. Further development and refinement is expected to occur with these processes on a going forward basis, including reporting of desired results and outcomes with the goal of ensuring that the CWB measures and reports its performance effectively so it can be increasingly accountable to farmers and other stakeholders.

In addition, the corporate performance measures should to be cascaded to the operational (business unit) level and integrated with the measurement of strategy.

#### *Sarbanes Oxley compliance*

The CWB has undertaken a review of the impact and applicability of Ontario Security Commission Bill 198 and the USA's Sarbanes-Oxley (SOX) Act, to the CWB. These pieces of legislation currently apply only to public companies filing on Stock Exchanges in Canada (Bill 198) and the USA (SOX). However, both the Canadian and US governments are contemplating similar legislation for government, crown corporations, and other entities that involve the public interest. The CWB may be subject to such legislation, if enacted. In addition, audit firms are beginning to require that the principles from these Acts be applied to the governance of audited companies. It is expected that the principles incorporated in these Acts will eventually become best practices for all companies.

The CWB is committed to ensuring our governance practices are consistent with best practices and meeting the needs of the corporation.

## **Develop information technology strategic direction that enables the CWB to deliver against the Long Term Plan**

**This initiative supports the strategies:**

- Be transparent by providing farmers with relevant, accurate and timely information
- Develop, acquire, and reward people's skill sets required to achieve the company's goals
- Establish and maintain an enterprise-wide architecture and business processes that support organizational goals, objectives, and evolution
- Incorporate best practices in financial reporting, security infrastructure, corporate risk management, and governance

### **Initiative Description:**

#### *Information Technology Strategic Direction*

To achieve the organization's vision, the CWB must ensure that its technological infrastructure and key business practices support the achievement of its long term goals and strategies.

The information strategic direction will serve as a technology road map providing a set of guiding principles that will strategically influence technology decisions and ensure business alignment. Leveraging a technology roadmap effectively will improve corporate agility in response to changes in the business environment and in improved ability to reduce the time to market for products and services. All of the above assists in reducing corporate cost. The technology roadmap will consist of the following:

- 1) Information Architecture - development and maintenance of logically consistent models that represent key information flows combined with disciplined processes that together enable rapid decision making and information sharing across and beyond the organization
- 2) Security Architecture - a strategy to influence, educate and provide direction for people, process and technology in the provisioning of secure solutions that are transparent, risk-based and meet regulatory and legal obligations
- 3) Application Architecture - a business and information driven process to enable the development of a collection of inter-related application systems that satisfy business information needs.
- 4) Technology Architecture - a set of principles and processes to guide technology infrastructure investments that support the CWB business direction and enable solution development and technical innovation.

Accordingly, this initiative will include a five-year projection on investment and benefits.

#### *Implement I&T solutions*

This program will focus on fully utilizing technology to facilitate efficiency, effectiveness and change. (Business intelligence, e-business, peoplesoft upgrade).

#### *Maintain IT Sustainment Program*

This Program will focus on IT initiatives which are necessary to improve the CWB IT environment. The scope of these program initiatives will encompass Technology upgrades, licensing, Security, Application environments, Technology Refresh and competencies.

## **Supply chain transformation**

**This initiative supports the strategies of:**

- Develop a comprehensive customer relationship management system
- Develop a comprehensive set of marketing services that fully meets customer needs
- Ensure appropriate delivery tools and discipline to enable timely and flexible movement of grain from the farm to country elevator
- Develop a comprehensive inventory management system to ensure product integrity.
- Position Canada and the CWB as first in quality and quality control
- Develop a logistics long-term plan to drive cost reduction in the supply chain and achieve quality and service improvements
- Further develop and implement a cost / margin and level of service optimization model to increase sales into high return markets.
- Incorporate best practices in financial reporting, security infrastructure, corporate risk management, and governance
- Expand the base of customers that place a higher value on our products and services (both geographically and in new potential uses)
- Actively investigate and pursue opportunities to enhance farmer returns

### **Initiative Description:**

The CWB can create significant value for farmers through controlling and reducing the supply chain costs associated with moving grain to a saleable position. Farmers can benefit through reduced delivery costs, improved inventory management, and increases in pool returns. The overall objective of this initiative is to improve control over the supply chain by delivering a formalized comprehensive logistics and supply strategy and improving supply chain reliability.

The CWB faces numerous distribution challenges and a number of upcoming decisions including, but not limited to the inability to have direct control over transportation and product delivery, supplier and service provider arrangements, and future asset positions. Many of the uncertainties in marketing farmers' grain revolve around inadequate information about on-farm inventory levels. Development of a long-term supply chain strategy will include consideration of these key attributes. The long-term logistics and supply strategy must provide direction on supply chain improvements especially as they relate to cost, information management, quality, reliability, and opportunities for the supply chain.

### **The long term strategy for Logistics focuses on seven key areas. These seven areas are:**

Strengthening Relationships in the Supply Chain

Supply Reliability and Consistency

Provide a Technological Solution for Supporting the CWB's Supply Chain

Inventory Quality and Delivery Management

Support for Marketing Operations

Distribution Effectiveness

Positioning the CWB for the Future

**Strengthening Relationships in the Supply Chain:** The CWB needs to strengthen the relationships in its supply chain through the use of commercially based relationships and alliances. These business relationships will be further strengthened through improved performance measurement against established benchmarks and the increased use of performance incentive and penalties to improve accountability in the supply chain. The increased accountability will extend to all parts of the supply chain and will include the farmer, grain companies, railways, terminals, and marine service providers.

**Supply Reliability and Consistency:** There are a number of aspects that affect the reliability and consistency of the CWB's supply chain. From a rail operations perspective, car spotting performance, cycle times, train makeup, car velocity, and pipeline fluidity have a substantial impact on the performance of the CWB's supply chain. However, this is only one part of the supply chain. Primary elevator rail car loading performance and being consistently able to source supplies of grain are key to the performance of the in-country part of the supply chain. Other aspects that affect supply reliability and consistency include traceability and a defined product offering. This will allow the CWB to structure its operations so as to realize greater operational efficiencies for the benefit



of farmers. The CWB will be able to provide a defined slate of product offerings to reduce the number of grades and specifications. Traceability is an important factor as the use of various identity preservation and HACCP programs are expanded. Improved supply reliability will reduce the occurrence of mis-grades and their resulting effects on supply chain operations.

**Provide a Technological Solution for Supporting the CWB's Supply Chain:** The SCT project will provide the CWB with a technological solution that is able to support the supply chain. Through an improvement in the supporting technology, the CWB will be able to more effectively plan its operations through the use of improved planning tools. In addition, the CWB will realize an integration of IT systems. These same tools will allow the CWB to run 'what-if' scenarios to determine the effects on the supply chain resulting from changes in operating parameters. The CWB will be able to optimize solutions to execute the logistics that support the marketing program. The technology will be integrated with the all aspects of the CWB's operations.

**Inventory Management:** Inventory management will extend to on-farm inventories, where the farmer becomes, in effect, an important part of the CWB's inventory management program. This has implications for grain delivery policy because the delivery call process will be better tailored to match delivery calls with specific inventory on specific farms. This will also allow the CWB to manage strategic storage programs on farm, thereby negating the storing of strategic inventory in the commercial handling system. The CWB's inventory management program will extend to become a plan for moving grain off of the farm and into the commercial handling system. The inventory management program would incorporate a degree of flexibility to ensure that potential future delivery policy programs, such as a tradable delivery opportunity, could be accommodated. The inventory management program will also allow the CWB to have a better view of the primary elevator information, such as liabilities and grade adjustments, because of better information relating producer deliveries at the primary elevator.

**Distribution Effectiveness:** This part of the strategy relates to the CWB's port operations. Particularly, the improvement in the general performance of the CWB's supply chain will lead to an improvement in over application levels, and a reduction in strategic terminal stock levels. By improving the utilization of terminal capacity and improving terminal fluidity, the CWB will be better positioned to increase the number of grade segregations being managed at port. This will allow the CWB to realize greater returns for farmers from marketing activities. The effective management of port operations is dependent on timely vessel arrival and berthing. An expansion of the CWB's chartering operations and the increased accountability in the port operations aspects of the CWB's operations will improve the performance of this part of the CWB's supply chain.

**Support for Marketing Operations:** The CWB will implement programs in a number of areas so as to improve supply chain support for marketing. Programs addressing quality management, customer relationships, service excellence, and supply reliability will all enhance the CWB's marketing operations to deliver additional value for farmers. Focus will be placed on developing customer positioning and will be accompanied by defined levels of service. By prioritizing customers, the CWB will have a specific response procedures for unforeseen factors that cause supply chain interruptions. By structuring the supply chain in this way, there will be a clear business direction on priority and service levels. The CWB will realize the ability to understand the true values and the supply chain costs associated with any particular sale. The supply chain will be able to accurately define cost margins and network optimization through the use of the appropriate tools.

**Positioning for the Future:** Positioning the supply chain for the future involves many potential factors and strategies. These factors and strategies can be broadly categorized as either internal or external. The internal strategies are defined as those strategies that the CWB can develop and initiate independently. External factors are those factors that are largely outside of the CWB's ability to initiate, although the organization can still have some ability to influence and react to these external factors.

The internal strategies include: the development of a container strategy, an expansion into marine chartering operations, the creation of alignments with laker companies to enhance the renewal, and potentially the expansion, of the laker fleet, and the continued exploration of opportunities for the CWB's recently purchased hopper car fleet.

The external factors that will affect the CWB's future position include: the WTO negotiations initiative and their potential impact on the CWB's borrowing guarantees, changes to the CGC's mandate, the CWB's role in the producer car program, various legislative changes that pertain to the grain industry, congestion and the resulting competition for infrastructure capacity in the west coast corridor, and the elevator companies' strategies and actions to position themselves and their supply chains.

The overarching objective of these strategies to is to ensure the competitiveness of the CWB and western Canadian farmers relative to the company's competitors.

## **Implement a corporate brand strategy**

This initiative supports the strategies of:

- Demonstrate and communicate the value of the single-desk to farmers and the competitive advantage it brings them
- Promote Canada and the CWB as first in products and services
- Develop a comprehensive customer relationship management system
- Build and strengthen relationships with legislators and government officials at all levels
- Position Canada and the CWB as first in quality and quality control
- Transform the culture to enable the strategic direction of the CWB
- Expand the base of customers that place a higher value on our products and services (both geographically and in new potential uses)

### **Initiative Description:**

The CWB will build on work being completed in 2005-06 to implement the corporate brand strategy, which is an exercise in re-positioning the corporation in its entirety. When brought to fruition, a single brand strategy will achieve the twofold objective of cementing the perception of the CWB as a farmer owned and controlled organization and increase the company's ability to attract and retain customers as a market-savvy global competitor. The underlying strategy is underpinned by both farmer and customer research and takes into consideration the WTO framework agreement, while not citing the latter as the impetus for change. While communication vehicles will deliver the brand position, branding the CWB will not be a communications exercise. At its core, the new brand will be a blueprint for future growth that will be grounded in real behavioural and organizational change as a prerequisite to success.

## **Continue development and implementation of long term barley marketing strategies**

This initiative supports the strategies of:

- Expand the base of customers that place a higher value on our products and services (both geographically and in new potential uses).

### **Initiative Description:**

As the single-desk seller of barley, the CWB must market both malting barley and feed barley successfully. The dominant domestic feed market, with inconsistent exportable supplies of feed barley, and the limited visual distinguishability of this product relative to malting barley, continues to present challenges for the CWB in barley marketing. A proactive presence of the CWB in marketing feed barley, ensuring that we make export sales when the return exceeds domestic values, and continued effective marketing of malting barley is required in order to ensure customer satisfaction.

Several innovative ideas have been introduced with the purpose of maintaining marketing efficiencies in feed barley as exportable surpluses fluctuate and occasionally fall below levels suitable for effective security of supply and/or bulk handling, and as domestic price spreads between the two products narrow beyond traditional levels:

- implementation of two feed barley pools, guaranteed delivery contracts and early payment options, and tendering for supply from the line companies, have been successful steps in feed barley marketing by allowing the timely sourcing of stocks to achieve opportune sales.
- the CWB has also assessed the option to sell non commercially cleaned (NCC) feed barley which could potentially add revenue to the pool. To fully evaluate the benefits/costs of selling NCC feed barley, the CWB will attempt to tender for NCC supply and make one or more sales of such.
- the CWB has also opted for discretionary use of ex-farm movement and direct CWB marketing of feed barley domestically.

Increasing the size of the malting barley pool is also a key objective of the CWB's long term barley marketing strategy. Obtaining premiums for malting barley over feed barley values is a significant way to add value for western Canadian farmers. Included in the initiative to increase the malting barley pool size are:

- a strategy for direct sales to end users (particularly in China).
- direct selection including evaluation of the benefits of hiring a professional selector or an independent laboratory such as Intertec Agri Services.
- a database of selected/selectable quality to assist the CWB's marketing process.
- adding new quality payments for malting barley in addition to the protein payments implemented in 2005-06
- expansion of the use of the new RVA technology to address the problem of loss of malting barley germination capacity during storage.
- agronomic information to continue to promote research and extension work in support of malting barley production.
- the feasibility of a basis sales contract for Canadian maltsters after a basis delivery contract was implemented for producer deliveries to maltsters in 2005-06.
- the feasibility of production contracts to supply malting customers where warranted
- the feasibility for enhanced food safety and/or traceability documentation to particular customers if there would be a marketing benefit.
- development and expansion of niche market opportunities for food barley, focusing on human health benefits.
- continued marketing efforts and technical support to encourage endusers to adopt and buy new higher yielding registered and recommended malting barley varieties.
- enhance producer education of the CWB's role in marketing malting barley.

## **Engage in a corporate value-added strategy to increase value-adding in Canada**

**This initiative supports the strategies of:**

- Actively represent Prairie farmers' interests by seeking out, listening, and responding to farmers' needs on an individual basis.
- Demonstrate and communicate the value of the single-desk to farmers and the competitive advantage it brings them
- Investigate and pursue opportunities in value added processing and marketing of products processed in Canada
- Investigate and pursue opportunities to encourage others to invest in value added processing
- Actively investigate and pursue opportunities to enhance farmer returns

### **Initiative Description:**

In order to demonstrate to farmers, government and the public at large that the CWB is a positive factor in adding value to wheat and barley grown and marketed from Western Canada, the CWB must first clarify and document farmers' views. Once this is completed, the CWB will take action to ensure that its policies and processes support value-added in all its various forms.

The CWB must take the necessary steps to facilitate farmers' ability to engage in the activities that they view as adding value.

The CWB, while identifying potential joint ventures and alliances, will explore potential opportunities for new wheat and barley processing in Canada. A cost/benefit analysis tool will be developed to assess the merit of identified opportunities with the key focus being on increased income for farmers.

## **Leading the industry in quality control and assurance**

**This initiative supports the strategies of:**

- Develop a comprehensive inventory management system to ensure product integrity
- Position Canada and the CWB as first in quality and quality control
- Develop a logistics long-term plan to drive cost reduction in the supply chain and achieve quality and service improvements

### **Initiative Description:**

The Wheat Quality Control System will be reviewed and improved with respect to managing traditional quality characteristics; that is, visual specifications such as those contained in official grade standards. Management of non-visual factors affecting quality will also be reviewed and improved, including factors such as falling number, vomitoxin, and genetics. Methods of process-based certification to provide additional assurances to customers regarding food safety will be developed as well.

## **Variety development and distribution strategy**

**This initiative supports the strategies of:**

- Position Canada and the CWB as first in quality and quality control
- Ensure development and production of grain product lines that meet farmer and customer requirements
- Actively investigate and pursue opportunities to enhance farmer returns

### **Initiative Description:**

A set of tactics and deliverables have been developed to ensure that investment in public breeding is maintained or enhanced, and to optimize the CWB's role in variety development and distribution, including:

- Lobbying to ensure that federal funding of breeding is maintained
- Directly funding aspects of some breeding programs where appropriate
- Development and ongoing evaluation of comprehensive breeding plans and targets for specific classes of wheat and barley
- Central involvement in variety registration decisions
- Involvement in variety distribution decisions
- Potential direct involvement as a variety representative individually or as part an alliance with other partners
- With a critical eye toward the fundamental benefits to farmers and market acceptance, recommend a clear strategy for potential introduction of specific promising and beneficial products of innovation, including the possible potential of genetically modified (GM) traits
- Develop a clear process to evaluate new varieties for their potential strategic importance to CWB and farmers
- Potential administrator of alternative royalty collection systems through a delivered grain levy

The CWB's vision of the seed industry is one in which there is a viable and well funded public breeding system in Canada. From this there should be an adequate number of publicly available varieties to farmers without downstream marketing restrictions such as a requirement to deliver all production to a specific handling company, except in specific situations where such restrictions are desired to keep certain varieties in a closed loop system. The vision also minimizes unnecessary restrictions regarding delivery and saving of seed. As part of the variety development and distribution strategy initiative, the CWB is investigating approaches to address the issue of proprietary varieties.

The CWB is also currently evaluating the potential for it to administer a levy on delivered grain to collect breeder royalties, variety management fees or other fees for specific varieties or programs. In addition to supporting the initiatives outlined above, such a levy would serve to redistribute the burden of plant breeding funding, reduce industry cost of royalty collection and encourage uptake of new varieties. In order to proceed, a strong coalition of support for this approach will have to be developed across the farm community, handling companies and seed industry. Depending on implementation, this project will require extensive changes to CWB business processes and IT systems.

## **Enhance customer relationship management in marketing**

**This initiative supports the strategies of:**

- Develop a comprehensive customer relationship management system
- Develop a comprehensive set of marketing services that fully meets customer needs
- Develop a comprehensive inventory management system to ensure product integrity
- Develop a logistics long-term plan to drive cost reduction in the supply chain and achieve quality and service improvements
- Further develop and implement a cost / margin and level of service optimization model to increase sales into high return markets

### **Initiative Description:**

In order to attain its mission and vision to add value for farmers it is critical that the CWB continue to maintain and enhance its relationships with traditional, prospective and other customers. Based on the concept paper completed in 2004-05, over the next several years Marketing will lead CWB efforts to implement enhancements in the way the organization manages customer relationships. This will include technological systems that facilitate improved communication and relations with customers, development of a customer knowledge repository, and together with other systems (Supply Chain Transformation and Contract Execution Pricing and Analysis), development of the capability to better manage our operational relationships with customers more on a real time basis.

## **Increase business development capability and pursue opportunities**

**This initiative supports the strategies of:**

- Develop, acquire, and reward people's skill sets required to achieve the company's goals
- Transform the culture to enable the strategic direction of the CWB
- Ensure development and production of grain product lines that meet farmer & customer requirements
- Increase corporate capacity to effectively engage in new business opportunities
- Actively investigate and pursue opportunities to enhance farmer returns
- Investigate and pursue opportunities in value added processing and marketing of products produced in Canada

### **Initiative description:**

In order to achieve the CWB's long-term strategic direction, the organization has identified the need to establish a business development function. This function will be responsible for investigating and acting on opportunities to achieve the company's strategic direction in terms of strategic alliances, partnerships, joint ventures, or investments. This is a critical ability required by the organization, as a great deal of the company's future state will be dependent on its eventual ability to execute on these types of activities.

Specific business development opportunities will be developed by the following areas:

- Leadership team, board of directors (as included in the long term plan, or developed ad-hoc)
- Areas of the CWB (various areas may develop a concept, new variety, etc, after which the business development function will manage the execution of that concept)
- Externally generated opportunities (from customers, partners, competitors)
- From the business development function itself

Once established, the business development function will be responsible for existing investments / relationships such as the hopper cars the CWB has purchased, as well as the COFCO joint venture in China.

## Appendix A Report on 2005-06 Activities

The following is an update on the status of the activities identified in the 2005-06 Corporate Plan:

### **Implement a corporate-wide relationship management approach for farmers**

The CWB continues to undertake activities aimed at developing a corporate-wide relationship management approach for farmers. Farmers are the CWB's most important stakeholders. Their role in the CWB will continue to evolve and grow in importance as the organization faces future challenges and opportunities. Farmers must be treated with respect and their concerns addressed in a diligent manner. A system for ensuring that this is the case and for managing the business relationships with farmers is therefore under development. A key component of this relationship management is a commitment on the CWB's part to develop and deliver services that effectively meet farmers' business needs.

These services include providing payment alternatives such as the Daily Price Contract and a review of alternatives to price pooling, enhanced contracting and delivery process including commercial contracts and tradable delivery opportunities, effective payment services and alternatives for service/information delivery through web based channels.

In 2005-06, the CWB has reviewed and approved changes to the fixed price contract (FPC) and basis payment contract (BPC) to respond to farmers' business needs. In addition, a pilot program for tradable delivery has been developed and will be implemented during the 2006-07 crop year. Additional farmer consultation will be undertaken in the second half of the 2005-06 crop year to assess other opportunities.

### **Harvesting Opportunity**

The CWB continues to advance the Harvesting Opportunity initiative. During 2005-06, the CWB engaged the new Conservative Government on this topic. Further discussions regarding the proposal are expected in the near future.

### **Value added – Clarify farmers' view and develop strategies accordingly**

The CWB continues to work to clarify what farmers view as value-added activities to ensure that its policies, processes, and procedures support growth in value-added enterprises owned by industry and/or farmers. This is critical in order to demonstrate, especially to farmers, governments and the public at large, CWB support for value-added opportunities in Western Canada and elsewhere.

During 2005-06, the CWB surveyed farmers to define what activities they view as value-added. Based on this information, strategies will be developed, including innovations to CWB policies to enhance the capabilities of existing processing industries to operate their businesses.

## **Develop and implement a corporate brand strategy**

The CWB continues to build on work conducted during 2004-05 to develop the CWB corporate brand strategy - an exercise in re-positioning the corporation in its entirety. When brought to fruition, a single brand strategy will achieve the twofold objective of cementing the perception of the CWB as a farmer controlled organization and increase its ability to attract and retain customers as a market-savvy global competitor. This strategy is underpinned by both farmer and customer research and takes into consideration the WTO framework agreement, while not citing the latter as the impetus for change. Communication vehicles will deliver a new brand position, however, branding the CWB will not be a communications exercise. At its core, the new brand will be a blueprint for future growth that will consider a new CWB visual identity to herald its arrival and will be grounded in real behavioural and organizational change as a prerequisite to success.

During 2005-06 the CWB has performed a comprehensive policies / practices review to identify activities that are supportive, neutral, or damaging relative to the brand strategy. Strategies to alter activities deemed to be neutral or damaging are being formulated.

## **Continue development and implementation of long-term barley marketing strategies**

As the single-desk seller of barley, the CWB must market both malting barley and feed barley successfully. Decreasing exportable supplies of feed barley and the visual non-distinguishability of this product relative to malting barley continue to present challenges for CWB barley marketing. During 2005-06, the CWB continues to build on a number positive steps that have previously been implemented to ensure it has a proactive presence in marketing feed barley and continued effective marketing of malting barley. Several innovative ideas have been introduced with the purpose of maintaining marketing efficiencies in barley as exportable surpluses of feed barley fluctuate and occasionally fall below levels suitable for effective security of supply and/or bulk handling, and as domestic price spreads between the two products narrow beyond traditional levels.

Having developed a long-term barley strategy, careful implementation and continued evolution is required. The recent implementation of shorter pooling periods, and the option for discretionary use of ex-farm movement and direct CWB marketing of feed barley domestically have been positive steps. The CWB has also evaluated options to sell uncleaned (NCC) feed barley and to reduce cleaning costs charged by handling companies. Other options are investigation of a means/system requirements to separate and identify marketing of feed and malting barley, and new payments options.

Increasing the size of the malting barley pool is also a key objective of the CWB's long term barley marketing strategy. Obtaining premiums for malting barley over feed barley values is a significant way to add value for western Canadian farmers. Included in the initiative to increase the malting barley pool size are implementation of a strategy for direct selection, a database of selected/selectable quality, adding new quality payments for malting barley, and using new technology to address the problem of loss of malting barley germination capacity during storage. On an ongoing basis, agronomic information will be used to continue to promote research and extension work in support of malting barley production.

During 2005-06 the CWB implemented a number of direct selection pilot projects with some inland terminals and producer handling companies to identify the viability of this approach. Due to the success of the projects, the CWB will implement direct grower deliveries to malt plants and some inland terminals this crop year.



## **Enhance Customer Relationship Management in Marketing**

In order to attain its mission and vision and to add value for farmers it is critical that the CWB continue to maintain and enhance its relationships with traditional, prospective and other customers.

Based on the concept paper completed in 2004-05, the CWB has developed enhancements in the way it manages customer relationships for implementation during 2005-06. This includes improved communication and relations with customers, development of a customer knowledge repository, and development of the capability to better manage our operational relationships with customers on a more real time basis.

## **Develop a formalized long-term logistics and supply strategy**

There are two areas where the CWB can create value for farmers. The first way is through capturing better prices through marketing activities. The other is through controlling and reducing the logistics costs associated with moving grain to a saleable position. Farmers can benefit through improved delivery costs, inventory management and increases in pool returns. During 2005-06, the CWB continues to assess ways for the organization to improve control over its supply chain and is working towards formalizing a comprehensive logistics and supply strategy. These considerations have been included in the Supply Chain Transformation initiative for 2006-07.

## **Variety development and distribution strategy**

The CWB has undertaken activities in 2005-06 that are focused on advancing the organization's variety development and distribution strategy. This is a long-term initiative that includes a set of activities to optimize the CWB's role in variety development and distribution.

The CWB is investigating promising new varieties under development that represent opportunities for CWB involvement. This includes developing and implementing recommendations for the CWB's role in strategic alliances, including potential partners and the extent of the CWB's involvement in the distribution, risk sharing and control of these varieties. This also includes developing and implementing recommendations for CWB funding of breeding and research programs, including potential research partners and programs, total expected expenditure, and strategy regarding distribution.

As part of its long-term biotechnology strategy, the CWB is monitoring traits currently under development, and research regarding future trends in genetically modified (GM) production and acceptance. The CWB will hold discussions with breeders, technical experts, and biotechnology firms to stay abreast of research developments, identify technical potential for new traits and communicate customer and farmer requirements.

In addition, the CWB is currently evaluating the potential for it to administer a levy on delivered grain to collect breeder royalties, variety management fees or other fees for specific varieties or programs. In addition to supporting the initiatives outlined above, such a levy would serve to redistribute the burden of plant breeding funding, reduce industry cost of royalty collection and encourage uptake of new varieties. Depending on implementation, this project will require extensive changes to CWB business processes and IT systems.

## **Improve wheat quality control system**

The CWB has undertaken activities in 2005-06 in support of its efforts to review and improve the Wheat Quality Control System with respect to managing traditional quality characteristics, that is visual specifications such as those contained in official grade standards. In support of this strategy, the organization implemented a falling number protocol for the 2005-06 harvest. Methods of process-based certification to provide additional assurances to customers regarding food safety are also under development.

## **Strengthen the CWB's trade position in international agreements**

On behalf of western Canadian farmers, the CWB is seeking benefits from trade liberalization, including: greater market access; disciplines on the non-commercial use of export credit and food aid; the elimination of export subsidies; and reduced production and trade distorting domestic support.

During 2005-06, the CWB has continued to build on previous efforts aimed at the above. Meetings have been held with Provincial Premiers regarding WTO negotiations, and actions have been taken to attempt to reduce pressures from the U.S. by educating farmers and farm groups on the CWB. In addition, efforts are being made to demonstrate the value of the CWB business model to other WTO member countries to encourage them to maintain WTO rights to operate state trading enterprises. Reaffirming support amongst current STE supporters has also been a priority.

## **Develop best practice discipline that enables the CWB to deliver against the Long Term Plan**

The CWB's strategic plan recognizes that the organization is, and will be, operating in an increasingly complex and competitive environment. The CWB must ensure that its technological infrastructure and key business practices continue to support the achievement of its long term goals and strategies.

In support of this objective, during 2005-06 the CWB has undertaken the creation of a comprehensive information technology (IT) strategic plan that outlines enterprise architecture governance mechanisms, business continuity strategies, and enhanced security architecture, among other details. In addition, the organization has investigated the feasibility of implementing Sarbanes Oxley practices at the CWB.

## **Implementation of the human resources strategy**

To ensure that HR achieves its long-term strategy, several initiatives have been developed which will be implemented over a five-year time horizon. Those that impact the long-term plan are as follows:

- Conducting an employee survey bi-annually;
- Supporting corporate culture change;
- Launching a comprehensive training and development strategy with specific development initiatives;
- Developing and implementing the next phases of HR Service Excellence initiative;
- Completing of the Total Compensation review and implementing its recommendations; and
- Completing the Organization competencies and subsequent linkages

The core foundation of for the Human Resource (HR) strategy is to inspire HR excellence throughout the CWB (HR vision). The CWB looks to the HR function to lead the design and delivery of programs and services that will enable employees to be successful in their jobs. Employees are considered a primary asset of the CWB. Focusing on employee success will go a long way towards ensuring organization success. To achieve this vision, the HR function at the CWB must focus on the following:

- 1) HR Solutions – delivering HR programs and services that meet the needs of the organization;
- 2) HR Service Delivery – embedding behaviours in HR and the organization to ensure the effective and efficient delivery of HR programs and services;
- 3) Corporate Culture Support – supporting the corporate culture requirements for the CWB of the future; and,
- 4) Strategic Partner – continuing to evolve HR towards a more strategic role in the organization.

During 2005-06, the CWB has undertaken activities aimed at aligning organizational jobs, pay, and benefits with industry norms, implementing appropriate training programs for employees, evaluating and addressing organizational skill gaps, and modifying the CWB's culture overall.

**Budgeted Administrative Expenses**

The 2006-07 administrative expense budget totals \$70.4 million, representing no increase from the 2005-06 projected actual expense. The budget contains amounts for special expenses such as board of director elections (\$250,000) as well as the incremental cost of new corporate initiatives (\$1.4 million).

As in previous years, the most significant component of the CWB's administrative expenses continues to be ongoing human resource costs estimated at \$37.6 million or 53 per cent of the 2006-07 administrative budget. Depreciation expense represents the amortization of the CWB's investment in capital assets, not including CWB hopper cars, which are charged directly to the pool accounts.

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**Budgeted Administrative Expenses****2006-07 Crop Year (with comparative figures for the previous two years)**

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| <b>(000's)</b>                       | <b>Budget<br/>2006-07</b> | <b>Projected<br/>Actual<br/>2005-06</b> | <b>Actual<br/>2004-05</b> |
|--------------------------------------|---------------------------|---|---------------------------|
| <b>Administrative expenses</b>       |                           |   |                           |
| Human resources                      | 37,586,339                | 36,119,787                              | 38,208,056                |
| Outsourced fees                      | 7,522,650                 | 7,216,013                               | 3,025,353                 |
| Office services                      | 3,404,296                 | 3,458,379                               | 3,459,203                 |
| Professional fees                    | 4,485,313                 | 4,730,122                               | 7,156,117                 |
| Computer services                    | 1,732,804                 | 1,700,647                               | 2,549,260                 |
| Facilities                           | 2,103,870                 | 2,002,217                               | 1,744,973                 |
| Travel                               | 2,465,748                 | 2,190,105                               | 2,261,574                 |
| Advertising & promotion              | 1,667,677                 | 1,624,975                               | 1,927,722                 |
| Other                                | 859,954                   | 766,486                                 | 837,696                   |
| Training                             | 770,618                   | 855,261                                 | 546,264                   |
| Depreciation                         | 9,815,139                 | 11,856,458                              | 10,238,814                |
| Recoveries                           | (1,950,505)               | (2,057,267)                             | (1,964,699)               |
| <b>Total Administrative expenses</b> | <b>70,463,903</b>         | <b>70,463,183</b>                       | <b>69,990,333</b>         |

The CWB also has a 2006-07 capital budget of \$20.6 million, of which \$16.0 million is computer related and \$4.3 million is for building and office improvements. The impact on depreciation expense for 2006-07 from this capital spending is estimated at \$1.4 million with a full year impact on 2007-08 estimated at \$1.5 million.

**2006-07 Combined Pool Accounts**  
**Estimated Statement of Operations and Distribution to Producers**  
**Per May 2006 PRO**

| Crop year (000's)                  | 2006-07          | 2005-06          |
|------------------------------------|------------------|------------------|
| <b>Statement of Operations</b>     |                  |                  |
| Receipts (tonnes)                  | 22,035           | 19,450           |
| <b>Revenue</b>                     | <b>4,194,323</b> | <b>3,699,949</b> |
| <b>Direct costs</b>                |                  |                  |
| Freight                            | 192,808          | 187,716          |
| Terminal handling                  | 145,945          | 129,593          |
| Inventory storage                  | 74,095           | 70,682           |
| Country inventory financing        | 9,524            | 7,965            |
| Inventory adjustments              | 5,268            | (25,334)         |
| Other grain purchases              | 12,908           | 19,988           |
| Other direct expenses              | 27,938           | 19,111           |
| <b>Total Direct costs</b>          | <b>468,486</b>   | <b>409,721</b>   |
| <b>Net Revenue from Operations</b> | <b>3,725,837</b> | <b>3,290,228</b> |
| Other income                       | 103,681          | 135,284          |
| Net interest earnings              |                  |                  |
| Credit sales                       | 23,580           | 31,018           |
| Other                              | 4,230            | 163              |
| Administrative expenses            | (70,512)         | (70,566)         |
| Grain industry organizations       | (2,309)          | (1,950)          |
| <b>Earnings for Distribution</b>   | <b>3,784,507</b> | <b>3,384,177</b> |
| <b>Statement of Distribution</b>   |                  |                  |
| Distribution to Producers          | 3,769,554        | 3,372,426        |
| Contingency Fund                   | 697              | 1,001            |
| Producer contract storage          | 14,256           | 10,750           |
| <b>Total Distributions</b>         | <b>3,784,507</b> | <b>3,384,177</b> |

PROs are the CWB's projections of pool account results and do not represent price guarantees. The actual results achieved for the period covered will vary from the information presented and these variations may be material. PROs may be adjusted monthly, up or down, to take into account changes in weather, exchange rates, estimated logistical costs, supply and demand and other market fundamentals in importing and exporting countries.

**2006-07 Wheat Pool Account  
Estimated Statement of Operations and Distribution to Producers  
Per May 2006 PRO**

| Crop year (000's)                  | 2006-07          |               | 2005-06          |               |
|------------------------------------|------------------|---------------|------------------|---------------|
|                                    | Total            | Per Tonne     | Total            | Per Tonne     |
| <b>Statement of Operations</b>     |                  |               |                  |               |
| Receipts (tonnes)                  | 15,500           |               | 13,515           |               |
| <b>Revenue</b>                     | 2,973,265        | 191.82        | 2,577,483        | 190.71        |
| <b>Direct costs</b>                |                  |               |                  |               |
| Freight                            | 116,858          | 7.54          | 99,870           | 7.39          |
| Terminal handling                  | 104,092          | 6.72          | 94,729           | 7.01          |
| Inventory storage                  | 48,825           | 3.15          | 49,828           | 3.69          |
| Country inventory financing        | 6,510            | 0.42          | 5,676            | 0.42          |
| Inventory adjustments              | 6,820            | 0.44          | (18,940)         | (1.40)        |
| Other grain purchases              | 9,765            | 0.63          | 4,748            | 0.35          |
| Other direct expenses              | 15,500           | 1.00          | 15,536           | 1.15          |
| <b>Total Direct costs</b>          | <u>308,370</u>   | <u>19.89</u>  | <u>251,447</u>   | <u>18.61</u>  |
| <b>Net Revenue from Operations</b> | <u>2,664,895</u> | <u>171.93</u> | <u>2,326,036</u> | <u>172.11</u> |
| Other income                       | 87,845           | 5.67          | 92,228           | 6.82          |
| Net interest earnings              |                  |               |                  |               |
| Credit sales                       | 18,567           | 1.20          | 25,025           | 1.85          |
| Other                              | 1,085            | 0.07          | (811)            | (0.06)        |
| Administrative expenses            | (49,600)         | (3.20)        | (49,059)         | (3.63)        |
| Grain industry organizations       | (1,550)          | (0.10)        | (1,351)          | (0.10)        |
| <b>Earnings for Distribution</b>   | <u>2,721,242</u> | <u>175.56</u> | <u>2,392,068</u> | <u>176.99</u> |
| <b>Statement of Distribution</b>   |                  |               |                  |               |
| Distribution to Producers          | 2,721,242        | 175.56        | 2,392,068        | 176.99        |
| Contingency Fund                   |                  |               |                  |               |
| Producer contract storage          | -                | -             | -                | -             |
| <b>Total Distributions</b>         | <u>2,721,242</u> | <u>175.56</u> | <u>2,392,068</u> | <u>176.99</u> |

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**2006-07 Durum Pool Account  
Estimated Statement of Operations and Distribution to Producers  
Per May 2006 PRO**

| Crop year (000's)                  | 2006-07        |               | 2005-06        |               |
|------------------------------------|----------------|---------------|----------------|---------------|
|                                    | Total          | Per Tonne     | Total          | Per Tonne     |
| <b>Statement of Operations</b>     |                |               |                |               |
| Receipts (tonnes)                  | 3,885          |               | 4,150          |               |
| <b>Revenue</b>                     | 776,947        | 199.99        | 805,190        | 194.02        |
| <b>Direct costs</b>                |                |               |                |               |
| Freight                            | 72,529         | 18.67         | 74,818         | 18.03         |
| Terminal handling                  | 36,364         | 9.36          | 31,374         | 7.56          |
| Inventory storage                  | 16,900         | 4.35          | 15,339         | 3.70          |
| Country inventory financing        | 2,214          | 0.57          | 1,785          | 0.43          |
| Inventory adjustments              | (2,680)        | (0.69)        | (6,198)        | (1.49)        |
| Other grain purchases              | 2,720          | 0.70          | 9,382          | 2.26          |
| Other direct expenses              | 4,895          | 1.26          | 5,033          | 1.21          |
| <b>Total Direct costs</b>          | <u>132,942</u> | <u>34.22</u>  | <u>131,533</u> | <u>31.69</u>  |
| <b>Net Revenue from Operations</b> | <u>644,005</u> | <u>165.77</u> | <u>673,657</u> | <u>162.33</u> |
| Other income                       | 13,436         | 3.46          | 24,866         | 5.99          |
| Net interest earnings              |                |               |                |               |
| Credit sales                       | 3,538          | 0.91          | 4,662          | 1.12          |
| Other                              | 660            | 0.17          | (913)          | (0.22)        |
| Administrative expenses            | (12,432)       | (3.20)        | (15,064)       | (3.63)        |
| Grain industry organizations       | (388)          | (0.10)        | (332)          | (0.08)        |
| <b>Earnings for Distribution</b>   | <u>648,819</u> | <u>167.01</u> | <u>686,876</u> | <u>165.51</u> |
| <b>Statement of Distribution</b>   |                |               |                |               |
| Distribution to Producers          | 648,819        | 167.01        | 686,876        | 165.51        |
| Contingency Fund                   |                |               |                |               |
| Producer contract storage          | -              | -             | -              | -             |
| <b>Total Distributions</b>         | <u>648,819</u> | <u>167.01</u> | <u>686,876</u> | <u>165.51</u> |

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**2006-07 Barley Pool Account  
Estimated Statement of Operations and Distribution to Producers  
Per May 2006 PRO**

| Crop year (000's)                  | 2006-07 Pool A |               | 2005-06 Pool B |               |
|------------------------------------|----------------|---------------|----------------|---------------|
|                                    | Total          | Per Tonne     | Total          | Per Tonne     |
| <b>Statement of Operations</b>     |                |               |                |               |
| Receipts (tonnes)                  | 250            |               | 85             |               |
| Revenue                            | 31,658         | 126.63        | 11,171         | 131.42        |
| <b>Direct costs</b>                |                |               |                |               |
| Freight                            | 12             | 0.05          | 4              | 0.05          |
| Terminal handling                  | 1,170          | 4.68          | 351            | 4.13          |
| Inventory storage                  | 1,458          | 5.83          | 496            | 5.84          |
| Country inventory financing        | 32             | 0.13          | 11             | 0.13          |
| Inventory adjustments              | -              | -             | -              | -             |
| Other grain purchases              | 183            | 0.73          | 62             | 0.73          |
| Other direct expenses              | 415            | 1.66          | 141            | 1.66          |
| <b>Total Direct costs</b>          | <b>3,270</b>   | <b>13.08</b>  | <b>1,065</b>   | <b>12.53</b>  |
| <b>Net Revenue from Operations</b> | <b>28,388</b>  | <b>113.55</b> | <b>10,106</b>  | <b>118.89</b> |
| Other income                       |                | -             |                | -             |
| Net interest earnings              |                |               |                |               |
| Credit sales                       | 1,448          | 5.79          | 1,256          | 14.78         |
| Other                              | 85             | 0.34          | 85             | 1.00          |
| Administrative expenses            | (800)          | (3.20)        | (272)          | (3.20)        |
| Grain industry organizations       | (35)           | (0.14)        | (12)           | (0.14)        |
| <b>Earnings for Distribution</b>   | <b>29,086</b>  | <b>116.34</b> | <b>11,163</b>  | <b>131.33</b> |
| <b>Statement of Distribution</b>   |                |               |                |               |
| Distribution to Producers          | 28,389         | 113.56        | 10,162         | 119.55        |
| Contingency Fund                   | 697            | 2.79          | 1,001          | 11.78         |
| Producer contract storage          | -              | -             | -              | -             |
| <b>Total Distributions</b>         | <b>29,086</b>  | <b>116.35</b> | <b>11,163</b>  | <b>131.33</b> |

PROs are the CWB's projections of pool account results and do not represent price guarantees. The actual results achieved for the period covered will vary from the information presented and these variations may be material. PROs may be adjusted monthly, up or down, to take into account changes in weather, exchange rates, estimated logistical costs, supply and demand and other market fundamentals in importing and exporting countries.

**2006-07 Designated Barley Pool Account**  
**Estimated Statement of Operations and Distribution to Producers**  
**Per May 2006 PRO**

| Crop year (000's)                  | 2006-07        |               | 2005-06        |               |
|------------------------------------|----------------|---------------|----------------|---------------|
|                                    | Total          | Per Tonne     | Total          | Per Tonne     |
| <b>Statement of Operations</b>     |                |               |                |               |
| Receipts (tonnes)                  | 2,400          |               | 1,700          |               |
| <b>Revenue</b>                     | 412,453        | 171.86        | 306,105        | 180.06        |
| <b>Direct costs</b>                |                |               |                |               |
| Freight                            | 3,409          | 1.42          | 13,024         | 7.66          |
| Terminal handling                  | 4,319          | 1.80          | 3,139          | 1.85          |
| Inventory storage                  | 6,912          | 2.88          | 5,019          | 2.95          |
| Country inventory financing        | 768            | 0.32          | 493            | 0.29          |
| Inventory adjustments              | 1,128          | 0.47          | (196)          | (0.12)        |
| Other grain purchases              | 240            | 0.10          | 5,796          | 3.41          |
| Other direct expenses              | 7,128          | 2.97          | (1,599)        | (0.94)        |
| <b>Total Direct costs</b>          | <u>23,904</u>  | <u>9.96</u>   | <u>25,676</u>  | <u>15.10</u>  |
| <b>Net Revenue from Operations</b> | <u>388,549</u> | <u>161.90</u> | <u>280,429</u> | <u>164.96</u> |
| Other income                       | 2,400          | 1.00          | 18,190         | 10.70         |
| Net interest earnings              |                |               |                |               |
| Credit sales                       | 27             | 0.01          | 75             | 0.04          |
| Other                              | 2,400          | 1.00          | 1,802          | 1.06          |
| Administrative expenses            | (7,680)        | (3.20)        | (6,171)        | (3.63)        |
| Grain industry organizations       | (336)          | (0.14)        | (255)          | (0.15)        |
| <b>Earnings for Distribution</b>   | <u>385,360</u> | <u>160.57</u> | <u>294,070</u> | <u>172.98</u> |
| <b>Statement of Distribution</b>   |                |               |                |               |
| Distribution to Producers          | 371,104        | 154.63        | 283,037        | 166.50        |
| Contingency Fund                   |                |               |                |               |
| Producer contract storage          | 14,256         | 5.94          | 10,750         | 6.32          |
| <b>Total Distributions</b>         | <u>385,360</u> | <u>160.57</u> | <u>294,070</u> | <u>172.98</u> |

PROs are the CWB's projections of pool account results and do not represent price guarantees. The actual results achieved for the period covered will vary from the information presented and these variations may be material. PROs may be adjusted monthly, up or down, to take into account changes in weather, exchange rates, estimated logistical costs, supply and demand and other market fundamentals in importing and exporting countries.

## Appendix C: Borrowing Plan

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As outlined in Sections 19(1) and 19(2) of Chapter 17 of the Statutes of Canada 1998, an act that amends the *Canadian Wheat Board Act*, the CWB submits an annual corporate plan, which requires approval by the Minister responsible for the CWB. In accordance with Section 19(3), the CWB submits an annual borrowing plan to the Minister of Finance, which requires approval by July 31 of each year. Please see the enclosed borrowing plan for the 2006-07 fiscal year and borrowing authority request in the following letter to the Minister of Finance.

June 2, 2006

The Honourable James Flaherty  
Minister of Finance  
L'Esplanade Laurier, East Tower  
140 O'Connor Street - 21st Floor  
Ottawa, ON K1A 0G5

Dear Minister Flaherty:

We are presenting the CWB's borrowing plan for the 2006-07 fiscal year, spanning the time period of August 1, 2006 to July 31, 2007. This letter contains background information on the CWB's borrowing programs, summary of activities completed during the 2005-2006 reporting period, anticipated activities for the 2006-07 fiscal year and the borrowing authority request.

### **Background of Borrowing Activities**

The *Canadian Wheat Board Act* was amended in 1988 to extend the CWB's borrowing authority and allow the CWB direct access to the global capital markets. The CWB issues debt to finance credit grain sales, the Government of Canada's cash advance programs, and working capital requirements. The CWB is a floating rate borrower financing floating rate assets and has natural Canadian dollar and US dollar requirements.

Over the past eighteen years, the CWB has assessed funding opportunities in the global capital markets and has established new borrowing programs in a disciplined fashion to lower the CWB's cost of funds, diversify its funding sources, and develop CWB name recognition in the global investor community. The CWB established its first commercial paper program in 1989 in the Canadian market - the Wheat Board Note (WBN) program. This program has provided the CWB with the majority of its Canadian dollar funding needs since its inception. In 1991, the CWB launched its second program, a US commercial paper (USCP) program. In 1993, under a separate authority granted by the Minister of Finance, the CWB established a multicurrency Euro Medium Term Note (EMTN) program, currently listed at a size of US\$2.0 billion. All issuance under this program is swapped into floating rate US or Canadian dollars. In April 1996, the CWB launched its third commercial paper program, a multicurrency Euro Commercial Paper (ECP) program, currently listed at a size of US\$3.0 billion. Lastly, in the fall of 2003, a domestic medium-term note program was initiated in order to access longer-term funds within Canada, which are swapped to floating rate US or Canadian dollars.

Collectively, these five borrowing programs are the primary source of funds for the CWB. Notwithstanding the success of these programs, the CWB also maintains excellent relationships with banks, contracting with them for operating, committed and uncommitted lines of credit and maintains a short-term investment portfolio to manage the CWB's liquidity risks.

### **Activities During the 2005/06 Fiscal Year**

During the last fiscal year, the CWB was active in raising funds through each of the three commercial paper programs in Canada, the US and the Euro markets. Outstanding amounts on these programs were C\$1,407 million, US\$541 million and US\$170 million, respectively, as of April 30, 2006. The CWB has a well-established investor following in the short-term debt markets of North America and in the Euro market. These programs provide the most reliable source of

funds for the CWB at very competitive rates of interest (see Appendix A for a summary of all funding and investing activity for the past year).

The CWB's medium term note programs provide the CWB with opportunistic and less expensive financing, enables the CWB to reduce its cost of funding, reduces the day-to-day liquidity risk inherent in refinancing commercial paper transactions, and provides a good match for the CWB's longer-term floating rate assets. Medium term notes are swapped to either a floating Canadian or US dollar interest rate to meet the CWB's floating rate funding needs. In 2005, the CWB issued a total of 41 transactions totaling US\$341 million in the EMTN market. Funds raised this past year were typically longer term, structured notes which are callable annually or semi-annually, substantially reducing the actual duration of the note from its original term. As of April 30, 2006 the CWB had US\$998 million of EMTN's outstanding, with US\$506 million beyond 10 years in term. In 2005, the CWB issued two notes for C\$46 million in the Domestic Medium Term Note market. As of April 30, 2006 the CWB had C\$145 million and US\$311 million of funding outstanding in the domestic medium-term note market.

At the beginning of August 2005, the CWB had C\$1.05 billion and US\$2.3 billion in rescheduled receivables resulting from credit grain sales. Of these amounts, the major receivables included amounts owed and overdue from Iraq (US\$586 million), and amounts rescheduled by Russia (US\$867 million) and Poland (C\$918 million and US\$676 million). During the 2005/06 crop year, the CWB is scheduled to receive repayment of principal on a portion of the credit sales owed to the CWB for grain purchases. The CWB will receive repayment of approximately US\$232 and C\$250 million of normally scheduled receivable repayments. In addition, the CWB also received a large unexpected repayment from Russia just prior to the start of the last crop year, as well as payments from the Government of Canada for Iraq debt reduction. US\$487 million was received in July 2005 from Russia, and two payments were made in September and December 2005 for Iraq totaling US\$352 mln. Overall, these repayments will reduce the credit receivables financed by the CWB at the end of the 2005/06 crop year to about US\$1.7 billion and C\$800 million.

Funding requirements for the cash advance programs were at average levels this past year. As of March 31, 2006 the CWB had issued \$215 million under the 2005 Spring Advance Program and \$387 million under the 2005 Fall Advance Program. Under the 2006 Spring Advance Program, the CWB issued \$16 million as of March 31, 2006. Amounts outstanding under the Spring 2005 and Fall 2005 advance programs at March 31, 2006 were \$3.5 million and \$320 million, respectively.

On May 18, 2006, the Minister of Agriculture and Agri-Food and the Minister Responsible for the Canadian Wheat Board announced the details of the government's new Enhanced Spring Credit Advance Program (ESCAP). Cash advances under this new program will be delivered by producer organizations, including the CWB. Therefore, the CWB is currently working on the final terms of the agreement with the government and will be required to finance cash advances under the CWB's administration, as with existing cash advance programs. A reference has been included in the 2006/07 borrowing authority section 2(a)(iii) to include the program in next year's authority. An amendment to the 2005/06 borrowing authority will also likely be required.

Under the Producer Payment Options (PPO), farmers receive a portion of their cash flow earlier in the process as compared to farmers receiving the pool account return, and they pay a charge to cover the CWB's interest costs associated with the additional cash flow. These interest revenues and costs flow through to the contingency fund. The CWB's contingency fund is a key element in offering payment options that operate independent from price pooling, as the contingency fund underwrites each pricing payment program so that operating gains or losses do not impact the pool accounts. Contingency fund regulations were established by government and any losses in the contingency fund are not guaranteed by the Minister of Finance. In 2006/07, the

CWB will continue to enhance and introduce new Producer Payment Options (PPO) to meet farmer needs.

The CWB continues to provide quarterly reports to the Department of Finance, comparing the borrowing programs' performance against acceptable market benchmarks. The CWB continues to borrow at aggressive rates in the marketplace for an issuer with our creditworthiness.

In July 2004, the World Trade Organization created a framework for a future world trade deal on agriculture which included a call for "...elimination of trade distorting practices with respect to exporting state trading enterprises including eliminating export subsidies provided to or by them, government financing and the underwriting of losses". As a result of trade negotiations, the CWB has established a plan to operate in the future without guarantees on the debt and initial payments issued by the CWB.

### **Activities Under Consideration for the 2006-07 Fiscal Year**

With regard to the CWB's short term funding activities, the CWB plans to maintain a core level of outstandings in the USCP and domestic commercial paper markets to maintain good name recognition, a presence in the respective markets, to remain on investors' approved lists and to minimize funding costs for the organization. Use of the ECP program has diminished this past year due to the unexpected receivable repayments and higher comparative funding costs in the ECP market versus the other markets. The CWB will continue to maintain the ECP program to provide liquidity to the CWB and to provide an alternative market, should funding costs decrease to competitive levels.

The CWB's long term funding needs are largely driven by the level of rescheduled Paris Club debt on the books of the CWB. Borrowing levels will decrease in the next fiscal year due to further planned repayments of credit receivables extended to customers. Normally scheduled credit sale repayments are expected to be approximately US\$250 million and C\$223 million in 2006/07, reducing the overall credit receivables financed by the CWB at the end of the 2006/07 crop year to about US\$1.45 billion and C\$580 million. The CWB will continue to examine medium term note opportunities under the Euro and domestic medium term note programs. The CWB intends to implement a formal buyback program for its private placement debt prior to the end of 2005/06 in the Euro medium term note market to allow the CWB more flexibility in terms of maintaining a presence in the EMTN market during times of declining funding requirements. The CWB will continue to focus its issuance of medium term notes on callable transactions with a shorter duration.

No material changes are expected to the cash advance programs and working capital requirements. Appendix B contains estimates of the CWB's borrowing requirements in 2006/07 factoring in the current repayment schedules on Paris Club debt.

We will continue our efforts to reduce the CWB's liquidity risk through maintenance of bank lines and through the operation of a US and a Canadian Dollar investment portfolio. The investment portfolios meet the credit rating requirements of the Risk Management and Credit Policy Guidelines for Crown Corporations set by the Minister of Finance.

The year ahead will continue to provide new and exciting challenges for the CWB. Our primary goals will be to continue to ensure that Canadian farmers' interest expenses are minimized, risks are properly managed and that access to capital is maintained.

## **Hopper Car Purchases**

The CWB purchased approximately 1,660 hopper cars during the 2005-06 crop year which increased the CWB-owned fleet to 3,510. These hopper cars were previously leased by the CWB. The CWB earns revenue by leasing the hopper cars for the purpose of moving farmer's grain to market and port. Profitability of the hopper car purchase will be affected by the CWB's interest costs to finance the purchase compared to the fixed rate of interest earned on the lease agreements. The profitability margin can be hedged by issuing a fixed rate medium-term note. In accordance with the CWB's borrowing authority, the CWB requires a special approval for any funding which remains fixed rate. We respectfully request your approval to issue a bond to hedge the interest costs associated with the hopper car purchase and subsequent lease arrangements by the CWB. Specific terms and conditions are as follows:

Currency: US dollars, or another currency provided that the transaction is hedged to U.S. dollars  
Term: Up to 15-year term to match to life of the asset, may be amortizing  
Size: US\$25 million maximum  
Interest Rate: Appropriate fixed interest rate for term of transaction

## **Further Early Repayment of Rescheduled Credit Receivables**

In addition to planned repayments on rescheduled Paris Club credit receivables, Russia is expected to present a proposal to the Paris Club in June 2006 to further prepay their debt, including CWB debt. The CWB is at risk of receiving a further US\$805mln from Russia. In addition, Algeria made a proposal to the Paris Club in May 2006 and will prepay US\$94 million of receivables to the CWB at the end of May. Should both of these prepayments materialize, the CWB's financing requirements related to credit receivables will drop to US\$550 million by the end of 2006/07 (Canadian dollar requirements will remain at C\$580 million). The CWB's strategy with regard to the Russian prepayment would be to first look for cost-effective opportunities for debt buybacks of medium term notes, and, if possible, to pay down US dollar commercial paper programs while maintaining a viable commercial paper program in the US market to have necessary access to short term US dollar liquidity. The second part of the strategy would contemplate investing the remaining repayment in safe investments being mindful of the investment restrictions in the CWB Act, the requirement for Minister of Finance approval, and any potential trade policy implications. In the event that investments need to occur before Minister of Finance approval of the broader investment strategy, the CWB would invest the monies in short term investments in accordance with existing requirements in the CWB Act and the Risk Management and Credit Policy Guidelines for Crown Corporations set by the Minister of Finance.

## **Borrowing Authority**

We respectfully request your approval for the CWB's: i) General Borrowing Authority and, ii) EMTN Program Authority, for the period August 1, 2006 to July 31, 2007. We ask that you provide your approval in separate letters. Copies of the 2005-2006 approval letters are attached. The following is draft text for the borrowing letter.

### General Borrowing Authority

Pursuant to paragraphs 6(1)c, (c.01) and (c.1) of the Canadian Wheat Board Act, I hereby give my approval to the Canadian Wheat Board, subject to the terms and conditions expressed herein, to the following:

1. To enter into banking arrangements and to borrow short-term and to issue and sell short-term notes and other evidences of indebtedness having a maturity of, or an interest rate maturity of 365 days or less (366 days in leap years) or to enter into term loans or other arrangements for periods exceeding 365 days (366 days in leap years) provided that the interest rate maturity period does not exceed 365 days (366 days in leap years), and

To issue and sell notes, bonds and other evidences of indebtedness with terms not to exceed fifteen years, provided funds are swapped to a Canadian or US dollar interest rate maturity period of 365 days or less (366 days in leap years).

2. To issue and sell notes, bonds and other evidences of indebtedness under the Euro Medium Term Note program with the terms not to exceed 15 years

My approval in respect of the issue and sale by the Canadian Wheat Board of market borrowings, loans and advances from financial institutions is subject to the following:

- a) That the aggregate principal amount outstanding of loans from financial institutions, short-term market borrowings, medium-term and longer term notes in any quarter shall not exceed the total peak levels in Canadian and US dollars, estimated individually in advance by the Canadian Wheat Board for that quarter of:
  - (i) accounts receivable relating to credit grain sales;
  - (ii) assets associated with ordinary operations, which include inventories of grain, trade accounts receivable and the Canadian Wheat Board's operating and administrative expenses;
  - (iii) cash advances under the *Agricultural Marketing Programs Act*, the *Prairie Grain Advance Payments Act*, the *Spring Credit Advance Program* and the *Enhanced Spring Credit Advance Program*; and
  - (iv) 12 per cent of the total of items (i) through (iii) for liquidity and
  - (v) other purposes.

It is understood that the outstanding borrowings under the Euro Medium-term Note Program shall not exceed US \$2.0 billion (or the US dollar equivalent if in other currencies) and are within the overall limit described above. The total amount of borrowings under this program with remaining maturities above 10 years must not exceed US \$800 million (or the US dollar equivalent if in other currencies).

- b) Borrowings are to be denominated in Canadian or United States dollars or in other currencies provided that any borrowings in other currencies are swapped into Canadian or US dollars.

I further authorize the Canadian Wheat Board to borrow up to \$100 million on a long-term basis, subject to my prior approval of specific terms and conditions for each proposed borrowing.

In addition, I authorize the Canadian Wheat Board to issue up to a maximum of US\$25 million of long-term debt for the hopper cars purchased in the 2005-06 crop year. Borrowings for the hopper cars are to be denominated in United States dollars or in other currencies provided that any borrowings in other currencies are either hedged or swapped into United States dollars. Furthermore, each borrowing for the hopper cars is not to exceed a maximum term of 15 years.

Finally, I authorize the Canadian Wheat Board to invest monies of the Board in accordance with the provisions of paragraph 6(1)(c.1) of the *Canadian Wheat Board Act*, subject to the following conditions:



- i) Investments are to be denominated in Canadian or United States dollars or in other major international currencies provided that any investments in other currencies are swapped into Canadian or US dollars.
- ii) The investments are consistent with the Minister of Finance's Risk Management and Credit Policy Guidelines for Crown Corporations.

Long term investment of the proceeds of early repayments of credit receivables not used for immediate debt repayment is subject to separate approval of the Minister of Finance of specific terms and conditions. In the event that investments need to occur before Minister of Finance approval of the broader investment strategy, the CWB would invest the monies in short term investments in accordance with existing requirements in the CWB Act and the Risk Management and Credit Policy Guidelines for Crown Corporations set by the Minister of Finance.

This approval should remain in effect until July 31, 2007.

#### EMTN Borrowing Authority

The EMTN borrowing authority will remain in effect until July 31, 2007.

We will continue to provide the Department of Finance with regular reports on our short-term and medium-term borrowing activities.

Thank you for your consideration of our requests. Should you require any further explanations or information, please do not hesitate to call.

Yours truly,

Adrian C. Measner  
President and Chief Executive Officer

AM/ac

Attachment

c: The Honourable Chuck Strahl, Minister Responsible for the CWB

**SUMMARY OF CWB FUNDING AND INVESTING ACTIVITY FOR 2005/06**  
**CONFIDENTIAL**

**CANADIAN DOLLAR FUNDING AND INVESTING**

|                                  | May   | June  | July  | August | September | October | November | December | January | February | March | April |
|----------------------------------|-------|-------|-------|--------|-----------|---------|----------|----------|---------|----------|-------|-------|
|                                  | 2005  | 2005  | 2005  | 2005   | 2005      | 2005    | 2005     | 2005     | 2006    | 2006     | 2006  | 2006  |
| <b>DOMESTIC COMMERCIAL PAPER</b> |       |       |       |        |           |         |          |          |         |          |       |       |
| Maximum Outstanding              | 1,539 | 1,662 | 1,758 | 1,606  | 1,694     | 1,718   | 1,676    | 1,809    | 1,745   | 1,625    | 1,638 | 1,427 |
| Outstanding @ Month-End          | 1,519 | 1,484 | 1,586 | 1,591  | 1,571     | 1,648   | 1,380    | 1,715    | 1,580   | 1,588    | 1,343 | 1,427 |
| <b>BANK LINES</b>                |       |       |       |        |           |         |          |          |         |          |       |       |
| Maximum Outstanding              | 0     | 0     | 0     | 0      | 0         | 0       | 0        | 0        | 0       | 0        | 0     | 0     |
| Outstanding @ Month-End          | 0     | 0     | 0     | 0      | 0         | 0       | 0        | 0        | 0       | 0        | 0     | 0     |

**DOMESTIC MEDIUM TERM NOTES**

|                         |     |     |     |     |     |     |     |     |     |     |     |     |
|-------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Maximum Outstanding     | 133 | 133 | 131 | 131 | 131 | 131 | 131 | 131 | 127 | 127 | 127 | 145 |
| Outstanding @ Month-End | 133 | 133 | 131 | 131 | 131 | 131 | 131 | 131 | 127 | 127 | 127 | 145 |

**TOTAL CAD FUNDING**

|                                  |       |       |       |       |       |       |       |       |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Outstanding @ Month-End          | 1,652 | 1,617 | 1,717 | 1,722 | 1,702 | 1,779 | 1,511 | 1,846 | 1,707 | 1,715 | 1,470 | 1,572 |
| Less CAD Swapped to USD          | (85)  | (85)  | (60)  | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     |
| Total CAD Funding                | 1,567 | 1,532 | 1,657 | 1,722 | 1,702 | 1,779 | 1,511 | 1,846 | 1,707 | 1,715 | 1,470 | 1,572 |
| Approved CAD Borrowing Limit (1) | 3,558 | 3,558 | 3,558 | 3,688 | 3,688 | 3,688 | 3,497 | 3,497 | 3,497 | 3,769 | 3,769 | 3,769 |

**INVESTMENTS**

|                         |     |     |     |     |     |     |     |     |     |     |     |     |
|-------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Outstanding @ Month-End | 333 | 154 | 359 | 479 | 700 | 702 | 340 | 560 | 307 | 398 | 309 | 326 |
|-------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|

**US DOLLAR FUNDING AND INVESTING**

|                                   | May   | June  | July  | August | September | October | November | December | January | February | March | April |
|-----------------------------------|-------|-------|-------|--------|-----------|---------|----------|----------|---------|----------|-------|-------|
|                                   | 2005  | 2005  | 2005  | 2005   | 2005      | 2005    | 2005     | 2005     | 2006    | 2006     | 2006  | 2006  |
| <b>US COMMERCIAL PAPER</b>        |       |       |       |        |           |         |          |          |         |          |       |       |
| Maximum Outstanding               | 1,149 | 1,003 | 940   | 695    | 631       | 559     | 497      | 448      | 393     | 570      | 785   | 687   |
| Outstanding @ Month-End           | 956   | 940   | 718   | 619    | 537       | 466     | 412      | 400      | 352     | 555      | 711   | 545   |
| <b>BANK LINES</b>                 |       |       |       |        |           |         |          |          |         |          |       |       |
| Maximum Outstanding               | 0     | 0     | 0     | 0      | 0         | 0       | 0        | 0        | 0       | 0        | 0     | 0     |
| Outstanding @ Month-End           | 0     | 0     | 0     | 0      | 0         | 0       | 0        | 0        | 0       | 0        | 0     | 0     |
| <b>EURO MEDIUM TERM NOTES</b>     |       |       |       |        |           |         |          |          |         |          |       |       |
| Maximum Outstanding               | 972   | 938   | 952   | 980    | 995       | 988     | 988      | 988      | 988     | 1,005    | 1,017 | 1,013 |
| Outstanding @ Month-End           | 928   | 923   | 943   | 980    | 965       | 988     | 988      | 988      | 988     | 1,005    | 1,013 | 998   |
| <b>EURO COMMERCIAL PAPER</b>      |       |       |       |        |           |         |          |          |         |          |       |       |
| Maximum Outstanding               | 877   | 911   | 876   | 739    | 641       | 641     | 601      | 536      | 449     | 357      | 303   | 172   |
| Outstanding @ Month-End           | 740   | 876   | 739   | 590    | 641       | 601     | 536      | 449      | 357     | 303      | 67    | 172   |
| <b>DOMESTIC MEDIUM TERM NOTES</b> |       |       |       |        |           |         |          |          |         |          |       |       |
| Maximum Outstanding               | 330   | 330   | 330   | 330    | 330       | 321     | 321      | 321      | 321     | 321      | 321   | 311   |
| Outstanding @ Month-End           | 330   | 330   | 330   | 330    | 321       | 321     | 321      | 321      | 321     | 321      | 311   | 311   |
| <b>TOTAL USD FUNDING</b>          |       |       |       |        |           |         |          |          |         |          |       |       |
| Outstanding @ Month-End           | 2,954 | 3,069 | 2,730 | 2,519  | 2,464     | 2,376   | 2,257    | 2,158    | 2,018   | 2,184    | 2,102 | 2,026 |
| Plus CAD Swapped to USD           | 68    | 68    | 48    | 0      | 0         | 0       | 0        | 0        | 0       | 0        | 0     | 0     |
| Total USD Funding                 | 3,022 | 3,137 | 2,778 | 2,519  | 2,464     | 2,376   | 2,257    | 2,158    | 2,018   | 2,184    | 2,102 | 2,026 |
| Approved USD Borrowing Limit      | 3,816 | 3,816 | 3,816 | 3,517  | 3,517     | 3,517   | 3,011    | 3,011    | 3,011   | 2,779    | 2,779 | 2,779 |
| <b>INVESTMENTS</b>                |       |       |       |        |           |         |          |          |         |          |       |       |
| Outstanding @ Month-End           | 167   | 285   | 410   | 215    | 420       | 305     | 186      | 280      | 100     | 249      | 277   | 212   |

**FORECAST OF CWB FUNDING AND INVESTING ACTIVITY FOR 2006/07**  
**CONFIDENTIAL**

**CANADIAN DOLLAR FUNDING AND INVESTING**

|                                      | May   | June  | July  | August | September | October | November | December | January | February | March | April |
|--------------------------------------|-------|-------|-------|--------|-----------|---------|----------|----------|---------|----------|-------|-------|
| <b>DOMESTIC COMMERCIAL PAPER</b>     |       |       |       |        |           |         |          |          |         |          |       |       |
| Forecast of Outstandings @ Month-End | 1,300 | 1,300 | 1,300 | 1,300  | 1,300     | 1,300   | 1,300    | 1,450    | 1,400   | 1,300    | 1,300 | 1,200 |
| <b>BANK LINES</b>                    |       |       |       |        |           |         |          |          |         |          |       |       |
| Forecast of Outstandings @ Month-End | 0     | 0     | 0     | 0      | 0         | 0       | 0        | 0        | 0       | 0        | 0     | 0     |
| <b>DOMESTIC MEDIUM TERM NOTES</b>    |       |       |       |        |           |         |          |          |         |          |       |       |
| Forecast of Outstandings @ Month-End | 150   | 150   | 150   | 150    | 150       | 150     | 150      | 150      | 140     | 140      | 140   | 140   |
| <b>TOTAL CAD FUNDING</b>             |       |       |       |        |           |         |          |          |         |          |       |       |
| Forecast of Outstandings @ Month-End | 1,450 | 1,450 | 1,450 | 1,450  | 1,450     | 1,450   | 1,450    | 1,600    | 1,540   | 1,440    | 1,440 | 1,340 |
| <b>INVESTMENTS</b>                   |       |       |       |        |           |         |          |          |         |          |       |       |
| Forecast of Outstandings @ Month-End | 300   | 300   | 400   | 350    | 350       | 350     | 350      | 500      | 300     | 300      | 300   | 350   |

US DOLLAR FUNDING AND INVESTING

|                                      | May<br>2006 | June<br>2006 | July<br>2006 | August<br>2006 | September<br>2006 | October<br>2006 | November<br>2006 | December<br>2006 | January<br>2007 | February<br>2007 | March<br>2007 | April<br>2007 |
|--------------------------------------|-------------|--------------|--------------|----------------|-------------------|-----------------|------------------|------------------|-----------------|------------------|---------------|---------------|
| <b>US COMMERCIAL PAPER</b>           |             |              |              |                |                   |                 |                  |                  |                 |                  |               |               |
| Forecast of Outstandings @ Month-End | 600         | 600          | 600          | 500            | 500               | 500             | 600              | 600              | 600             | 500              | 500           | 500           |
| <b>BANK LINES</b>                    |             |              |              |                |                   |                 |                  |                  |                 |                  |               |               |
| Forecast of Outstandings @ Month-End | 0           | 0            | 0            | 0              | 0                 | 0               | 0                | 0                | 0               | 0                | 0             | 0             |
| <b>EURO MEDIUM TERM NOTES</b>        |             |              |              |                |                   |                 |                  |                  |                 |                  |               |               |
| Forecast of Outstandings @ Month-End | 1000        | 1000         | 1000         | 1000           | 900               | 900             | 900              | 900              | 800             | 800              | 800           | 800           |
| <b>EURO COMMERCIAL PAPER</b>         |             |              |              |                |                   |                 |                  |                  |                 |                  |               |               |
| Forecast of Outstandings @ Month-End | 200         | 200          | 200          | 200            | 200               | 200             | 200              | 200              | 150             | 150              | 150           | 150           |
| <b>DOMESTIC MEDIUM TERM NOTES</b>    |             |              |              |                |                   |                 |                  |                  |                 |                  |               |               |
| Forecast of Outstandings @ Month-End | 300         | 300          | 300          | 300            | 300               | 300             | 300              | 300              | 300             | 300              | 285           | 285           |
| <b>DOMESTIC COMMERCIAL PAPER</b>     |             |              |              |                |                   |                 |                  |                  |                 |                  |               |               |
| Forecast of Outstandings @ Month-End | 25          | 25           | 25           | 25             | 25                | 25              | 25               | 25               | 0               | 0                | 0             | 0             |
| <b>TOTAL USD FUNDING</b>             |             |              |              |                |                   |                 |                  |                  |                 |                  |               |               |
| Forecast of Outstandings @ Month-End | 2,125       | 2,125        | 2,125        | 2,025          | 1,925             | 1,925           | 2,025            | 2,025            | 1,850           | 1,750            | 1,735         | 1,735         |
| <b>INVESTMENTS</b>                   |             |              |              |                |                   |                 |                  |                  |                 |                  |               |               |
| Forecast @ Month-End                 | 400         | 300          | 400          | 300            | 300               | 300             | 250              | 250              | 250             | 250              | 200           | 300           |

Minister of Finance



Ministre des Finances

Ottawa, Canada K1A 0G5

Mr. Adrian C. Measner  
President and Chief Executive Officer  
The Canadian Wheat Board  
423 Main Street  
P.O. Box 816, Station Main  
Winnipeg, MB R3C 2P5

Dear Mr. Measner:

Pursuant to paragraphs 6(1)(c), (c.01) and (c.1) of the *Canadian Wheat Board Act*, I hereby give my approval to the Canadian Wheat Board, subject to the terms and conditions expressed herein, to the following:

1. To enter into banking arrangements and to borrow short-term and to issue and sell short-term notes and other evidences of indebtedness having a maturity, or an interest rate maturity, of 365 days or less (366 days in leap years), or to enter into term loans or other arrangements for periods exceeding 365 days (366 days in leap years) provided that the interest rate maturity period does not exceed 365 days (366 days in leap years); and,

To issue and sell notes, bonds and other evidences of indebtedness with terms not to exceed fifteen years, provided funds are swapped to a Canadian or US dollar interest rate maturity period of 365 days or less (366 days in leap years).

2. To issue and sell notes, bonds and other evidences of indebtedness under the Euro Medium Term Note Program with terms not to exceed 15 years.

My approval in respect of the issue and sale by the Canadian Wheat Board of market borrowings, loans and advances from financial institutions is subject to the following:

Canada

- a) The aggregate principal amount outstanding of loans from financial institutions, short-term borrowings, medium-term and longer-term notes in any quarter shall not exceed the total peak levels in Canadian and U.S. dollars, estimated individually in advance by the Canadian Wheat Board for that quarter of:
- i. Accounts receivable relating to credit grain sales;
  - ii. Assets associated with ordinary operations, which include inventories of grain, trade accounts receivable and the Canadian Wheat Board's operating and administrative expenses;
  - iii. Cash advances under the *Agricultural Marketing Programs Act*, the *Prairie Grain Advance Payments Act*, and the Spring Credit Advance Program; and,
  - iv. 12 percent of the total items (i) to (iii) above for liquidity and other purposes.

Further, the outstanding borrowings under the Euro Medium Term Note Program shall not exceed US \$2,000 million (or the U.S. dollar equivalent if in other currencies) and are within the overall limit described above. The total amount of borrowings under this program with remaining maturities above 10 years shall not exceed US \$800 million (or the U.S. dollar equivalent if in other currencies).

- b) Borrowings are to be denominated in Canadian or United States dollars or in other currencies provided that any borrowings in other currencies are either hedged or swapped into Canadian or U.S. dollars.

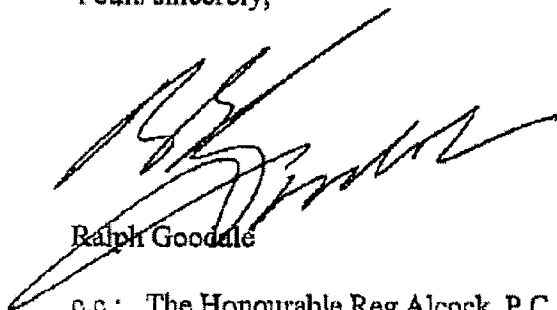
I further authorize the Canadian Wheat Board to borrow up to \$100 million on a long-term basis, subject to my prior approval of specific terms and conditions for each proposed borrowing.

Finally, I authorize the Canadian Wheat Board to invest monies of the Board in accordance with the provisions of paragraph 6(1)(c.1) of the *Canadian Wheat Board Act*, subject to the following conditions:

- i. Investments are to be denominated in Canadian or U.S. dollars or in other major international currencies provided that any investments in other currencies are swapped into Canadian or U.S. dollars; and,
- ii. The investments are consistent with the Minister of Finance's Risk Management and Credit Policy Guidelines for Crown Corporations.

Subject to the aforesaid, the Canadian Wheat Board may issue borrowings and obtain loans from financial institutions at any time and from time to time, for the period August 1, 2005, to July 31, 2006.

Yours sincerely,



Ralph Goodale

c.c.: The Honourable Reg Alcock, P.C., M.P.



Minister of Finance



Ministre des Finances

Ottawa, Canada K1A 0G5

Mr. Adrian C. Measner  
President and Chief Executive Officer  
The Canadian Wheat Board  
423 Main Street  
P.O. Box 816, Station Main  
Winnipeg, MB R3C 2P5

Dear Mr. Measner:

Pursuant to paragraphs 6(1)(c) and (c.01) of the *Canadian Wheat Board Act*, I am pleased to provide the Canadian Wheat Board with standing approval to borrow up to US \$2,000 million outstanding at any time under a Euro Medium Term Note Program. These borrowings are subject to the terms and conditions set out in Annex A and are for the period August 1, 2005, to July 31, 2006.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ralph Goodale', written over a large, stylized flourish.

Ralph Goodale

Attachment

c.c.: The Honourable Reg Alcock, P.C., M.P.

Annex A

The Canadian Wheat Board  
Euro Medium Term Note Program

|                             |  |
|-----------------------------|--|
| Facility:                   | Continuously offered medium term note program.   |
| Currencies:                 | Globally acceptable convertible currencies including, but without limitation:<br><br>U.S. dollars<br>Canadian dollars<br>Australian dollars<br>New Zealand dollars<br>Euros<br>Pounds Sterling<br>Hong Kong dollars<br>Japanese yen<br>Swedish krona<br>Danish krone<br>Swiss francs |
| Aggregate Principal Amount: | Up to US \$ 2,000 million (or its equivalent in other currencies described above) outstanding at any time.<br>Remaining maturities above 10 years shall not exceed US \$ 800 million outstanding (or the U.S. dollar equivalent if in other currencies).                             |

|                      |   |
|----------------------|---|
| Maturities:          | Money Market (1)<br>Terms of 365 days or less (366 days<br>in leap years).  |
|                      | Medium Term Notes (1)<br>Terms exceeding 365 days (366 days<br>in leap years) to 15 years.  |
| All-In Cost:         | Shall approximate like termed<br>Government of Canada Crown<br>corporation market borrowing rates.<br>Funds must be swapped to short-term<br>Canadian or U.S. dollars.  |
| Form of Notes:       | One or more Temporary Global Notes, to<br>be replaced by Permanent Global Notes<br>and/or definitive notes.   |
| Swap Counterparties: | To be one or more international financial<br>institutions meeting the Minister of<br>Finance's Risk Management and Credit<br>Policy Guidelines for Crown<br>Corporations (including the subsequent<br>February 21, 2000 amendment<br>addressing swaps of greater than 10.5<br>years). |

- (1) For purposes of clarity, Notes with varying terms of 365 days or less (366 days in leap years) will be reported as Money Market outstandings, and Notes with varying terms exceeding 365 days (366 days in leap years) up to 15 years will be reported as Medium Term Note outstandings.

## Appendix D Sales and Movement Program Highlights

### Sales Targets by Region – CWB Grains and Product

(thousand tonnes)

| Market  | Wheat                 |                       | Durum                 |                       | Feed Barley           |                       | Malting Barley        |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 2006-07 <sup>1/</sup> | 2005-06 <sup>2/</sup> | 2006-07 <sup>1/</sup> | 2005-06 <sup>2/</sup> | 2006-07 <sup>1/</sup> | 2005-06 <sup>2/</sup> | 2006-07 <sup>1/</sup> | 2005-06 <sup>2/</sup> |
| Domestic  | 2 400                 | 2 440                 | 300                   | 300                   | -                     | -                     | 320                   | 270                   |
| Export Products <sup>3/</sup>                   | 185                   | 185                   | 35                    | 35                    | -                     | -                     | 650                   | 630                   |
| <b>Total</b>                                    | <b>2 585</b>          | <b>2 625</b>          | <b>335</b>            | <b>335</b>            | <b>-</b>              | <b>-</b>              | <b>970</b>            | <b>900</b>            |
| <b>Exports by Region<sup>4/</sup></b>           |                       |                       |                       |                       |                       |                       |                       |                       |
| Asia/Pacific                                    | 5 687                 | 4 759                 | 345                   | 845                   | 200                   | 328                   | 727                   | 628                   |
| The Americas                                    | 4 585                 | 3 267                 | 1 172                 | 1 184                 |                       | 7                     | 548                   | 227                   |
| Europe/Africa/ Middle East/Central Asia/ Russia | 2 860                 | 2 874                 | 2 075                 | 2 520                 | 300                   | 999                   | 125                   | 55                    |
| <b>Total Exports<sup>5/</sup></b>               | <b>13 317</b>         | <b>11 085</b>         | <b>3 627</b>          | <b>4 584</b>          | <b>500</b>            | <b>1 334</b>          | <b>2 050</b>          | <b>1 540</b>          |
| <b>Total Sales</b>                              | <b>15 717</b>         | <b>13 525</b>         | <b>3 927</b>          | <b>4 884</b>          | <b>500</b>            | <b>1 334</b>          | <b>2 370</b>          | <b>1 810</b>          |

1/ 2006-07 targets as at May 12, 2006. All numbers are in bulk grain equivalent.

2/ 2005-06 targets as at May 12, 2006.

3/ Wheat export targets include flour only, Durum includes semolina only and Malting Barley includes Malt only.

4/ Includes expected food aid donations.

5/ Includes products.

### Supply and Disposition – CWB Grains

(thousand tonnes)

|                       | Wheat         |               | Durum        |                       | Barley        |                       |
|-----------------------|---------------|---------------|--------------|-----------------------|---------------|-----------------------|
|                       | 2006-07       | 2005-06       | 2006-07      | 2005-06 <sup>1/</sup> | 2006-07       | 2005-06 <sup>1/</sup> |
| Total Carry-in        | 5 705         | 5 172         | 2 996        | 2 521                 | 2 958         | 3 344                 |
| Production            | 19 524        | 18 876        | 3 952        | 5 915                 | 10 860        | 11 664                |
| <b>Total Supplies</b> | <b>25 229</b> | <b>24 048</b> | <b>6 948</b> | <b>8 436</b>          | <b>13 818</b> | <b>15 008</b>         |
| Less:                 |               |               |              |                       |               |                       |
| Total Domestic        | 6 615         | 7 258         | 1 000        | 980                   | 9 279         | 9 233                 |
| Total Carry-over      | 5 299         | 5 705         | 2 313        | 2 996                 | 1 989         | 2 958                 |
| <b>Total Exports</b>  | <b>13 315</b> | <b>11 085</b> | <b>3 635</b> | <b>4 460</b>          | <b>2 550</b>  | <b>2 817</b>          |

as at May 11, 2006

1/ With available capacity, Durum and Barley exports may exceed current projections.

**2006-07 Projected Exports of Wheat, Durum and Barley (not including products)**  
**(thousand tonnes)**

|              | <b>Churchill</b> | <b>Interior</b> | <b>St. Lawrence</b> | <b>Thunder Bay</b> | <b>West Coast</b> | <b>Totals</b> |
|--------------|------------------|-----------------|---------------------|--------------------|-------------------|---------------|
| Aug-06       | 163              | 87              | 355                 | -                  | 504               | 1109          |
| Sep-06       | 110              | 101             | 285                 | 20                 | 638               | 1154          |
| Oct-06       | 115              | 144             | 496                 | 32                 | 800               | 1587          |
| Nov-06       | -                | 168             | 420                 | 55                 | 1010              | 1653          |
| Dec-06       | -                | 185             | 406                 | 40                 | 1005              | 1636          |
| Jan-06       | -                | 187             | 407                 | -                  | 1032              | 1626          |
| Feb-06       | -                | 199             | 393                 | -                  | 1039              | 1631          |
| Mar-06       | -                | 187             | 407                 | -                  | 1023              | 1617          |
| Apr-06       | -                | 198             | 481                 | 25                 | 1023              | 1727          |
| May-06       | -                | 187             | 448                 | 10                 | 1014              | 1659          |
| Jun-06       | -                | 198             | 436                 | 30                 | 1032              | 1696          |
| Jul-06       | -                | 185             | 309                 | 10                 | 1024              | 1528          |
| <b>Total</b> | <b>388</b>       | <b>2026</b>     | <b>4843</b>         | <b>222</b>         | <b>11144</b>      | <b>18623</b>  |

as at May 12, 2006

Because of rounding, totals may not add.