

# INNOVATIVE THINKING



THE CANADIAN WHEAT BOARD 1996-1997 **ANNUAL REPORT**

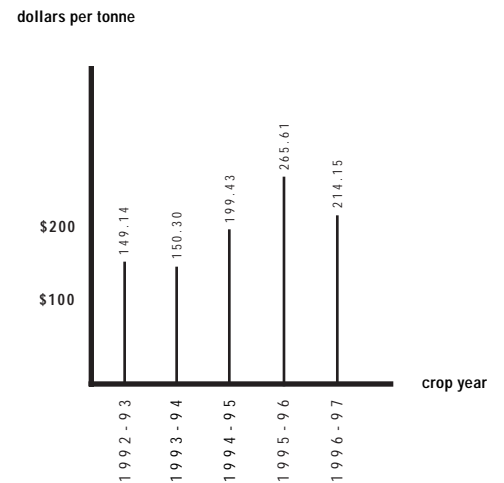


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## CWB AVERAGE SALES VALUES IN STORE VANCOUVER/ST. LAWRENCE

The CWB achieved strong sales values for all four pool accounts in the 1996-97 crop year. However, prices fell short of the record levels established in the 1995-96 crop year, as world supplies of wheat and coarse grains rebounded.

Average sales values reflect total revenues divided by the tonnes delivered by farmers for each pool.



WHEAT

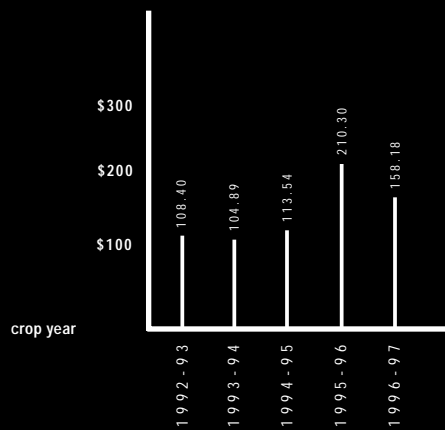
# EXPECTATION

dollars per tonne



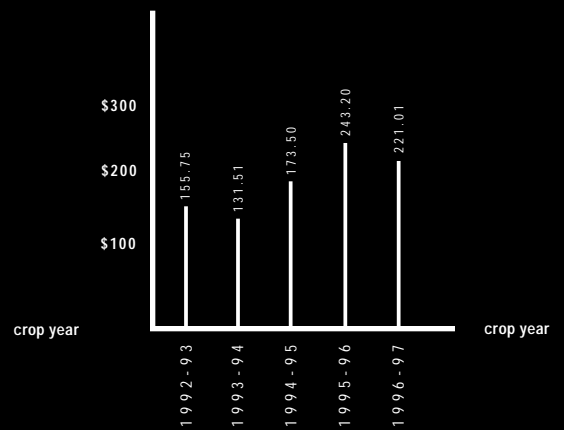
DURUM

dollars per tonne



BARLEY

dollars per tonne



DESIGNATED  
BARLEY

## 1

## CORPORATE PROFILE

# WE WORK FOR FARMERS

As the fifth largest export earner in Canada, the Canadian Wheat Board (CWB) markets wheat and barley on behalf of more than 110,000 Prairie producers to more than 70 countries around the world. The CWB was created out of a simple concept: if farmers join together to sell their grain rather than selling it individually, they will be able to extract more money from the world market.

All of the CWB's sales revenues belong to western Canadian farmers. Therefore, all proceeds from sales each year, less our marketing and administrative costs, are returned to producers. Farmers' marketing strength comes from the fact the CWB stands alone in supplying western Canadian wheat and barley to the world market and the Canadian market for human consumption. As a full-service marketer and sole seller of these grains, we are able to achieve the best possible price, providing excellent value for farmers.

## 2

## A MESSAGE FROM THE

## COMMISSIONERS

The grain industry in Canada is undergoing a period of unprecedented change. The consolidation of the grain elevator handling system and the closing of railway branch lines are quite literally changing the Prairie landscape. In addition, farmers are only now starting to feel the full effect of the repeal of the Western Grain Transportation Act, which brought an end to rail subsidies on August 1, 1995. These additional transportation costs are weighing heavily on many farmers, especially those located in the eastern Prairies.

We are listening to farmers. As their costs continue to climb, farmers have told us they need more flexibility in pricing options. They also want their marketing agency to be more accountable. The CWB has conveyed this message to the federal government many times in public hearings and written submissions. Our efforts were rewarded when, in December 1996, the federal government introduced proposed legislation into Parliament to amend the *Canadian Wheat Board Act*. We are confident this proposed legislation will enable us to serve farmers better. Perhaps most importantly, these amendments address the need to give farmers greater control and ownership of their marketing agency through the creation of a new board of directors, the majority of whom will be elected by farmers. This new corporate structure will be a

major step in providing farmers the accountability they seek.

The government's proposed legislation also enables the CWB to offer farmers important new tools for managing cash flow over the course of the marketing year. While we remain committed to the principle of price pooling, whereby farmers share in the revenues from sales over the course of the crop year, we recognize that some farmers have more demanding cash flow requirements than others. We want to provide these farmers with some financial flexibility in managing their operations. The provision for early cash-out from the pool, for example, should aid those farmers who are seeking a broader range of payment options.

The proposed legislation strikes a delicate but important balance among the diverse needs of farmers, offering a new degree of flexibility while maintaining fundamental principles such as price pooling, single-desk selling and federal government guarantees. Since the proposed legislation was not proclaimed into law before the federal election in June 1997, the federal government introduced new amending legislation immediately after the Thirty-sixth Parliament began sitting in September 1997.

Barley marketing took centre stage for much of the 1996-97 crop year. In

January 1997, the CWB released an independent study conducted by four agricultural economists. The results showed that our position as the sole seller of Canadian barley in the export market is worth on average an additional \$72 million per year compared to what would be attainable if there were many sellers. The study, entitled *The CWB and Barley Marketing*, concludes our market share, combined with our ability to price differently to different customers, provides significant advantage in world markets and is directly responsible for the additional revenue.

Then, in February 1997, farmers mailed their ballots in the federal government's vote on barley marketing, voting either for the open market option or the single-seller option. Farmers voted to maintain the current single-seller system, with almost 63 per cent of the ballots cast in favor of retaining the CWB's role in barley marketing. The vote demonstrated the CWB system of marketing has solid support from a majority of Prairie farmers.

In 1996-97, we continued to take bold steps that will shape the Canadian grain industry of tomorrow. In an unprecedented move, we brought forward a challenge of the level of service provided by Canada's two largest railways. In the 1996-97 crop year, farmers produced a bountiful

crop – the largest barley crop on record and the fourth largest wheat crop. Yet, grain exports were significantly hampered by the inability of Canadian National and Canadian Pacific Railway to move grain from the Prairie region to eastern and western ports and to U.S. destinations. We estimate we lost one full month's worth of exports in the 1996-97 crop year as a result of the transportation logjam. We believe the broad scope of our business puts us in a unique position to hold Canada's railways accountable and in April 1997 we launched our challenge with the Canadian Transportation Agency (CTA). Although this challenge will be complex, requiring a significant investment of employee time and effort, we believe it

is necessary to ensure that farmers receive full value for their freight costs.

Throughout this annual report, we have demonstrated our ability to tackle difficult problems and find creative solutions, from launching the CTA case to moving grain out of flood zones to holding the first annual malting barley quality competition. We fully recognize that our success in meeting challenges head on is the result of the efforts of our dedicated and talented employees. The CWB is a relatively small corporation in terms of the number of employees, yet we are one of the world's most successful exporters of grain, with sales revenues topping a record \$6 billion in the 1996-97 crop year.

In the years ahead, the grain industry will face many challenges, including: the federal review of the Canadian grain transportation system that must take place before 1999; the need to develop strategies to market genetically modified crops; the re-shaping of our wheat quality control system; and, the World Trade Organization Agreement on Agriculture to be negotiated in 1999. As we confront each of these challenges, we will take seriously our responsibility to represent the interests of the more than 110,000 western Canadian farmers we serve.

		
		
LORNE HEHN CHIEF COMMISSIONER	RICHARD KLASSEN COMMISSIONER	GORDON MACHEJ COMMISSIONER

## 3

## MEETING NEW CHALLENGES

## HEAD ON

We are constantly searching for ways to do things better. By challenging ourselves, we will improve our service to western Canadian farmers and our customers.

#### AMENDMENTS TO THE CANADIAN WHEAT BOARD ACT

The current generation of farmers is witnessing the total reengineering of the Prairie grain marketing system. In December 1996, after extensive consultations with Prairie farmers and members of the grain industry, Canada's Minister of Agriculture and Agri-Food, the Honourable Ralph Goodale, introduced into Parliament amendments to the *Canadian Wheat Board Act*. Many of the CWB's proposals for change were included in the federal government's amending legislation. Although the process came to a halt with the federal election call in April 1997, the

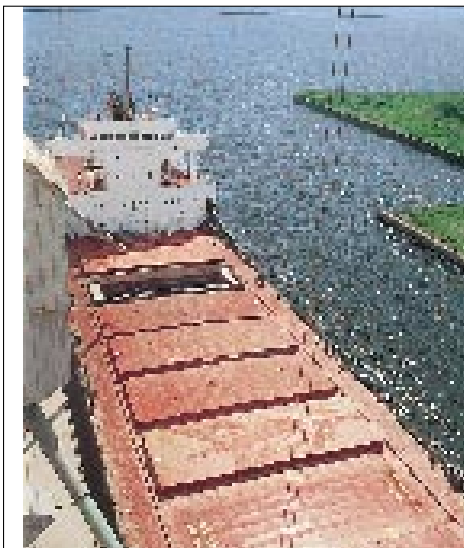
government signalled its commitment to the proposed legislation by introducing Bill C-4 into Parliament on September 25, 1997, the day the first session of the Thirty-sixth Parliament began.

If the amendments to the *Canadian Wheat Board Act* are implemented, the CWB will undergo the most dramatic changes of its 62-year history. The new CWB will have expanded responsibilities and new tools to provide producers with greater flexibility, especially where pricing options are concerned. Perhaps most importantly, these broader responsibilities will be vested in a new board of directors, the majority of whom will be elected by farmers. In proposing this structure, the federal government has recognized that we are and must continue to be a farmers' marketing agency, run by and for western Canadian farmers.

#### GRAIN TRANSPORTATION

The winter of 1997 will be remembered as the time that more than 40 grain vessels anchored off Canada's West Coast waited their turn to load grain destined for customers in countries such as Japan, Iran and China. From December 1996 to March 1997, the grain needed to fill these vessels reached export position at a pace too slow to keep up with sales commitments.

Concerned with this level of service and the effect it could have on Canada's international reputation as a reliable supplier of grain, we filed a level of services complaint to the Canadian Transportation Agency (CTA) in Ottawa on April 14, 1997. In the complaint, we charged that Canadian National and Canadian Pacific Railway failed to provide



A vessel at berth to load grain.

adequate transportation services for grain movement from the Prairies to eastern and western ports and to U.S. destinations. Our goal in launching the CTA complaint, scheduled to be heard in the spring of 1998, is to preserve Canada's reputation as a reliable supplier of grain by ensuring greater efficiency and improved capacity in rail transportation.

Prairie farmers suffered significant losses due to the railways' inability to meet previously established rail car unload targets. Losses in revenue to the pool accounts, combined with penalties for delayed loading of vessels, resulted in a direct loss to farmers of more than \$60 million. We intend to hold the railways accountable for this poor performance.

#### CHARTER CASE

In October 1993, the Alberta Barley Commission, the Western Barley Growers Association and 21 individual farmers launched a legal challenge against the CWB. In April 1997, the Federal Court ruled the Canadian Wheat Board does not infringe on freedoms set out in the *Canadian Charter of Rights and Freedoms*.

#### MOVING GRAIN OUT OF FLOOD-PRONE AREAS

With the flood of the century expected to hit southern Manitoba in May 1997, we recognized that grain stored in the Red River Valley was at risk. In February, we participated in public meetings encouraging farmers to

move their grain to higher ground. Then, we made provisions for farmers in the Red River Valley and parts of Saskatchewan to deliver the grain they had contracted, regardless of whether or not delivery calls were authorized. As a result, we moved more than 100 000 tonnes of wheat and barley out of the flood-prone area prior to the flood, preventing further hardship for farmers whose properties were completely flooded.

Marlys and Jerry Pearse leave their farm to escape floodwaters near Dominion City, Manitoba.





## 4

## NEW WAYS OF

## TALKING TO EACH OTHER

When it comes to communicating, there is no better way to do it than face to face. That's why we intensified our efforts to meet with producers, either in the Winnipeg office or closer to their farms.

## REACHING OUT TO FARMERS

Our employees made more than 90 presentations over the course of the year, covering almost every corner of the three Prairie provinces. They spoke at grain marketing clubs and industry conferences and made presentations to delegates from grain cooperatives and grain companies. From grain transportation to delivery policy, we covered it all.

We also met with farmers in casual settings, hosting a series of four dinner meetings. Each of the meetings included a speaker from the CWB and time for questions. Our original goal of 100 participants at each meeting was nearly doubled. The social evenings drew a total of 424

people to the two dinners in Saskatchewan and another 459 to the two in Alberta.

Over the course of the year, we participated in 17 rural trade show, meeting with thousands of farmers who stopped by our booth. For the first time, we also tackled an urban trade show, in an effort to explain the important role farmers play in the lives of all Canadians. Given the positive feedback from our booth at *Taste of Manitoba* in Winnipeg, we are planning to expand our participation in urban trade fairs.

The *Windows to World Markets* crop plots allow our staff to meet with farmers right in the fields. We originally hoped for eight to 10 crop plots, but thanks to strong interest and good growing conditions, 13 sites were seeded, cared for and put on display at crop demonstration field days. More than 1,000 people took in the 13 field days.

The objective of the *Windows to World Markets* program is to explain customers' quality requirements, as well as to update farmers on our sales and market development efforts. The *Windows to World Markets* field day near Headingley, Manitoba was the exception, as its main objective was to reach the urban population. Located on the Trans-Canada Highway near Winnipeg, the site was hard to miss, marked by a row of 50 flags of some of the countries that purchase Canadian wheat and barley. Following the success of the Headingley crop plot, another urban plot is being considered near Regina, Saskatchewan.

As part of our ongoing efforts to communicate directly with farmers we held 29 *Grain Day* meetings across the Prairies. A total of 1,827 farmers came to these meetings in 1996-97 compared to 1,153 in 1995-96.



left: A crowd gathers at the CWB's *Windows to World Markets* field day near Trochu, Alberta.

right: *Go with the Grain* participants gather at the Forks in Winnipeg in the summer of 1997. Shown are: (l to r) Richard Mead, Dave Anderson (second row), Edith Mead, Carola Anderson (second row), Vi Dewar, Jeanette Biberdorf, Gerald Biberdorf and the CWB's Tracey Bryksa.

As a new initiative, we published a newsletter specifically designed for barley growers. *Go Malting!* was first published in December 1996, in consultation with a malting barley industry group. The aim of the publication is to keep farmers aware of grain delivery, marketing and processing issues related to malting barley.

In order to provide farmers and elevator staff with information that is clear and simple to use, we revised several of our major policy guides, including the *Farmer's Grain Delivery Guide* and the *Elevator Manager's Guide*, which is now called the *Country Elevator Guide*. Our goal is to make all of our material more user friendly. We will continue to expand our efforts to ensure that all CWB publications conform with the principles of plain language writing.

#### FARMERS VISIT THE CWB

While many farmers attended CWB events in their communities, others

decided to see the organization for themselves. A total of 1,553 people toured the CWB during the 1996-97 crop year.

We took a more pro-active role in bringing people into our Winnipeg headquarters with a new series of tours called *Go with the Grain*. Six groups of farmers came to Winnipeg for three days to tour the CWB, the Winnipeg Commodity Exchange, the Cereal Research Centre, the Canadian Grain Commission and the Canadian International Grains Institute. We continue to promote these tours as a way for farmers to learn more about different facets of the grain industry in Western Canada.

Farmers who were unable to visit the CWB's Winnipeg office in person made good use of our toll-free telephone service. Our 1-800 call centre received substantially more calls in its second year of operation as farmers became more aware of this service. The toll-free line, 1-800-ASK-4CWB

(1-800-275-4292), received 165,000 calls in the 1996-97 crop year, up from 122,000 the year before. Staff at the call centre also telephoned many farmers to give them timely information about grain delivery contracts.

#### INTERNET LIFT-OFF

In January 1997, the CWB officially launched its web site at [www.cwb.ca](http://www.cwb.ca). We had nearly 25,000 visitors in less than six months, surpassing all of our expectations. Farmers tell us they make return visits to our web site to keep track of initial payments, Pool Return Outlooks and delivery calls. Other farmers use the Internet for two-way communication. We receive about 20 e-mails each week from farmers making suggestions or asking questions related to grain marketing.

With increased services and growing interest in the Internet, we expect more than 100,000 visitors to come to our site in the upcoming crop year.

*Go Malting!*, a newsletter for barley growers, is published in cooperation with members of the Canadian malting barley industry.



## 5

## STRONG PARTNERSHIPS AND

## NEW OPPORTUNITIES

Successes in the Canadian grain industry come from working together. Just as the air seeder needs the tractor, the CWB cannot work without strong, productive relationships with industry partners.

#### STIMULATING VALUE-ADDED PROCESSING

The repeal of the Western Grain Transportation Act in 1995 created tremendous interest in value-added processing in Western Canada. Prairie farmers began actively looking for ways to avoid high freight costs and process their grains closer to home.

In 1996-97, we continued our efforts to create a positive environment for investment in cereal processing by holding one-day workshops in Dauphin and Portage la Prairie,

Manitoba on value-added opportunities for producers. The workshops were sponsored in part by Manitoba Agriculture and were a mini version of the CWB's first *Moving Up Market* conference, held in Saskatoon, Saskatchewan, in June 1996.

Building on the success of the first value-added conference, we planned the second annual *Moving Up Market* conference for 1997-98 in Calgary, Alberta.

Value-added processing of wheat and barley encompasses milling, malting, baking and the transformation of these grains into nutraceuticals and other industrial products.

#### PRO-ACTIVE ON PROTEIN

Our customers pay premiums for wheat based on protein content. When high protein wheat is in short

supply, the premiums may be large. Conversely, when supplies of high protein wheat are widely available, premiums shrink. Farmers can often influence the protein content of their wheat through effective crop management. The challenge for western Canadian farmers is to make effective soil fertility management decisions when the protein premiums are not known for the coming year. This is where the Prairie Protein Action Committee comes in.

The committee was formed in 1997 with the goal of providing farmers as much information as possible to help them evaluate the relative value of protein. It is made up of members representing a wide spectrum of the grain industry: plant breeders, soil and cereal scientists, fertilizer industry representatives and provincial agriculture extension specialists.



A wide variety of value-added products can be made from Canadian wheat.

The committee is also working to identify and monitor research relating to management of protein quality and quantity. As part of this work, a Wheat Protein Symposium is being held in 1998 in Saskatoon, Saskatchewan.

#### FAIR VALUE FOR GRAIN

When farmers deliver their grain, we want to pay them as accurately as possible for their product. We worked closely with the Western Grain Elevator Association in the 1996-97 crop year to prepare for paying farmers for the relative value of each one-tenth of a percentage increase in protein. We are also investigating paying farmers for grain on a dry matter basis.

#### PREPARING FOR A NEW CASH ADVANCE PROGRAM

The federal government implemented a new cash advance program under the *Agricultural Marketing Programs*

*Act* at the beginning of the 1997-98 crop year. The CWB administers wheat and barley cash advances on behalf of the federal government. To assist with the transition from one program to another, we held 40 meetings with elevator managers, their employees and grain company head office staff. We not only explained policies and procedures, but also received important feedback that helped us develop cash advance application forms and policies.

#### SEARCHING FOR QUALITY MALTING BARLEY

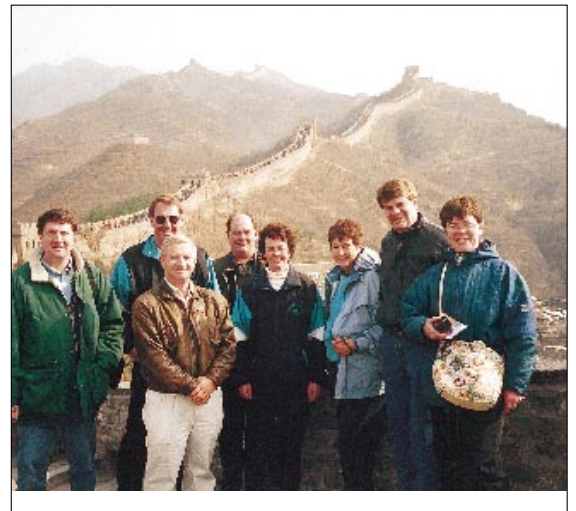
The search was on for the best malting barley growers in 1996-97. As a member of the Barley Development Council, the CWB was pleased to be a major sponsor of the first annual *Malting Barley Quality Competition*, designed to broaden awareness of the quality factors that make barley suitable for malting.

As growers submitted samples of their malting barley to selectors, the selecting company automatically entered them in the competition. An independent panel of judges, including grain company selectors and malting barley breeders, chose the best two-row and six-row samples submitted from regional crop districts.

Provincial winners were invited to participate in customer visits. The CWB took the winners in the two-row category to China where they toured malt houses and breweries and met with buyers. Six-row winners were taken on a tour of three U.S. cities by trip sponsors XCAN Grain, Cargill and UGG. They met with representatives of Anheuser-Busch, Miller Brewing Company and Cargill's Ladish Malting Co. and toured the Minneapolis Grain Exchange.

The winners of the *Malting Barley Quality Competition*, two-row category, travelled to China to meet with buyers of western Canadian malting barley.

Shown at the Great Wall of China are: (l to r) Michael Brophy, CWB; Eldon Brick, from Netherhill, Saskatchewan; James Stanger from Drumheller, Alberta; Fred Bartheaux from Birtle, Manitoba; Lorna Brick; Eileen Stanger; Paul Westdal, Canadian International Grains Institute; and Shirley Bartheaux.



### FINDING DIFFERENT ROUTES TO MOVE GRAIN

The transportation crisis in 1996-97 spurred the CWB to look at alternative routes to move grain. Over 100 000 tonnes of grain were moved through the U.S. for non-U.S. destinations. This included a shipment through the Pacific Northwest (PNW) from Portland, Oregon.

In February 1996, 23 000 tonnes of milling wheat were loaded into Burlington Northern rail cars out of AgPro Grain facilities in Winnipeg, where the grain had been pre-cleaned. The grain was then railed directly to

Portland and loaded on a vessel bound for the Philippines.

Rail freight rates to the PNW are about \$20 per tonne higher than rates for comparable movement in Canada. But, given the major problems the industry faced in exporting grain out of the West Coast in the early months of 1997, we were able to work with the industry to make this sale viable, putting additional sales on the books in a premium-priced period.

For the second time in two years, we also worked with farmers, accredited exporters and the

Canadian Grain Commission to send shipments by rail to Mexico and through the Gulf of Mexico to destinations in Latin America.

### USING RESOURCES WISELY

Our association with the federal government provides a valuable service for farmers. All borrowings and credit sales are fully guaranteed by the Government of Canada. We use this federal government guarantee to earn farmers money every year and in the 1996-97 crop year, our interest earnings were nearly double the CWB's \$47 million administration costs.



Grain is loaded in Winnipeg and railed through the U.S. to Portland, Oregon for loading onto a vessel destined for the Philippines.

6

BUILDING

# STRONG MARKETS

We work with long-time customers and new markets, promoting Prairie-grown wheat and barley at home and around the world.

### VENTURING INTO VIETNAM

Vietnam is a growth market for Canadian wheat. The Asian country is shifting from a flour-based market to a grain-based market. By the year 2000, overall wheat imports could increase to as much as 300 000 to 400 000 tonnes per year, from current imports of less than 100 000 tonnes.

In March 1997, the CWB led a market development mission to Vietnam to encourage millers to buy top-quality Canadian wheat. The mission was followed up by a seminar in June 1997 to demonstrate the end uses of Canadian wheat classes. In the fall

of 1997, the CWB sold wheat to a new flour mill in Vietnam. This sale represented the first-ever shipment of wheat to the new mill.

### THAILAND'S COMMITMENT TO CANADIAN WHEAT

Since 1973, we have sent 25 marketing missions to Thailand, working to build strong relationships and promoting the use of Canadian wheat. This work paid off again in January 1997, when the CWB and seven flour millers in Thailand signed a Letter of Agreement aiming to surpass one million tonnes of Canadian wheat imports over the next five years. Commissioner Gordon Machej signed the agreement during the Team Canada trade mission to Asia, in the presence of Prime Minister Jean Chrétien and the Prime Minister of Thailand, Chavalit Yongchaiyudh.

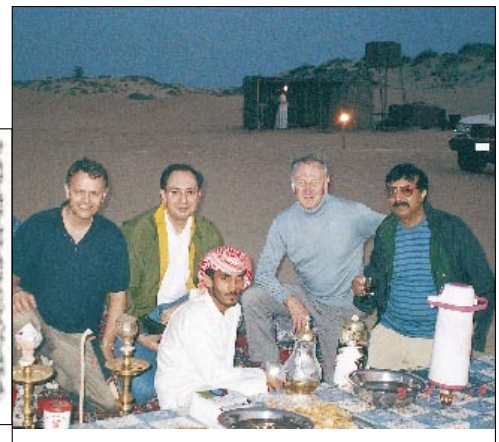
### MISSION TO THE UNITED ARAB EMIRATES

In March 1997, the CWB participated in a two-week investigative mission to the United Arab Emirates. Together with representatives from the Canadian Grain Commission and the Canadian International Grains Institute, we met with Arab millers and bakers to investigate market potential. The CWB had not ventured into this market since before the Gulf War, which began in early 1991. Within two months of the mission, we sold wheat to the United Arab Emirates, marking the first shipment of Canadian wheat to this country since 1989. Since then, we have continued to make regular wheat sales to the United Arab Emirates.

left: A copy of the CWB Letter of Agreement with seven flour millers in Thailand.



right: The Canadian delegation stops for dinner in the desert on a tour hosted by the Gulf Import and Export Co. in the United Arab Emirates. The Canadian team (kneeling) from l to r: Earl Geddes, CWB Program Manager, Market Development; Ramzy Yelda, CWB Marketing Manager, Middle East; Dr. Phil Williams, Program Manager at the Canadian Grain Commission's Grain Research Laboratory; and Ashok Sarkar, Head, Milling Technology, Canadian International Grains Institute.



## 7

TODAY'S PERFORMANCE IS

## TOMORROW'S SUCCESS

We are working not only for the present, but also for the next generation of farmers.

## WORKING TOWARDS 2000

The CWB is a leader among Canadian businesses in dealing with the Year 2000 problem. We were one of the first organizations in Canada to respond to the inability of some computer programs to recognize dates beyond December 31, 1999. We began work to correct the problem in 1995, pioneering some techniques that are now in use outside the CWB.

Our strategy has been to repair some applications and replace others. Careful consideration has gone into determining which programs are worth rewriting and which ones should be replaced. We rely on computer software to record grain inventories, producer payments and grain sales, so we have put significant resources into modifying our computer infrastructure.

## IMPROVING OUR FINANCIAL REPORTING SYSTEMS

We have started a corporate-wide initiative to replace and re-engineer our financial reporting systems to better provide managers with the information they need to make decisions quickly and accurately. For example, we will be able to monitor grain inventory more closely as it moves from the country elevator system right through to export position, allowing us to provide better service to our customers. In addition, improved cash management systems for tracking payables and receivables will provide managers with up-to-the-minute information on demand.

## SUPPORTING OUR PEOPLE

The key factor in developing and delivering the benefits promised by modern technology is people. We recognize that change in technology places new demands on employees and the roles they are expected to play. In 1996-97, we established a Change Management function within

our Human Resources Department, in order to match employee skills with the changing requirements of the corporation. Our goal is to train existing employees for new roles, thereby retaining the benefits of their in-depth knowledge of the CWB.

We recognize that change in the workplace can be stressful and we want to provide our employees with as much support and information as possible. We are in the process of implementing a human resource information system, which includes reviewing all human resource activities at the CWB. In 1996-97, we conducted a pilot project to provide employees with personal information on their salaries and benefits through their computer workstations. We are targeting the 1997-98 crop year to provide all employees and management with better human resource tools, including improved access to personal information, training and information to assist in career planning.

The CWB had 491 permanent employees as of July 31, 1997. We expect our employees to maintain a



Suzanne Sawchuk, one of the CWB's receptionists.

high standard of performance and in 1996-97 our compensation policies were revised to reflect that. Our policies, geared towards performance, are aimed at retaining superior staff in a highly competitive industry.

#### SENIOR STAFF CHANGES

There were several senior staff changes during the 1996-97 crop year. Ward Weisensel was appointed Head, Corporate Policy, in September 1996, replacing Dr. Harvey Brooks, who had resigned from that position in August 1996. Cecil Wright, General Director of Information Technology, resigned May 31, 1997. Greg Hauser, on contract to the CWB, assumed Mr. Wright's role. Gordon Bacon, Director of Market Development, resigned in August 1997. Gordon Flaten will be taking over this position in the 1997-98 crop year. Keith McMahon was appointed Corporate Controller in January 1996.

In addition, in January 1998, Dr. Brian Oleson, Executive Director, Planning

and Communications, was seconded to fill the new position of Agribusiness Chair in Cooperatives and Group Marketing at the University of Manitoba until December 2000.

#### WHEAT QUALITY ASSURANCE

The CWB is working with the Canadian Grain Commission (CGC) to propose changes to Canada's wheat quality assurance system. These changes will increase Canada's competitive advantage in world grain markets and will benefit producers and international customers.

Some customers are starting to demand more specific quality requirements. New, more precise methods of testing quality are being developed and the cost of this testing equipment is getting less expensive. Through new scientific methods, plant breeders are better able to develop new varieties which offer higher yields, better control of diseases or shorter days to crop maturity. In

this dynamic environment, our current system of wheat quality is becoming more confining.

During the 1996-97 crop year, the CWB and CGC met with farmer focus groups across the Prairies and with representatives from grain companies, industry associations, universities and government agencies. The consensus from these meetings is that our quality assurance system has worked well, but could restrict Canada's marketing options in the future. Participants cautioned against changing the system too rapidly and requested more information on how proposed changes would affect the system.

Following the consultations, action plans were developed by the CWB and the CGC and distributed to grain industry participants for comment. These plans form a blueprint on how the industry will pursue changes to its wheat quality assurance system in the future.

Dr. Fred Townley-Smith, a wheat breeder at Agriculture and Agri-Food Canada's Cereal Research Centre in Winnipeg, checks a test plot of wheat.





## 8

## CROP YEAR

## IN REVIEW

## CWB HITS NEW RECORD IN TOTAL SALES

A combination of higher-than-average prices and increased production of wheat and barley in Western Canada led the CWB to its highest sales values on record. Sales values from the four pool accounts – wheat, durum, barley and designated barley – from sales to domestic and export markets reached \$6.1 billion in 1996-97, surpassing the 1995-96 record of \$5.8 billion.

This sales performance continues to solidify the CWB's position among the top ten Canadian exporters. Only the three major car manufacturers (General Motors of Canada Ltd., Chrysler Canada Ltd. and Ford Motor Co. of Canada Ltd.) and IBM Canada Ltd. generate more sales revenue from exports than the CWB.

(Top 50 exporters. *The Globe and Mail Report on Business Magazine*, July 1997).

While the organization posted record sales values, this did not translate into record profits for farmers. In addition to rising input costs, farmers paid a freight and handling bill of over \$1 billion. These costs have increased substantially in the last few years.

Prices for wheat, durum and barley were generally strong throughout 1996-97 but had fallen sharply from the 1995-96 record as world wheat and coarse grain supplies rebounded. All major wheat exporters – the United States, Canada, the European Union (EU), Australia and Argentina – increased wheat acreage in an effort to replenish low stocks. World wheat production reached 583 million tonnes in 1996-97, up 46 million tonnes from 1995-96. Coarse

grain production increased 103 million tonnes to 905 million tonnes in 1996-97. As a result, the average sales values per tonne for all four pool accounts fell in 1996-97 compared to the previous year.

## A LESS-THAN-PERFECT GROWING SEASON

Wheat and barley seeding got off to a slow start in the spring of 1996. Flooding in the Red River Valley and the Regina plains, as well as above average spring rainfall through the northern Prairies in early May, delayed seeding. Generally cool temperatures throughout June and July kept plant development behind normal and increased concerns about the possibility of frost damage. The month of August, however, was hot and dry across most of the Prairies, with the exception of the Peace River area and parts of northeastern Saskatchewan, accelerating plant development and maturation.



Joachim Hengerer farms with a clear view of the mountains near Pincher Creek, Alberta.

Harvesting started in late August, but was halted the second week of September, at approximately 75 per cent complete, by frost in the northwestern Prairies. Cool, drizzly weather set in which delayed harvest through the remainder of September.

A snowstorm at the end of September affected most of Western Canada but was heaviest in the southern half of the Prairies. Quality of wheat and barley harvested after this storm was considerably poorer than the earlier harvest. Winter weather by the end of October left about five to six per cent of wheat and barley still unharvested.

Despite the slow start to seeding and the poor harvest weather, production of the six major grains in Western Canada reached a record 54 million tonnes. The increase in production was due to a combination of declining

summer fallow and an acreage shift from oilseeds to higher-yielding cereal crops.

With a massive volume of grain and oilseeds produced on the Prairies in the summer of 1996, the transportation system was challenged to move these grains to market on time. During the winter months, both Canadian National and Canadian Pacific Railway had difficulties meeting unload targets for wheat and barley previously established with the industry. As a result, the CWB's sales program and farmers' delivery opportunities were affected. The CWB scaled back each of its four contract series on certain grains and grades, initially in response to the large volumes of grain produced, and later due to slipping rail performance.

The CWB issued a special contract series, Series U, in the spring of 1997 for farmers with unthreshed grain. The

CWB also continued to accept grain deliveries for the 1996-97 crop year at congested delivery points, after the official close of the year.

#### AN EVER-CHANGING MARKETPLACE

The Canadian wheat and malting barley industries were the single largest market for western Canadian grain in 1996-97. Sales of non-durum wheat to the domestic milling market were 2.25 million tonnes, up 200 000 tonnes from 1995-96. Deliveries of malting barley to domestic maltsters for production of domestic and export malt hit 1.2 million tonnes, the same as in 1995-96.

On the export front, Iran topped the list as the largest export customer for milling wheat for the first time in the CWB's history. Iran, importing 2.03 million tonnes, replaced China as the largest volume export buyer.

Harvest nears completion on the Emerson Trail near Sexsmith, Alberta.



Iran also figured prominently in Canada's export sales of durum wheat as a result of the CWB negotiating the world's first-ever commercial export sale of durum to Iran. The sale of over 600 000 tonnes put Iran second behind Algeria in the volume ranking. Sales to Algeria topped 1.2 million tonnes in 1996-97.

In feed barley marketing, Saudi Arabia was again Canada's largest volume customer in the export market followed by Japan and Iran. For malting barley, the largest volume export customer was the U.S. China was second.

#### ANALYSIS OF WHEAT POOL ACCOUNT

Western Canadian non-durum wheat production totalled 25 million tonnes in 1996, up sharply from last year's 18.8 million tonnes. Seeded acreage devoted to wheat increased nearly

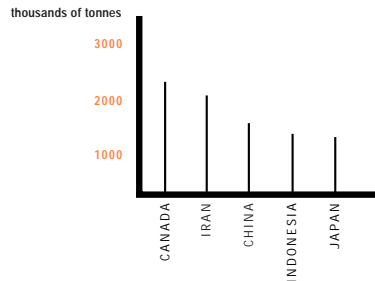
10 per cent over 1995-96, while flax and canola acreage slipped by 32 and 33 per cent respectively.

The poor harvest weather affected the overall grade pattern of the 1996 crop. Of the 20.5 million tonnes of Canada Western Red Spring (CWRS) wheat produced in 1996, less than one-third made the No. 1 grade. Seventeen per cent of the CWRS wheat grown graded feed wheat quality. Protein content, measured by the Canadian Grain Commission using Combustion Nitrogen Analysis (CNA) after August 1, 1996 (as opposed to the former Kjeldahl method) was generally similar or slightly lower in 1996 than 1995. The mean protein of No. 1 CWRS in 1996 was 13.1 per cent.

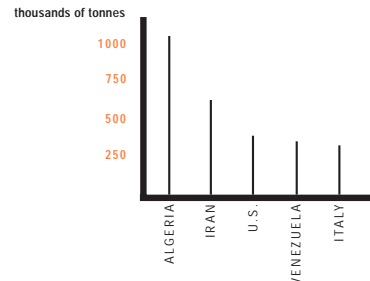
The CWB posted a record total sales value of \$4.23 billion on receipts of 19.8 million tonnes. This resulted in the third highest average sales value per tonne on record at \$214.15 in store Vancouver/St. Lawrence.

Operating costs on the wheat pool were up \$42 million from the year before. Demurrage, net of despatch earnings, was \$18.7 million in 1996-97, nearly double last year's figure. This was due to the severe rail transportation problems. Country elevator carrying charges were marginally higher overall, but they represented a lower cost per tonne because interest rates and the value of the product being financed were generally lower than the year before. Terminal storage costs were higher because of larger inventories and longer storage periods. Additional freight to terminals increased because more grain was moved from areas outside the traditional catchment areas. Additional freight costs were lower, reflecting a smaller freight rate increase of 1.7 per cent in 1996-97 compared to 6.5 per cent in 1995-96. Drying costs increased by over \$13.5 million dollars, reflecting

#### LARGEST VOLUME CUSTOMER COUNTRIES



**WHEAT**  
(excluding durum)



**DURUM**

the large amounts of tough and damp grain delivered by farmers. CWB administration expenses charged to the wheat pool account increased about \$5 million due to wheat accounting for a greater percentage of total deliveries to the CWB and therefore incurring a greater percentage of administration expenses. Administrative expenses were \$1.70 per tonne or 4.6 cents per bushel. (Total administration costs across all four pool accounts rose because of increased expenditures on computer equipment, recruitment and legal fees, as well as increased depreciation.) Interest earnings on the wheat pool account amounted to more than \$65 million this year.

#### ANALYSIS OF DURUM POOL ACCOUNT

Western Canadian durum wheat production slipped to 4.63 million tonnes in 1996. The grade pattern was marginally better than the previous year. Fifty per cent of the crop fell in the top two grades, compared to 44 per cent last year.

The protein in the top three grades of Canada Western Amber Durum (CWAD) was higher than 1995, but still below average. Mean protein for No. 1 CWAD was 12.8 per cent. The average sales value of the durum pool was \$247.96 per tonne in store Vancouver/St. Lawrence, the third highest on record. Receipts from producers were slightly lower than 1995-96, at 3.9 million tonnes.

Costs to the pool account decreased by approximately \$6 million in 1996-97 compared to the year before. Country elevator carrying charges were \$2.4 million lower due to lower interest rates and a lower per-tonne value of the product. Terminal storage costs were also lower due to relatively good export movement of durum through the East Coast ports. The CWB incurred demurrage of \$1.3 million (net of despatch earnings) due to the transportation problems. Additional freight to terminals decreased as most of the durum was moved from traditional catchment areas. Drying costs were substantially higher than

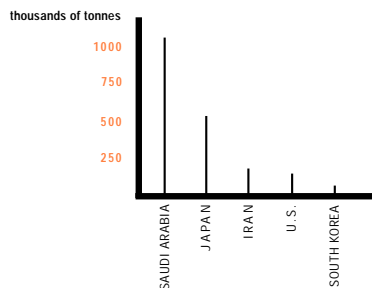
1995-96 costs, at \$2.1 million compared to \$78,000, due to larger amounts of tough and damp grain delivered to the CWB. Administrative expenses were almost \$2 million lower than in 1995-96 because durum wheat accounted for a lower percentage of the total receipts to the CWB and, therefore, absorbed a lower percentage of the total expenses.

#### ANALYSIS OF BARLEY POOL ACCOUNT

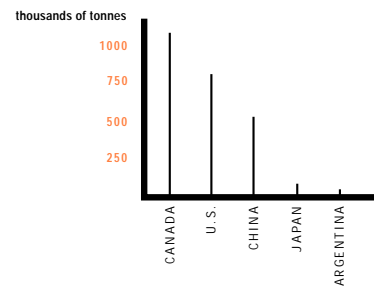
Western Canadian barley production hit a record 15 million tonnes as farmers reacted to high barley prices for both feed and malt in 1995-96. The record production was 21 per cent more than 1995 and 30 per cent higher than the 10-year average.

Receipts from producers to the barley pool account nearly doubled from 1995-96 to reach 2.4 million tonnes in 1996-97. The average sales value per tonne dropped to \$158.18 in store Vancouver/St. Lawrence from the record \$210.30 per tonne in 1995-96.

#### LARGEST VOLUME CUSTOMER COUNTRIES



#### FEED BARLEY



#### DESIGNATED BARLEY

Feed barley returns were strongly affected by aggressive export intervention on the part of the EU. As early as September 1996, the EU began subsidizing barley sales at a rate of approximately Cdn \$1 per bushel.

Costs to the barley pool were substantially higher than 1995-96. Total costs were \$18.3 million compared to \$3.4 million the year before. Country elevator carrying charges more than doubled, reflecting the doubling of the pool size. The larger pool size also influenced terminal storage costs. Demurrage charges increased to \$4.1 million from \$283,000 due to transportation problems. Additional freight to terminals increased as more grain was moved from areas outside the traditional catchment areas. Drying costs dramatically increased to \$3.5 million from only \$13,000 in 1995-96. Again, as with other pool accounts, this reflected the large amounts of

tough and damp grain delivered by farmers. More administrative expenses were assessed to the barley pool because it accounted for a higher proportion of total deliveries to the CWB.

#### ANALYSIS OF DESIGNATED BARLEY POOL ACCOUNT

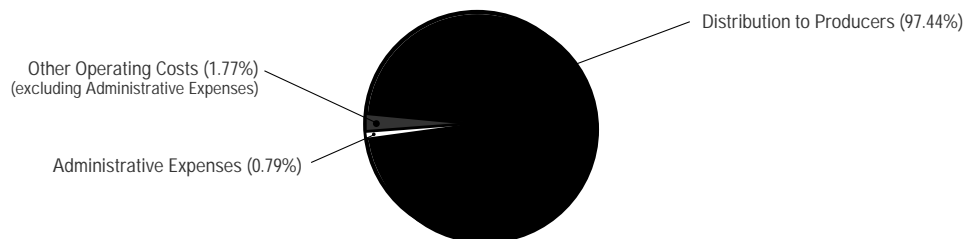
Designated barley refers to barley selected and accepted from producers for use in malting, pot or pearling, although most of the designated barley is used for malting. Despite the wet weather in early September, adequate amounts of designated barley with excellent quality were produced in 1996.

Receipts from producers were 2.4 million tonnes, slightly lower than the record-breaking volumes of the past two years. The average sales value also fell to \$221.00 per tonne in store Vancouver/St. Lawrence, compared to \$243.20 per tonne the year previous.

Overall costs to the pool were higher in 1996-97 at \$2.3 million from \$1.2 million the year before. Country elevator carrying charges were higher due to grain companies paying more farmers in full at the time of delivery (as opposed to the consigned carlot system). In this way, the CWB paid storage and interest to the country elevator companies for the time that the grain was stored and financed by them. Primarily as a result of the transportation problems, the CWB incurred demurrage of \$219,000 in 1996-97 compared to despatch of almost \$7,000 in 1995-96. The CWB also paid additional freight to terminals for a special shipment of hullless barley which was sold to Japan for the food market. Interest earnings were lower because more money was paid out to farmers earlier in the crop year, leaving minimal sums in the pool on which interest could be earned.

## CWB DISTRIBUTION OF SALES PROCEEDS

(ALL GRAINS)



# FINANCIAL RESULTS



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**July 31, 1997**

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## MANAGEMENT REPORT



The Canadian Wheat Board  
La Commission canadienne du blé

The financial statements of the Canadian Wheat Board together with other information contained in this annual report have been prepared by management, who have full responsibility for them, and approved by the Board. These statements reflect the results for the year ended July 31, 1997 and the financial status of the CWB as at that date.

Management's responsibility includes ensuring that the financial statements are prepared in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied, and that appropriate systems of internal controls and formal policies and procedures are in place to ensure the integrity and reliability of accounting and financial reporting, as well as the safety of all of the organization's assets.

Deloitte & Touche, Chartered Accountants, the CWB's external auditors, have performed an independent examination of the financial statements in this report. Management has made available to the external auditors all financial records and related data.

The Canadian Wheat Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Commissioners, along with the Chairman of the CWB Advisory Committee, act as an Audit Committee in exercising this responsibility. The committee meets with the external auditors to discuss the results of the audit and the evaluation of the CWB's internal controls. The Internal Audit Department, reporting directly to the Audit Committee, has a mandate to provide timely recommendations and assessments concerning the effectiveness of internal controls. The committee reviews the action taken by management with respect to the recommendations made by the internal and external auditors.

Donald E. Vernon, C.A.  
*Executive Director, Finance and Treasurer*

Adrian Measner  
*Executive Director, Marketing*

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## AUDITORS' REPORT

**Deloitte &  
Touche****Deloitte & Touche  
Chartered Accountants**360 Main Street, Suite 2200 Telephone: (204) 942-0051  
Winnipeg, Manitoba R3C 3Z3 Telecopier: (204) 947-9390

To the Canadian Wheat Board:

We have audited the financial statements of the Canadian Wheat Board set out as Exhibits I to IX and notes thereto which include the balance sheet at July 31, 1997 and the statements of operations and distribution of earnings to producers for the 1996-97 pool accounts for wheat, amber durum wheat, barley and designated barley for the period August 1, 1996 to completion of operations on September 30, 1997, the statement of cash flow for the year ended July 31, 1997, the statement of advance payments to producers under the Prairie Grain Advance Payments Act as at July 31, 1997, the statement of administrative and general expenses and allocations to operations for the year ended July 31, 1997, and the statement of special account transactions for the year ended July 31, 1997. These financial statements are the responsibility of the Canadian Wheat Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 1997 and the results of its operations and the changes in its financial position for the periods shown in accordance with generally accepted accounting principles.

Deloitte &amp; Touche

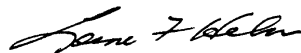
Winnipeg, Manitoba  
December 18, 1997**Deloitte Touche  
Tohmatsu  
International**

## EXHIBIT I

BALANCE SHEET  
as at July 31

	1997	1996
<b>ASSETS</b>		
Accounts Receivable		
Credit sales (Note 3)	\$ 6,418,291,510	\$ 6,653,277,799
Completed sales	66,184,064	25,669,295
Prairie Grain Advance Payments Act	161,575,235	52,651,783
Other	5,907,272	21,433,734
	<u>6,651,958,081</u>	<u>6,753,032,611</u>
Stocks of grain (Note 4)	1,682,137,024	1,432,610,530
Deferred and prepaid expenses (Note 5)	38,127,819	51,440,276
Fixed assets (Note 6)	<u>52,724,986</u>	<u>44,162,927</u>
<b>TOTAL ASSETS</b>	<b>\$ 8,424,947,910</b>	<b>\$ 8,281,246,344</b>
<b>LIABILITIES</b>		
Borrowings (Note 7)	\$ 6,240,754,143	\$ 6,459,297,949
Accounts payable and accrued expenses (Note 8)	105,772,615	107,957,005
Liability to agents of the CWB (Note 9)	1,364,322,369	1,159,716,160
Liability to Producers (Note 10)	703,327,514	545,233,825
Provision for final payment expenses (Note 11)	8,108,840	5,805,860
Special Account — net balance of undistributed payment accounts (Note 12)	<u>2,662,429</u>	<u>3,235,545</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 8,424,947,910</b>	<b>\$ 8,281,246,344</b>

## APPROVED


Lorne F. Hehn  
Chief Commissioner

Gordon P. Machej  
Commissioner

Richard H. Klassen  
Commissioner

Donald E. Vernon  
Executive Director, Finance and Treasurer

## EXHIBIT II

1996-97 POOL ACCOUNT - WHEAT  
**STATEMENT OF OPERATIONS AND DISTRIBUTION OF EARNINGS TO PRODUCERS**  
 for the period August 1, 1996 to completion of operations on September 30, 1997  
 (with prior year comparatives for the period ended July 31, 1996)

	1996-97		1995-96	
	Amount	Rate per Tonne	Amount	Rate per Tonne
<b>Receipts from Producers: Tonnes</b>	<b>19 756 578</b>		<b>14 352 453</b>	
<b>Revenue (Note 15)</b>	<b>\$ 4,230,897,275</b>	<b>\$ 214.151</b>	<b>\$ 3,812,102,708</b>	<b>\$ 265.606</b>
<b>Deduct Operating Costs</b>				
Country Elevator Carrying Charges	56,525,504	2.861	53,088,474	3.699
Terminal Storage	14,944,608	0.756	8,309,959	0.579
Demurrage / Despatch	18,779,575	0.950	9,884,097	0.688
Additional freight - to terminals	38,131,697	1.930	25,677,413	1.789
- freight rate change	2,686,523	0.136	6,958,629	0.485
Drying	13,804,982	0.699	149,237	0.010
Interest and Depreciation on CWB Hopper Cars	2,371,393	0.120	3,400,351	0.237
Administrative Expenses	33,565,468	1.699	27,502,595	1.916
Interest earnings	(65,258,729)	(3.303)	(61,089,432)	(4.256)
	<b>115,551,021</b>	<b>5.848</b>	<b>73,881,323</b>	<b>5.147</b>
<b>Earnings Distributed to Producers</b>	<b>\$ 4,115,346,254</b>	<b>\$ 208.303</b>	<b>\$ 3,738,221,385</b>	<b>\$ 260.459</b>
<b>Earnings Distributed as Follows:</b>				
Initial Payments at delivery	\$ 3,707,842,403	\$ 187.676	\$ 2,918,509,781	\$ 203.346
Adjustment Payments	176,336,478	8.926	662,262,615	46.143
Final Payment	231,066,148	11.696	157,283,664	10.959
Rebate on Producer Cars	101,225	0.005	165,325	0.011
	<b>\$ 4,115,346,254</b>	<b>\$ 208.303</b>	<b>\$ 3,738,221,385</b>	<b>\$ 260.459</b>

## EXHIBIT III

1996-97 POOL ACCOUNT - AMBER DURUM WHEAT  
**STATEMENT OF OPERATIONS AND DISTRIBUTION OF EARNINGS TO PRODUCERS**  
 for the period August 1, 1996 to completion of operations on September 30, 1997  
 (with prior year comparatives for the period ended September 30, 1996)

	1996-97		1995-96	
	Amount	Rate per Tonne	Amount	Rate per Tonne
<b>Receipts from Producers: Tonnes</b>	<b>3 882 848</b>		<b>3 973 384</b>	
<b>Revenue (Note 15)</b>	<b>\$ 962,792,723</b>	<b>\$ 247.961</b>	<b>\$ 1,130,364,370</b>	<b>\$ 284.484</b>
<b>Deduct Operating Costs</b>				
Country Elevator Carrying Charges	11,965,467	3.082	14,386,754	3.621
Terminal Storage	5,010,878	1.290	7,956,863	2.002
Demurrage / Despatch	1,294,828	0.333	(781,718)	(0.197)
Additional freight-to terminals	1,225,932	0.316	3,510,438	0.883
-freight rate change	604,658	0.156	1,304,605	0.328
Drying	2,180,510	0.562	78,839	0.020
Interest and Depreciation on CWB Hopper Cars	466,060	0.120	941,365	0.237
Administrative Expenses	6,251,570	1.610	8,004,750	2.015
Interest earnings	(8,883,675)	(2.288)	(9,334,782)	(2.349)
	<b>20,116,228</b>	<b>5.181</b>	<b>26,067,114</b>	<b>6.560</b>
<b>Earnings Distributed to Producers</b>	<b>\$ 942,676,495</b>	<b>\$ 242.780</b>	<b>\$ 1,104,297,256</b>	<b>\$ 277.924</b>
<b>Earnings Distributed as Follows:</b>				
Initial Payments at delivery	\$ 682,288,454	\$ 175.719	\$ 831,562,780	\$ 209.284
Adjustment Payments	161,120,614	41.495	175,425,808	44.150
Interim Payment	-	-	41,703,041	10.496
Final Payment	99,260,014	25.564	55,592,731	13.991
Rebate on Producer Cars	7,413	0.002	12,896	0.003
	<b>\$ 942,676,495</b>	<b>\$ 242.780</b>	<b>\$ 1,104,297,256</b>	<b>\$ 277.924</b>

## EXHIBIT IV

1996-97 POOL ACCOUNT - BARLEY  
**STATEMENT OF OPERATIONS AND DISTRIBUTION OF EARNINGS TO PRODUCERS**  
 for the period August 1, 1996 to completion of operations on September 30, 1997  
 (with prior year comparatives for the period ended July 31, 1996)

	1996-97		1995-96	
	Amount	Rate per Tonne	Amount	Rate per Tonne
<b>Receipts from Producers: Tonnes</b>	<b>2 440 097</b>		<b>1 267 781</b>	
<b>Revenue (Note 15)</b>	<b>\$ 385,966,275</b>	<b>\$ 158.177</b>	<b>\$ 266,619,989</b>	<b>\$ 210.304</b>
<b>Deduct Operating Costs</b>				
Country Elevator Carrying Charges	9,362,874	3.837	4,261,033	3.361
Terminal Storage	2,462,246	1.009	1,666,050	1.314
Demurrage / Despatch	4,090,147	1.677	283,322	0.223
Additional freight -to terminals	1,929,869	0.791	(635,706)	(0.501)
-freight rate change	232,271	0.095	1,080,912	0.853
Drying	3,493,943	1.432	13,027	0.010
Interest and Depreciation on CWB Hopper Cars	292,886	0.120	300,360	0.237
Administrative Expenses	4,163,495	1.706	2,442,236	1.926
Interest earnings	(7,678,940)	(3.147)	(5,970,870)	(4.710)
	<b>18,348,791</b>	<b>7.520</b>	<b>3,440,364</b>	<b>2.713</b>
<b>Earnings Distributed to Producers</b>	<b>\$ 367,617,484</b>	<b>\$ 150.657</b>	<b>\$ 263,179,625</b>	<b>\$ 207.591</b>
<b>Earnings Distributed as Follows:</b>				
Initial Payments at delivery	\$ 339,813,142	\$ 139.262	\$ 220,053,281	\$ 173.574
Adjustment Payments	13,787,821	5.651	32,304,766	25.481
Final Payment	14,006,741	5.740	10,808,345	8.526
Rebate on Producer Cars	9,780	0.004	13,233	0.010
	<b>\$ 367,617,484</b>	<b>\$ 150.657</b>	<b>\$ 263,179,625</b>	<b>\$ 207.591</b>

## EXHIBIT V

1996-97 POOL ACCOUNT - DESIGNATED BARLEY  
**STATEMENT OF OPERATIONS AND DISTRIBUTION OF EARNINGS TO PRODUCERS**  
 for the period August 1, 1996 to completion of operations on September 30, 1997  
 (with prior year comparatives for the period ended September 30, 1996)

	1996-97		1995-96	
	Amount	Rate per Tonne	Amount	Rate per Tonne
<b>Receipts from Producers: Tonnes</b>	<b>2 402 091</b>		<b>2 549 505</b>	
<b>Revenue (Note 15)</b>	<b>\$ 530,873,216</b>	<b>\$ 221.005</b>	<b>\$ 620,029,297</b>	<b>\$ 243.196</b>
<b>Deduct Operating Costs</b>				
Country Elevator Carrying Charges	599,100	0.250	243,513	0.096
Demurrage / Despatch	219,284	0.091	(6,929)	(0.003)
Additional freight -to terminals	25,582	0.011	8,495	0.003
-freight rate change	152,268	0.063	(33,653)	(0.013)
Interest and Depreciation on CWB Hopper Cars	288,279	0.120	604,023	0.237
Administrative Expenses	4,084,200	1.700	4,885,483	1.916
Interest earnings	(3,043,871)	(1.267)	(4,468,138)	(1.752)
	<b>2,324,842</b>	<b>0.968</b>	<b>1,232,794</b>	<b>0.484</b>
<b>Earnings Distributed to Producers</b>	<b>\$ 528,548,374</b>	<b>\$ 220.037</b>	<b>\$ 618,796,503</b>	<b>\$ 242.712</b>
<b>Earnings Distributed as Follows:</b>				
Initial Payments at delivery	\$ 436,485,500	\$ 181.711	\$ 493,505,162	\$ 193.569
Adjustment Payments	65,696,042	27.350	80,823,962	31.702
Final Payment	15,945,563	6.638	33,696,550	13.217
Producer Contract Storage	10,421,269	4.338	10,770,829	4.224
	<b>\$ 528,548,374</b>	<b>\$ 220.037</b>	<b>\$ 618,796,503</b>	<b>\$ 242.712</b>

## EXHIBIT VI

STATEMENT OF CASH FLOW  
for the year ended July 31

	1997	1996
<b>Cash Flow from Operating Activities</b>		
Cash received from the sale of grain	\$ 6,110,529,489	\$ 5,829,116,364
Interest earned	84,865,215	80,863,222
Cash paid for operating costs	(241,206,097)	(185,484,817)
Add items not requiring an outlay of cash -depreciation	<u>5,221,774</u>	<u>4,745,328</u>
Cash flow from operating activities before working capital changes	5,959,410,381	5,729,240,097
Changes in working capital	<u>(69,001,523)</u>	<u>176,462,652</u>
	<u>5,890,408,858</u>	<u>5,905,702,749</u>
<b>Cash Flow from Other Activities</b>		
Decrease in accounts receivable -credit sales	234,986,289	78,278,156
Purchase of fixed assets	<u>(13,783,833)</u>	<u>(1,603,649)</u>
	<u>221,202,456</u>	<u>76,674,507</u>
<b>Net Cash Flow before Distribution</b>	<u>6,111,611,314</u>	<u>5,982,377,256</u>
<b>Cash Distributed to Producers</b>		
Cash balance undistributed in prior year	(299,275,785)	(524,164,822)
Current year balances distributed to Producers prior to July 31	<u>(5,593,791,723)</u>	<u>(5,425,218,984)</u>
	<u>(5,893,067,508)</u>	<u>(5,949,383,806)</u>
<b>Net Increase in Cash</b>	218,543,806	32,993,450
<b>Borrowings at beginning of year</b>	<u>(6,459,297,949)</u>	<u>(6,492,291,399)</u>
<b>Borrowings at end of year</b>	<u>(\$ 6,240,754,143)</u>	<u>(\$ 6,459,297,949)</u>

## EXHIBIT VII

STATEMENT OF ADVANCE PAYMENTS TO PRODUCERS  
UNDER THE PRAIRIE GRAIN ADVANCE PAYMENTS ACT  
as at July 31

	Cash Advances to Producers	Advances Repaid by Producers	1997 Balance to be refunded by Producers	1996 Balance to be refunded by Producers
<b>Balance to be refunded by Producers</b>				
1988-89 and prior crop years	\$ 4,705,363,450	\$ 4,694,983,915	\$ 10,379,535	\$ 10,626,032
1989-90 crop year	144,260,874	141,956,590	2,304,284	2,516,948
1990-91 crop year	1,461,790,445	1,453,627,144	8,163,301	8,754,814
1991-92 crop year	1,163,737,749	1,154,360,881	9,376,868	10,466,755
1992-93 crop year	1,081,150,782	1,069,192,498	11,958,284	14,200,245
1993-94 crop year	819,208,984	800,000,176	19,208,808	25,861,434
1994-95 crop year	524,197,302	521,172,972	3,024,330	7,042,617
1995-96 crop year	542,198,368	538,740,829	3,457,539	67,176,060
1996-97 crop year	874,948,103	707,692,901	167,255,202	-
	<b>\$ 11,316,856,057</b>	<b>\$ 11,081,727,906</b>	<b>\$ 235,128,151</b>	<b>\$ 146,644,905</b>
<b>Interest costs payable by Government of Canada</b>				
Interest costs payable by Government of Canada			383,367,301	374,263,690
Deduct amounts received from Government of Canada			(382,920,379)	(373,549,555)
			<b>446,922</b>	<b>714,135</b>
<b>Interest charges payable by Producers</b>				
Regular interest payable by Producers			30,390,986	29,376,803
Deduct amounts received from Producers			(28,602,831)	(25,587,645)
			<b>1,788,155</b>	<b>3,789,158</b>
<b>Default interest</b>				
Interest received from Producers on default payments			(33,761,679)	(32,161,743)
Deduct amounts forwarded to the Government of Canada			31,552,114	26,860,281
			<b>(2,209,565)</b>	<b>(5,301,462)</b>
<b>Deduct balance of funds received from</b>				
Government of Canada to cover advance payments in default			(71,878,188)	(90,984,373)
Line Elevator Companies to cover advance payments in default			(1,466,902)	(1,903,388)
Line Elevator Companies to cover current advances			(233,338)	(307,192)
			<b>(73,578,428)</b>	<b>(93,194,953)</b>
			<b>\$ 161,575,235</b>	<b>\$ 52,651,783</b>

Since the 1990-91 crop year, the producer pays interest on the part of the cash advance that is in excess of \$50,000, and the Government of Canada pays interest on advances up to \$50,000 (except 1993-94 when the producer paid interest on the part of the cash advance that was in excess of \$60,000 and was required to pay the first 2.25% interest on advances up to \$60,000). During the 1989-90 crop year, the producer was required to pay all of the interest on the cash advance. Prior to this, the Government of Canada paid all of the interest.



## EXHIBIT VIII

**STATEMENT OF ADMINISTRATIVE AND GENERAL EXPENSES AND ALLOCATIONS TO OPERATIONS  
for the year ended July 31**

Administrative and General Expenses:	1997	1996
Advisory Committee	\$ 212,019	\$ 258,516
Annual report, <i>Grain Matters</i> and other CWB publications	731,974	544,783
Area representatives	375,485	299,377
Audit fees	163,000	153,000
Bonds and insurance	60,701	57,469
Car Allocation Policy Group - CWB share of operating expenses	35,000	-
Canadian International Grains Institute - CWB share of operating expenses	1,623,164	1,400,333
Communications and information	195,818	262,746
Computing equipment - rentals and services	5,762,260	2,953,633
Depreciation on automobiles, building, computer equipment and systems, furniture and equipment	2,559,696	1,852,188
District meetings	21,947	21,204
Human resources - salaries	21,386,370	21,000,991
Human resources - employment insurance, pension, group insurance, medical and other employee benefits	4,882,949	5,139,259
Human resources - recruitment	252,863	71,026
Human resources - training and development	203,665	320,134
Legal fees and court costs	376,808	21,800
Management consulting	482,812	534,912
Manitoba Health and Education Tax	472,799	484,452
Office and miscellaneous	1,195,881	927,563
Postage	934,771	1,042,426
Printing, stationery and supplies	539,379	567,978
Publications and subscriptions	325,800	274,182
Rental and lighting of offices, including maintenance of The Canadian Wheat Board building	2,059,766	2,075,693
Repair and rental of office equipment	309,214	237,602
Telecommunications	753,458	668,895
Travelling and transfer of staff	1,506,784	1,303,016
	\$ 47,424,383	\$ 42,473,178

## EXHIBIT VIII (continued)

Allocation to Operations:	1997	1996
<b>Marketing of Producers' Grain</b>		
1996-97 Pool Accounts		
- Wheat	\$ 19,306,864	
- Durum	3,443,975	
- Barley	2,384,553	
- Designated Barley	2,347,413	
1995-96 Pool Accounts		
- Wheat	12,347,138	\$ 15,037,940
- Durum	3,768,713	4,163,157
- Barley	1,090,647	1,328,331
- Designated Barley	2,193,290	2,671,272
1994-95 Pool Accounts		
- Wheat		12,315,958
- Durum		3,422,165
- Barley		891,399
- Designated Barley		1,926,933
<hr/>		
Cost allocated to pool accounts based on relative tonnage	46,882,593	41,757,155
<hr/>		
<b>Distributing Final Payments to Producers</b>		
1989-90 to 1995-96 Pool Accounts (1989-90 to 1994-95 Pool Accounts for the prior year)		
- Wheat	327,032	441,361
- Durum	91,620	124,417
- Barley	65,020	81,228
- Designated Barley	58,118	69,017
<hr/>		
Cost allocated to payment accounts based on activity	541,790	716,023
<hr/>		
	\$ 47,424,383	\$ 42,473,178

## EXHIBIT IX

STATEMENT OF SPECIAL ACCOUNT TRANSACTIONS  
for the year ended July 31

	1997	1996
Balance of Special Account at beginning of year	\$ 3,235,545	\$ 2,484,872
Add transfer to Special Account from payment accounts authorized by Order-in-Council	-	1,360,539
	3,235,545	3,845,411
Deduct expenditures authorized by Order-in-Council noted below	(562,076)	(609,799)
Deduct payments to producers against old payment accounts	(11,040)	(67)
<b>Balance of Special Account at end of year</b>	<b>\$ 2,662,429</b>	<b>\$ 3,235,545</b>

## Details of Expenditures:

Authorized by Order-in-Council	Description of Purpose	Unexpended as at July 31, 1996	Authorized Crop Year 1996-97	Unexpended as at July 31, 1997	Expended Crop Year 1996-97
P.C. 1994-1305 } P.C. 1995-2202 }	Market Development	\$ 335,783	\$ -	\$ 179,229	\$ 156,554
P.C. 1995-2203 } P.C. 1996-1358 }	Canadian International Grains Institute -capital expenditures	115,000	-	59,478	55,522
P.C. 1990-1538	Scholarship Program	44,024	305,976	-	350,000
		<u>\$ 494,807</u>	<u>\$ 305,976</u>	<u>\$ 238,707</u>	<u>\$ 562,076</u>

As at July 31, 1997 there were unexpended authorizations totalling \$238,707 leaving an unallocated balance of \$2,423,722.

## NOTES TO FINANCIAL STATEMENTS

The following are an integral part of the financial statements.

### (1) ACT OF INCORPORATION AND MANDATE

The Canadian Wheat Board (CWB) was established by the *Canadian Wheat Board Act*, a statute of the Parliament of Canada. The CWB was created as an agent of Her Majesty in right of Canada for the purpose of marketing in an orderly manner, in inter provincial and export trade, grain grown in Western Canada. The CWB is accountable for its affairs to Parliament through the Minister responsible for the Canadian Wheat Board.

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Results of operations

The annual accounts at July 31 include the final operating results for all pool accounts for the crop year ended July 31, where marketing operations have been completed before the issuance of the annual report for that year. In determining the financial results for such pools, the accounts of the CWB at July 31 include:

- (i) Stocks of grain on hand at July 31 at the values which were ultimately received as sale proceeds.
- (ii) Provision for all expenses incurred or to be incurred in the process of marketing these stocks of grain including a charge for the portion of administrative and general expenses incurred subsequent to July 31 but relating to this marketing activity. Expenses related to marketing activities carried out subsequent to July 31 are included in accounts payable and accrued expenses. The expenses included are carrying charges, storage, interest, rail freight and other transportation charges, and administrative costs, together with all other sundry expenses incurred during the period.
- (iii) Balances not yet distributed to producers at July 31 where marketing operations have been completed for the 1996-97 pool accounts are included in Liability to Producers.

#### (b) Allowances for losses on accounts receivable from credit sales

The Government of Canada guarantees the principal and interest of both the accounts receivable resulting from sales made under the Credit Grain Sales Program and the CWB's borrowings incurred to finance these accounts receivable. Because of these guarantees, the CWB is not at risk should any of the unpaid amounts prove to be uncollectible. For credit sales made outside of the Credit Grain Sales Program, the CWB has entered into arrangements with a Canadian financial institution to guarantee that the CWB has no credit risk. Therefore, no provision is made by the CWB with respect to the possibility of debtors defaulting on their obligations.

#### (c) Fixed assets and depreciation

Fixed assets are recorded at cost and depreciated on a straight line method over their expected useful life as follows:

Computer equipment and systems . . . . .	1 to 10 years (to 1/20 residual value)
Automobiles . . . . .	2 years (to 1/3 residual value)
Building and office alterations . . . . .	3 years
Office furniture and equipment . . . . .	10 years
Hopper cars . . . . .	30 years
Building . . . . .	40 years

## NOTES TO FINANCIAL STATEMENTS (continued)

**(d) Translation of foreign currencies**

Sales contracts denominated in foreign currencies are hedged by forward exchange contracts and are translated into Canadian dollars at the rates provided therein. Other income and expenses are translated at the daily exchange rates in effect during the year.

Assets and liabilities denominated in United States dollars are translated at the exchange rate in effect at the balance sheet date. The CWB hedges its United States dollar assets and liabilities on a total portfolio basis. It is the CWB's policy to manage these assets and liabilities in order to minimize net exposure to foreign currency fluctuations. Exchange adjustments arising from conversion of amounts due from foreign customers and borrowings are included in interest earnings.

Medium term notes issued by the CWB in currencies other than the Canadian or United States dollar are hedged by currency swap agreements and are translated into Canadian or United States dollars at the rates provided therein.

**(e) Hedging of anticipated future transactions**

The CWB has entered into wheat future and option contracts to price a portion of anticipated sales. The CWB has also entered into foreign exchange forward and option contracts in order to manage the foreign exchange risk of a portion of anticipated sales. The gains and losses on these contracts form part of the net sales price and are recognized in income as an adjustment to sales revenue in the same period as the sales being hedged.

**(f) Interest and bank charges**

Interest expense and bank charges incurred by the CWB in financing its activities and interest revenue earned are calculated on a full accrual basis. Interest expense and revenue are netted which is consistent with the requirement under the *Canadian Wheat Board Act* that such amounts be treated as charges or recoveries of operating costs. Net interest earnings includes interest earnings and expenses related to accounts receivable, bank charges, transaction and program fees on borrowing facilities, and interest earned on each pool account during the pool period and until final distribution to producers.

**(g) Administrative and general expenses**

Administrative and general expenses, except for that portion of such expenses attributable to distributing final payments to producers, are allocated to the various pool accounts to which the services relate on the basis of the relative tonnage. Expenses attributable to final payments are allocated on the basis of the number of producers receiving payments from the various pool accounts.

**(h) Post-employment benefits**

Benefits provided to employees upon retirement or termination are recognized in the accounts as they are earned by the employees. The unaccrued balance as at July 31, 1993 was \$7,980,330, which is being amortized on a straight line basis over ten years commencing with the 1993-94 crop year. The unaccrued balance at July 31, 1997 is \$4,788,198 (1996 — \$5,586,231).

## NOTES TO FINANCIAL STATEMENTS (continued)

## (3) ACCOUNTS RECEIVABLE FROM CREDIT SALES

The status of accounts receivable from credit sales is as follows:

	1997	1996
Due from foreign customers:		
Current	\$ 226,758,452	\$ 410,285,821
Overdue	578,518,611	542,894,695
Subject to a Paris Club rescheduling	283,364,048	137,842,737
Rescheduled	5,276,890,424	5,430,839,079
	6,365,531,535	6,521,862,332
Due from Government of Canada	52,759,975	131,415,467
	\$ 6,418,291,510	\$ 6,653,277,799

Amounts that are current include balances receivable of \$22,100,819 (1996 — \$80,376,397) arising from credit sales made outside of the Government of Canada guaranteed Credit Grain Sales Program.

The accounts receivable from credit sales mature as follows:

	1997	1996
Within		
1 year	\$ 373,523,321	\$ 322,340,339
2 years	63,088,244	237,822,995
3 years	95,019,027	338,310,972
4 years	123,318,138	342,260,933
5 years	206,659,378	296,221,345
More than 5 years	4,978,164,791	4,573,426,520
Overdue	578,518,611	542,894,695
	\$ 6,418,291,510	\$ 6,653,277,799

**Amounts due from foreign customers**

These accounts receivable arise from sales of grain to Algeria, Brazil, Egypt, Ethiopia, Haiti, Iran, Iraq, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. The terms call for payment in full within 36 months or less from time of shipment, except for Algeria, Brazil, Egypt, Ethiopia, Haiti, Jamaica, Peru, Poland, Russia and Zambia where the CWB, together with the Government of Canada, has agreed to reschedule certain receivables beyond their original maturity dates. All the reschedulings are arranged by the Paris Club, a forum through which the governments of debtor and creditor countries establish mutually agreed terms for the rescheduling and/or reduction of debts owed to the creditor governments and their agencies. Terms of such reschedulings vary, calling for payment of interest and the rescheduled debt for periods ranging from 5 to 25 years.

Of the \$6,365,531,535 (1996 — \$6,521,862,332) principal and accrued interest due from foreign customers, \$4,490,063,911 (1996 — \$4,597,347,569) represents the Canadian equivalent of \$3,258,391,808 (1996 — \$3,343,768,688) repayable in United States funds.

## NOTES TO FINANCIAL STATEMENTS (continued)

**Due from the Government of Canada**

In addition to debt relief by means of extending the payment terms, the Government of Canada has in certain cases agreed to provide various levels of debt reduction, through the Paris Club, to customer countries who have rescheduled amounts owing to the CWB. Under the debt reduction arrangements, payment of amounts owing to the CWB is divided on an agreed basis between the debtor country and the Government of Canada. The amount of \$52,759,975 reflects the amount due from the Government of Canada as at July 31, 1997 under these debt reduction agreements.

Of the \$52,759,975 (1996 — \$131,415,467) accrued interest due from the Government of Canada, \$28,922,874 (1996 — \$39,619,072) represents the Canadian equivalent of \$20,989,023 (1996 — \$28,815,966) repayable in United States funds.

**(4) STOCKS OF GRAIN**

Stocks of grain at July 31 are reported at the value ultimately received as sales proceeds as follows:

	1997	1996
Wheat	\$ 1,166,874,727	\$ 840,641,828
Durum	329,674,513	452,585,664
Barley	107,241,670	70,071,525
Designated Barley	78,346,114	69,311,513
	<b>\$ 1,682,137,024</b>	<b>\$ 1,432,610,530</b>

**(5) DEFERRED AND PREPAID EXPENSES**

Deferred and prepaid expenses of \$38,127,819 (1996 — \$51,440,276) includes prepaid costs of moving inventory to eastern export positions of \$18,063,545 (1996 — \$20,983,031), deposits on commodity margin accounts of \$5,431,555 (1996 — \$1,871,049), foreign exchange options premiums applicable to subsequent pool accounts of \$5,395,248 (1996 — \$0), purchase options on leased hopper cars of \$5,137,335 (1996 — \$5,137,335), net results of commodity hedging activities applicable to subsequent pool accounts of \$3,320,546 (1996 — \$21,258,841), and other deferred and prepaid expenses of \$779,590 (1996 — \$2,190,020).

## NOTES TO FINANCIAL STATEMENTS (continued)

## (6) FIXED ASSETS

			1997	1996
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Hopper cars	\$ 86,752,287	\$ 50,606,894	\$ 36,145,393	\$ 39,057,399
Computer equipment & systems	20,080,067	7,295,320	12,784,747	1,476,203
Office furniture & equipment	4,774,559	2,798,416	1,976,143	1,890,337
Building	4,572,956	3,768,450	804,506	904,893
Building & office alterations	1,882,190	1,283,568	598,622	440,221
Automobiles	588,066	231,827	356,239	393,874
Leasehold improvements	73,659	14,323	59,336	-
	<b>\$ 118,723,784</b>	<b>\$ 65,998,798</b>	<b>\$ 52,724,986</b>	<b>\$ 44,162,927</b>

Two thousand hopper cars were purchased by the CWB in 1979-80 having an original cost of \$90,555,623. Of these 2,000 cars, 84 cars have been wrecked and dismantled leaving 1,916 still in the fleet. The CWB is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

## (7) BORROWINGS

Details of these borrowings are as follows:

	1997	1996
Short term debt instruments and loans	\$ 5,760,845,131	\$ 5,923,783,101
Medium term debt instruments	479,909,012	535,514,848
	<b>\$ 6,240,754,143</b>	<b>\$ 6,459,297,949</b>

These borrowings fund the following:

	1997	1996
Funds on deposit from ordinary operations	(\$ 177,537,367)	(\$ 193,979,850)
Borrowings to finance credit sales	6,418,291,510	6,653,277,799
	<b>\$ 6,240,754,143</b>	<b>\$ 6,459,297,949</b>

Of the total short term borrowings \$3,944,082,032 (1996 — \$4,069,850,631) represents the Canadian equivalent of \$2,862,178,543 (1996 — \$2,960,106,648) repayable in United States funds after giving effect to currency swaps. Of the medium term borrowings, \$479,909,012 (1996 — \$535,514,848) represents the Canadian equivalent of \$348,264,885 (1996 — \$389,493,671) repayable in United States funds after giving effect to cross-currency interest rate swaps.

The CWB's borrowings are undertaken with the approval of the Minister of Finance. Such borrowings constitute direct obligations of the CWB and as such constitute borrowings undertaken on behalf of Her Majesty in Right of Canada.



## NOTES TO FINANCIAL STATEMENTS (continued)

**(8) ACCRUED EXPENSES AND ACCOUNTS PAYABLE**

	1997	1996
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	\$ 62,555,310	\$ 38,544,905
Deferred sales revenue	30,642,331	33,577,806
Accounts payable	12,574,974	35,834,294
	<b>\$ 105,772,615</b>	<b>\$ 107,957,005</b>

**(9) LIABILITY TO AGENTS OF THE CWB**

	1997	1996
For grain purchased from producers	\$ 1,191,064,200	\$ 957,709,932
For deferred cash tickets	173,258,169	202,006,228
	<b>\$ 1,364,322,369</b>	<b>\$ 1,159,716,160</b>

**Grain purchased from producers**

Grain companies, acting in the capacity of agents of the CWB, accept deliveries from producers at country elevators and pay the producers on behalf of the CWB based on the CWB's initial price in effect. Settlement is not made by the CWB for these purchases until delivery to the CWB is completed by its agents at terminal or mill position. Liability to agents for grain purchased from producers represents the amount payable by the CWB to its agents for 6 648 763 (1996 — 3 951 298) tonnes of grain on hand at country elevator points and in transit at July 31 for which delivery to and settlement by the CWB is to be completed subsequent to the year end date.

**Deferred cash tickets**

Grain companies, acting in the capacity of agents of the CWB, deposit with the CWB in trust an amount equal to the deferred cash tickets issued for CWB grain. These funds are returned to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

## NOTES TO FINANCIAL STATEMENTS (continued)

**(10) LIABILITY TO PRODUCERS**

	1997	1996
Outstanding producer cheques at July 31		
Wheat	\$ 177,196,112	\$ 153,398,037
Durum	112,295,373	64,589,683
Barley	3,169,751	8,899,593
Designated Barley	50,269,393	19,067,706
Oats	-	3,021
	<u>342,930,629</u>	<u>245,958,040</u>
Undistributed earnings to producers		
Wheat	231,167,373	157,448,989
Durum	99,267,427	97,308,668
Barley	14,016,521	10,821,578
Designated Barley	15,945,564	33,696,550
	<u>360,396,885</u>	<u>299,275,785</u>
	<u>\$ 703,327,514</u>	<u>\$ 545,233,825</u>

**(11) PROVISION FOR FINAL PAYMENT EXPENSES**

The amount of \$8,108,840 (1996 — \$5,805,860) represents the balance of the CWB's reserve for final payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account by Order-in-Council.

**(12) SPECIAL ACCOUNT — NET BALANCE OF UNDISTRIBUTED PAYMENT ACCOUNTS**

In accordance with the provision of Section 39 of the Canadian Wheat Board Act, the Governor in Council may authorize the CWB to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor in Council, upon the recommendations of the CWB, may deem to be for the benefit of producers.

**(13) LEASE COMMITMENTS**

The CWB, as an agent of Her Majesty in Right of Canada, leases 2,000 covered hopper cars for the Government of Canada. All lease costs are recoverable from the government and are not a charge to the operations of the CWB. Total payments associated with leases in the year ended July 31, 1997, amounting to \$18,889,422 (1996 — \$20,248,521) have been recovered by the CWB. Lease terms are for 20 and 25 years.

## NOTES TO FINANCIAL STATEMENTS (continued)

## (14) OFF BALANCE SHEET FINANCIAL INSTRUMENTS

The CWB enters into interest rate hedging transactions to manage its funding costs and to implement asset/liability management strategies. These transactions are designed to reduce the CWB's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange. These transactions include interest rate swap contracts, cross-currency interest rate swap contracts and currency swap contracts.

The CWB also transacts foreign exchange forwards, swaps, and options with financial institutions with the objective of hedging currency exposure arising primarily from grain sales. By hedging the CWB's currency exposure, risk arising from adverse currency movements is reduced.

As at July 31, the total notional amount of these off balance sheet financial instruments, all either maturing or rate re-setting within one year, is as follows:

	1997		1996	
	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate contracts				
Single-currency interest rate swaps	\$ 384,875,400	(\$ 760,671)	\$ 695,699,400	\$ 212,124
Cross-currency interest rate swaps	300,769,012	4,968,204	123,044,848	9,747,822
Currency swaps	710,413,893	(29,625,867)	939,752,294	20,415,627
	<b>1,396,058,305</b>	<b>(25,418,334)</b>	<b>1,758,496,542</b>	<b>30,375,573</b>
Foreign exchange contracts				
Foreign exchange forwards	969,526,082	(2,949,600)	886,026,683	(3,577,603)
Foreign exchange swaps	158,670,547	1,882	-	-
Foreign exchange purchased options	1,059,682,000	10,396,500	27,498,000	97,000
Foreign exchange sold options	784,082,000	(1,674,550)	27,498,000	(128,000)
	<b>2,971,960,629</b>	<b>5,774,232</b>	<b>941,022,683</b>	<b>(3,608,603)</b>
	<b>\$ 4,368,018,934</b>	<b>(\$ 19,644,102)</b>	<b>\$ 2,699,519,225</b>	<b>\$ 26,766,970</b>

The fair value of interest rate contracts refers to the net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices where available. The fair value of foreign exchange contracts refers to the market value of forward contracts and the replacement value of options contracts. These estimates of fair value are extensively affected by the assumptions used and as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

The CWB manages its exposure to the risk of non-performance by the counter party by contracting only with financial institutions having a credit rating which complies with the Financial Risk Management Guidelines approved by the Board of Commissioners and submitted to the Department of Finance. The CWB's maximum credit risk exposure at July 31, 1997 for these classes of financial instruments is calculated as \$21,366,996 (1996 — \$32,465,224). Credit exposure is calculated as the sum of all positive fair values for these classes of financial instruments as of July 31.

## NOTES TO FINANCIAL STATEMENTS (continued)

## (15) SALES

Net sales are calculated as follows:

## (a) Wheat pool account

	1997		1996	
	Tonnes	Amount	Tonnes	Amount
Completed sales to July 31	16 824 059	\$ 3,917,408,522	12 998 103	\$ 3,375,684,928
Sales shipped subsequent to July 31	6 122 735	1,166,874,727	3 157 890	840,641,828
Weight losses in transit and in drying	34 764	-	716	-
	22 981 558	5,084,283,249	16 156 709	4,216,326,756
Deduct:				
Grain acquired from other than producers	67 090	12,744,146	78 901	17,486,232
Sales used to value prior pool account	3 157 890	840,641,828	1 725 355	386,737,816
<b>Net sales of Wheat</b>	<b>19 756 578</b>	<b>\$ 4,230,897,275</b>	<b>14 352 453</b>	<b>\$ 3,812,102,708</b>

The disposition of wheat stocks in tonnes is segregated as follows:

Domestic sales	2 439 607	1 674 677
Export sales	18 209 498	11 323 426
Sales to subsequent pool account	2 297 689	3 157 890
Weight losses in transit and in drying	34 764	716
	22 981 558	16 156 709

## (b) Durum pool account

	1997		1996	
	Tonnes	Amount	Tonnes	Amount
Completed sales to July 31	3 587 073	\$ 862,701,240	2 936 915	\$ 905,424,146
Sales shipped subsequent to July 31	1 285 549	329,674,513	1 836 819	452,585,664
Weight losses in transit and in drying	10 218	-	1 736	-
	4 882 840	1,192,375,753	4 775 470	1,358,009,810
Deduct:				
Grain acquired from other than producers	20 961	4,271,236	27 117	6,294,013
Sales used to value prior pool account	979 031	225,311,794	774 969	221,351,427
<b>Net sales of Durum</b>	<b>3 882 848</b>	<b>\$ 962,792,723</b>	<b>3 973 384</b>	<b>\$ 1,130,364,370</b>

The disposition of durum stocks in tonnes is segregated as follows:

Domestic sales	194 774	222 750
Export sales	4 096 920	3 571 953
Sales to subsequent pool account	580 928	979 031
Weight losses in transit and in drying	10 218	1 736
	4 882 840	4 775 470

## NOTES TO FINANCIAL STATEMENTS (continued)

## (c) Barley pool account

	1997		1996	
	Tonnes	Amount	Tonnes	Amount
Completed sales to July 31	2 092 668	\$ 351,797,407	931 288	\$ 202,268,278
Sales shipped subsequent to July 31	739 671	107,241,670	379 501	70,071,525
Weight losses in transit and in drying	8 989	-	51	-
	<b>2 841 328</b>	<b>459,039,077</b>	<b>1 310 840</b>	<b>272,339,803</b>
Deduct:				
Grain acquired from other than producers	21 730	3,001,277	15 250	2,615,715
Sales used to value prior pool account	379 501	70,071,525	27 809	3,104,099
<b>Net sales of Barley</b>	<b>2 440 097</b>	<b>\$ 385,966,275</b>	<b>1 267 781</b>	<b>\$ 266,619,989</b>

The disposition of barley stocks in tonnes is segregated as follows:

Domestic sales	4 315	16 825
Export sales	2 279 935	914 463
Sales to subsequent pool account	548 089	379 501
Weight losses in transit and in drying	8 989	51
	<b>2 841 328</b>	<b>1 310 840</b>

## (d) Designated Barley pool account

	1997		1996	
	Tonnes	Amount	Tonnes	Amount
Completed sales to July 31	2 005 173	\$ 457,492,403	2 264 045	\$ 550,992,796
Sales shipped subsequent to July 31	417 487	78,346,114	286 555	69,311,513
	<b>2 422 660</b>	<b>535,838,517</b>	<b>2 550 600</b>	<b>620,304,309</b>
Deduct:				
Grain acquired from other than producers	2 294	360,701	1 095	275,012
Sales used to value prior pool account	18 275	4,604,600	-	-
<b>Net sales of Designated Barley</b>	<b>2 402 091</b>	<b>\$ 530,873,216</b>	<b>2 549 505</b>	<b>\$ 620,029,297</b>

The disposition of designated barley stocks in tonnes is segregated as follows:

Domestic sales	372 017	337 587
Export sales	1 988 464	2 194 738
Sales to subsequent pool account	62 179	18 275
	<b>2 422 660</b>	<b>2 550 600</b>

## (16) RESTATEMENT OF PRIOR YEAR'S BALANCES

Certain of the prior year's balances have been restated to conform with the current year's presentation.

## 9

## ADVISORY COMMITTEE



TOP ROW (l to r) John Clair - District 5, Robert Ponto - District 10,  
Lorne Pattison - District 8, William Nicholson - District 2, Dan Cutforth - District 9

BOTTOM ROW (l to r) Derek Dewar - District 7, Micheal Halyk - District 4, Terry Hanson - District 3,  
Wilfred Harder (Vice-Chairman) - District 1, Arthur Macklin (Chairman) - District 11, William Rosher - District 6

## 10

## SENIOR MANAGEMENT



TOP ROW (standing l to r) Bill Spafford - General Director, Sales & Market Development,  
Donald Vernon - Executive Director, Finance & Treasurer, Robert Roehle - Head, Corporate Communications,  
Pat Wallace - Executive Director, Human Resources, Jim McDonald - General Director, Country Services,  
John Benci - General Director, Grain Transportation, Greg Hauser - Business Manager, Information Technology (contractor),  
Larry Nentwig - General Director, Finance

BOTTOM ROW (seated l to r) Ward Weisensel - Head, Corporate Policy, Adrian Measner - Executive Director, Marketing,  
Margaret Redmond - General Counsel & Corporate Secretary. Missing from the photo: Keith McMahon - Corporate Controller

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