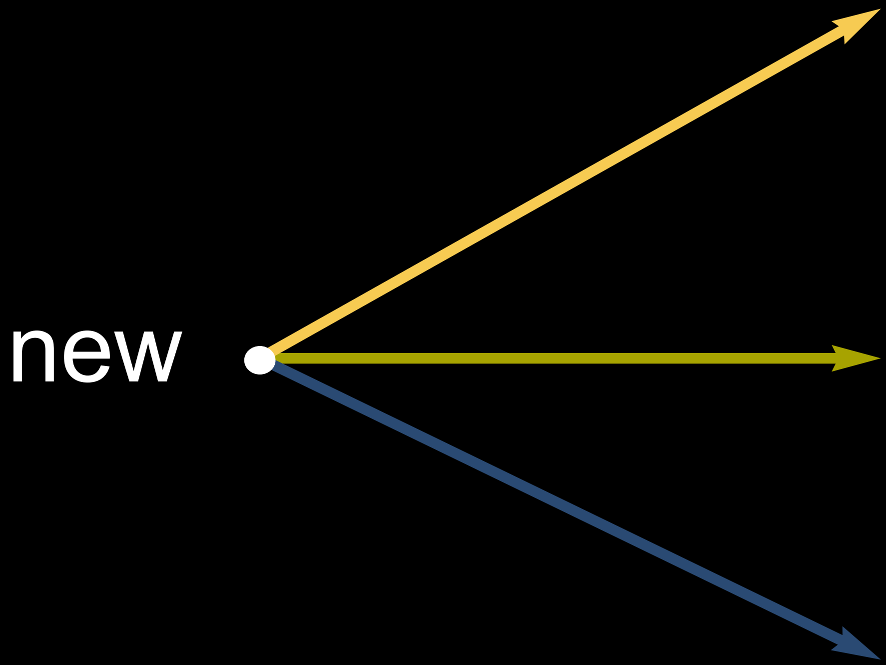
what's new?

The Canadian Wheat Board 1997-1998 Annual Report

CWB


new

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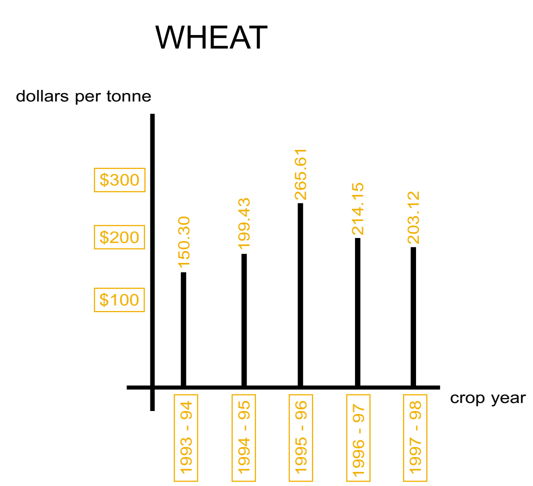
Corporate Profile

The Canadian Wheat Board (CWB) was created in 1935 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 markets. That concept has grown and today the CWB is the world's largest exporter of wheat and barley. Buyers in more than 70 countries around the world think Canadian when they want wheat and barley.

All revenue from those sales, less marketing and administrative costs, goes to the growers of grain.

CWB Average Sales Values

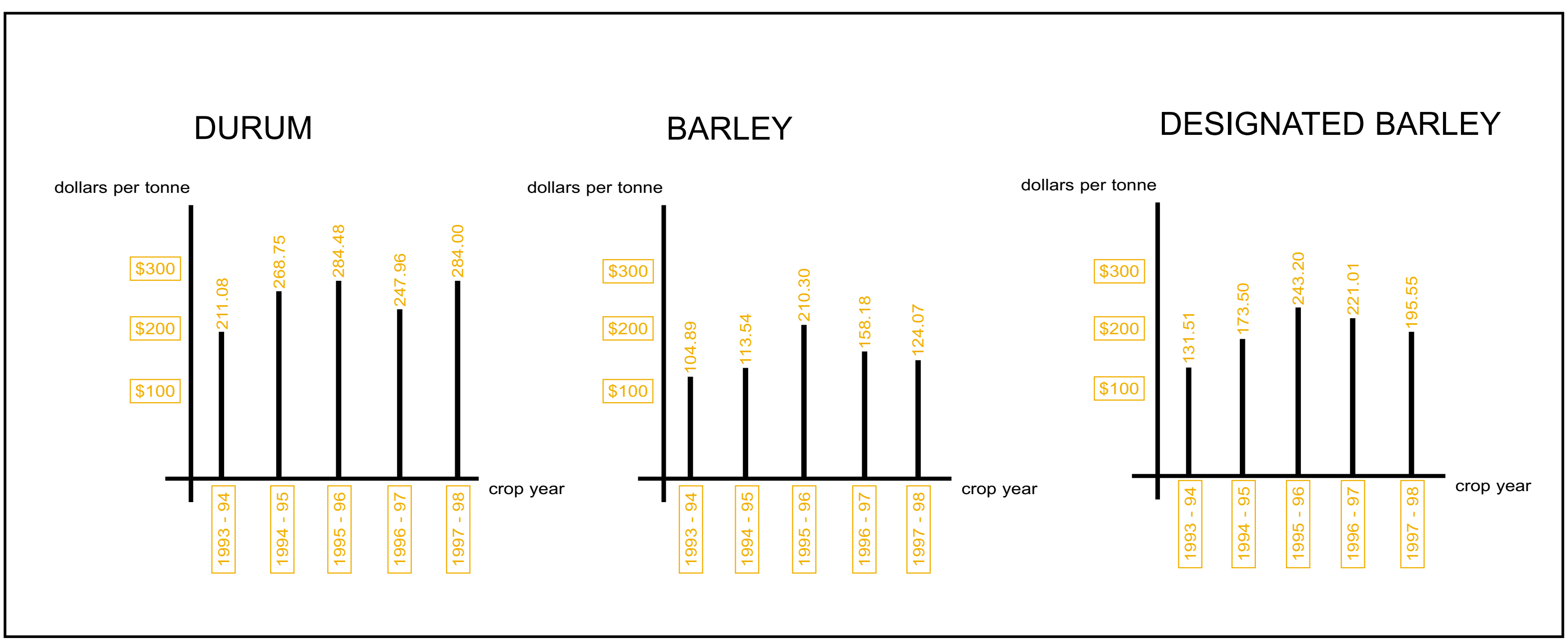


Highlights of 1997-98

- Moved 50 per cent of farmers' grain into export position by December 31, 1997 and 85 per cent by May 31, 1998 to capture the higher prices available earlier in the crop year.
- Successfully pushed for the passage of new legislation allowing for a farmer-elected Board of Directors and new options to improve cash flow.
- Exported a record 4.2 million tonnes of Canadian durum wheat capturing 57 per cent of the world market.
- Protested against unfair European and American trade subsidies.
- Went to the Canadian Transportation Agency (CTA) to get answers for the inadequate rail service farmers endured from November 1996 to March 1997. An out-of-court settlement was reached with CN Rail. The CTA later ruled that CP Rail discriminated against grain movement.
- Opened a regional office in Regina to better serve farmers and country elevator managers.
- Received a Signature Award for ease of navigation and usefulness of the CWB Web Site.

Objectives for the Future

- Export 14.5 million tonnes of wheat, durum and barley during the 1998-99 crop year. Forty-five per cent of that target should be reached by the end of December 1998 and 85 per cent by the end of May 1999.
- Develop systems to enable farmers and the grain industry to conduct business and transmit information via the Internet.
- Advocate changes to compensate farmers directly based on protein and moisture content when they deliver grain to the country elevator.
- Develop programs and computer systems so that producer-pricing options under the new CWB legislation can be implemented if the Board of Directors chooses to do so.
- Prepare CWB computer systems for the year 2000.
- Increase market share in the world's top quality pasta and noodle markets by developing customer acceptance of extra strong durum wheat and hard white wheat varieties.
- Implement a new allocation system for rail cars to provide more flexibility to grain companies, while retaining the benefits of CWB involvement.
- Work with business groups and farmers to establish value-added processing and possible joint ventures in Western Canada.
- Improve communications with farmers.
- Advocate farmers' interests in the next round of trade negotiations of the World Trade Organization.



Letter from the Commissioners

As a result of activities that took place during the 1997-98 crop year, everything but our commitment to Western Canada's 110,000 farmers is new. Legislation was passed in June 1998 to make the CWB more accountable to farmers. For the first time in the CWB's 63-year history, farmers elected 10 directors to a 15-member Board of Directors. The 15 directors will officially take office on December 31, 1998 and it will be their responsibility to oversee the operations of the world's largest exporter of wheat and barley in the best interests of Western Canadian farmers.

In addition to more control, farmers have asked for new tools for managing cash flow. The legislation gives the new Board of Directors the opportunity to bring in a whole host of new options ranging from making adjustment payments more quickly to making cash purchases.

These organizational changes were not taking place in a vacuum. During the 1997-98 crop year, the world was a changing place. We anticipated those changes and took action. With the downturn in the Asian market, we found new buyers for Canadian grains. At this same time, we also predicted a build-up in worldwide grain stocks and sold 80 per cent of the crop in the first half of the crop year, when values were highest. Unfortunately, the build-up in world wheat and barley supplies has the potential to rekindle the destructive export subsidy trade war that pits Canadian farmers against the treasuries of the United States and European Union. The CWB realizes the catastrophic effect such a trade war would have on farmers, and has pressured Canadian, American and European politicians to act responsibly.

On the home front, we successfully pushed for buying of malting barley on the driveway. Communications efforts were expanded with the opening of a regional office in Regina. And on behalf of farmers, we took the railways to task for their poor service during the 1996-97 crop year. As a result, movement was significantly better in 1997-98 than it had been in the previous crop year.

Farmers have said they wanted changes. We've listened and we've taken action. As a result of the activities that took place during 1997-98, the CWB is not only a changing organization - the CWB is a new organization.

Richard Klassen	Lorne Hehn	Gordon Machej
Commissioner	*Chief Commissioner*	*Commissioner*

① Organization

Farmers have told us they want control, accountability and flexibility. We are taking up the challenge.

Farmers on Board

At the request of farmers, the CWB has been pushing for changes to give farmers more direct control over their marketing agency. During the 1997-98 crop year, Parliament responded by passing legislation to amend the *Canadian Wheat Board Act*. Throughout its history, the CWB has been governed by three to five federally-appointed Commissioners. The new structure puts a President/CEO at the head of the organization to manage the CWB's day-to-day operations, while a Board of Directors determines the CWB's strategic direction.

The first election of farmers to the CWB Board of Directors took place in the fall of 1998. In the new year the CWB will be, for the first time, governed by a majority of farmers. The Government of Canada appointed another four directors and an interim President/CEO.

The creation of a Board of Directors, the majority of whom are elected by farmers, will make the CWB more democratic and more accountable to wheat and barley growers. The CWB has always worked on behalf of farmers, but the new corporate structure solidifies the direct link farmers have with the CWB.

As a result of the changes to the *Canadian Wheat Board Act*, the organization will no longer be a Crown agent; instead it will be a shared governance corporation. Despite the change in status, the rating agencies have confirmed that the CWB's credit rating will remain equivalent to that of the Government of Canada. This means that the CWB will be able to continue borrowing at preferential rates in the markets and pass those savings back to farmers.

Changes during 1997-98 paved the way for farmers to elect the CWB's first Board of Directors.

Marketing and Pricing Options

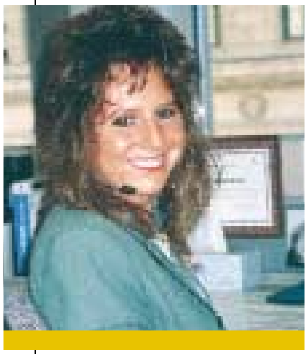
When the revised *Canadian Wheat Board Act* received Royal Assent in June 1998, the CWB gained the ability to offer farmers new marketing tools. These tools will be at the disposal of the new Board of Directors. For example, once the CWB has established a sufficient contingency fund, the Board of Directors will be able to approve adjustments to initial payments without federal government approval. In addition, pooling periods could be changed from one-year periods to any period of one year or less. This would mean that the CWB could close and pay out pool accounts at any time. The CWB could also offer farmers an early pool cash-out option, allowing producers to take a final cash settlement, rather than wait for the final payment. These are only some of the marketing tools the new legislation provides. The intent in offering these tools is to give farmers more control over the future of their marketing agency. The end result is that the CWB is now well equipped to respond to farmers' marketing and cash flow needs.

Human Resources

Operating in today's international marketplace in the best interest of farmers requires high-quality and well-trained people. As of July 31, 1998 there were 504 full-time employees at the CWB. Among the staff there are experts in a wide variety of areas, including sales, market development, market analysis, grain transportation, finance, policy, weather and crop surveillance and communications.

Operating in a rapidly changing environment can be a challenge. To provide support to managers and staff, a human resource information system was implemented during the crop year. This includes a review of all human resource activities at the CWB. The CWB is now planning to provide all employees and management with better human resource tools through their personal computers, including improved access to personal information, training and information to assist in career planning. Administrative overhead has also been reduced using new computer technology to help managers use their time more effectively.

During the 1997-98 crop year there were some senior staff changes. Robert Harris was appointed General Director, Grain Transportation Division in January 1998, replacing John Benci who retired earlier in the month. Ward Weisensel moved from Head of Corporate Policy Group to Assistant General Director of the Grain Transportation Division. Tami Reynolds was appointed Head of Corporate Policy Group in June, 1998. Brian White was named Acting Head of the newly constituted Market Analysis Group.



Lois Kosowan receives calls on the 1-800 line.

"There are many issues facing Prairie farmers today and I'm excited about the opportunity the new Canadian Wheat Board Act is providing us."

Bill Rusk
Farmer, Nipawin, SK

② Opportunities

We created and seized opportunities with immediate and long term benefits for farmers.

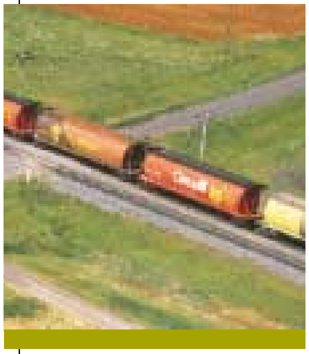
Canadian Transportation Agency Hearings

During the winter of 1996-97 poor railway performance cost farmers millions of dollars. The CWB filed a level of service complaint with the Canadian Transportation Agency (CTA) in April 1997 to obtain answers as to what had happened and assurances it won't happen again in the future.

The hearings began in the spring of 1998. In testimony at the hearing, Chief Commissioner Lorne Hehn said, "We believe that we need to have people in the system held accountable for their actions and for their commitments. We also believe there is a responsibility to ensure that these kinds of situations do not develop again in the future. In addition, there is a huge, catastrophic cost involved. We view this as a first step in ultimately retrieving those costs as a reflection of the commercial harm which was created at farm level." Many witnesses came forward to support the CWB position, including dozens of farmers from across the Prairies.

Three weeks into the public hearing process, the CWB and CN reached a commercial settlement. Under the no-fault settlement, the CWB discontinued the service complaint against CN in exchange for undisclosed financial compensation and rate-related benefits. The case against CP continued.

To prove that CP was not giving grain the same priority as the other commodities it moved, the CWB used CP's own data to show the CTA how grain trains experienced more delays than other CP trains. In fact, the CWB showed that in February 1997, CP decided to allocate more trains to coal movement while it was eliminating rail service for grain on branch lines. CP's data also showed grain was not given a proper share of CP's resources as they became available after a service disruption. The public hearings concluded in June 1998 and the CTA deliberated over the summer before handing down its written decision in September 1998. The decision stated that CP did breach its level of service in some instances and also discriminated against grain movement. Based on the decision, the CWB is seeking financial compensation from CP for the damages farmers suffered.



The CTA process provided answers to farmers as to why grain moved poorly in the winter of 1996 - 97.

Expanding Customer Base

A new flour mill in Vietnam started production in November 1997 using only Canadian wheat. Access to this new market started with a CWB market development mission to Southeast Asia. The CWB made contact with Vimaflour Ltd. just as they began developing the mill. We told Vimaflour Ltd. about Canadian quality and what it could do for them. Given the expansion expected in the milling industry, we also conducted a survey of Vietnamese bakers who indicated the flour they had been receiving was of inconsistent quality. Subsequent missions were undertaken which positioned the CWB to offer the product needed by the bakers. Complementing the work in Vietnam, representatives of the milling industry were invited to attend a Canadian International Grains Institute (CIGI) course in Winnipeg to investigate how the different classes of Canadian wheat would perform when making noodles, breads and confectionery products. The end result was a contract to supply Vimaflour Ltd. with Canadian wheat.

At the same time, opportunities were also presenting themselves in South America. With the signing of the Canada - Chile bilateral trade agreement, tariffs on durum wheat and barley imported by Chile were reduced to zero from 11 per cent on July 1, 1997. The tariff on barley from Canada remains at zero compared to barley from other origins that is subject to the 11 per cent tariff. For durum wheat, the tariff rate is zero between April 15 and November 15, and increases to eight per cent for the balance of the year. Throughout this cycle, the tariff on durum from all other origins remains at 11 per cent. Canada currently has 100 per cent of the durum market in Chile.

Changing Grain Varieties

For the last decade, Harrington has been the established variety in the global two-row malting barley market. Over this period, new varieties have been developed that are equal to, or better than, Harrington in malting and brewing characteristics, and which are better suited for conditions on the Prairies. Manley, Stein and Oxbow were introduced to customers on a trial basis and are now being grown commercially across the Prairies. Plant scale tests were completed in China under the supervision of Canadian maltsters. Educational seminars expanded the maltsters' familiarity with and acceptance of these varieties. This effort has resulted in commercial sales of Stein and Oxbow.
The next generation of malting barley varieties is already being developed and field trials are underway.

Customers Hisakazu Kishioka from Japan (left) and Nadia Chikhaoui from Algeria (right) inspect durum wheat near Swift Current, Saskatchewan.

New durum wheat varieties are also beginning to make their mark. During the 1997-98 crop year, the Market Development Department conducted lab scale tests on six traditional and extra strong gluten durum varieties. Twelve CWB durum customers from six countries participated in the tests. The results of the tests were encouraging for the continuing development of strong gluten durum varieties to meet a specific market demand. The testing also resulted in positive ratings for recently registered varieties that fit into the current Canada Western Amber Durum (CWAD) class. In 1998-99, Market Development will be following up the lab scale tests with commercial testing of extra strong gluten durum varieties in Italy and North America.

Promoting Protein

When people talk about wheat quality, they are actually talking about protein. It is the quality of the protein in wheat that determines its milling characteristics. In many cases, millers are looking for a specific protein level and quality on a consistent basis so they do not have to make costly adjustments to their milling processes.

The difficulty for Western Canadian farmers is making effective fertility management decisions when protein premiums for the upcoming year are not known. To help farmers decide whether it makes economic sense to increase inputs, the Prairie Protein Action Committee was formed. The Committee is chaired by the CWB and includes plant breeders, soil and cereal scientists, fertilizer industry representatives and agriculture extension specialists. The culmination of this effort was a major wheat protein conference held in Saskatoon in March 1998. Issues such as soil fertility, protein quality, customer demand and agronomic issues were discussed at the conference.

The Committee is tackling the protein issue on two fronts. First, it wants to ensure that Western Canadian wheat and durum meet increasing customer demand for specific protein quantity and quality. Second, it wants to make information available to farmers on the factors that influence protein, such as variety, agronomic influences, and the effects of timely fertilization. Both these initiatives were designed to put more money in farmers' pockets.

Brazilian Valquíria Jaqueline Lopes Enk tests the strength of a Canadian dough sample.

Biotechnology Benefits

The reality of agriculture and food today is that genetically enhanced foods are already in the global distribution system. It is, however, incumbent on the scientific and business community to ensure that the interests and welfare of both customers and farmers are understood and taken into account as the science of biotechnology moves from the laboratory bench to the farm gate to the consumers' plate.

The CWB is sensitive to some customers' concerns about genetically enhanced products. We are involved in developing systems and agreements that serve the interests of all parties such as the Bio-safety Protocol on cross-border movement of genetically enhanced material. And we are pushing to develop rapid, accurate identification techniques to allow the segregation of genetically modified products from conventional ones. This is necessary to provide guarantees to the customer on the quality of the product they receive.

Adding Value at Home

The CWB held its second annual Moving Up Market conference in Calgary in November 1997. The audience was the domestic milling and malting industry, the CWB's largest single customer for Prairie wheat and malting barley.

The conference focused on the CWB's supportive role in adding value to cereal grains in Canada. Speakers from the malting and milling industry explained their industry's successes and relationships with the CWB. The livestock feeding industry and the cereal fractionation sector were explored for new options and future direction.

The push for more value-added ventures at home has begun to pay off. During the past two years, two new wheat processing plants have started up. Prairie Flour Mills (PFM) established a new flour mill west of Winnipeg at Elie, Manitoba. Focused on the domestic and U.S. markets, the mill's new technology positions it to be a key player in traditional and niche markets. The Canadian International Grains Institute (CIGI) assisted PFM in the development of the plant.

Agri-Partners International (API) began operations in their multi-phase operation at Red Deer, Alberta. The API operation includes a flour milling enterprise along with a starch/gluten extraction plant and an ethanol facility. The CWB's new pricing policy for fractionation plants was developed to allow operations like the new API facility to operate in a competitive North American environment.

Market Development Program Manager, Earl Geddes, speaks at the *Moving Up Market* conference in Calgary.

"Thank you to the Canadian Wheat Board for doing a good job of selling our grain this year. You should be congratulated."

Arthur Schamp
Farmer, Cypress River, Manitoba

③ World

During the 1997-98 crop year the CWB not only kept pace in an ever-changing world, but in many respects, led the way.

Asian Currency Crisis

The Asian financial crisis had a significant effect on countries, industries and companies around the world. While there was no way to predict the crisis, the CWB took immediate action to lessen the impact on Canadian farmers. Through the credit grain sales program, the CWB offered $250 million in credit to Indonesia and a $35 million credit package to South Korea to enable them to continue buying Prairie-grown wheat. The CWB also expanded sales of wheat into non-traditional areas such as the Persian Gulf and southern Africa.

Grain Stocks Pile Up Worldwide

While Asia was experiencing currency problems, grain stocks were building up. World wheat production reached the highest level in history in 1997-98 at 612 million tonnes. The CWB anticipated the build-up of stocks and aggressively made sales at the start of the crop year to get the highest prices possible and to facilitate good movement through the year. The CWB continued to communicate with farmers through the Pool Return Outlook (PRO) advising farmers that grain prices were expected to go down as the year progressed. With the forecast projecting continued low grain prices, Prairie farmers reacted by planting less spring wheat in 1998-99.

Harvest is well under way on the outskirts of Lethbridge, Alberta.

Growing Demand For Quality

The CWB initiated a number of programs to meet customer needs. The "Quality First" program encourages inland terminals to ship cleaner, more uniform product to U.S. mills. In March 1998, the CWB selected Weyburn Inland Terminal Ltd. (WIT) as the first winner of this program.

Meeting the growing demand for high quality has resulted in increased sales to premium markets. For instance, Warburton's, a British baking company, has very specific requirements for certain varieties of Prairie-grown wheat to produce their high quality breads. Since the company is willing to pay a premium for consistency and high quality, the CWB developed an identity-preserved contracting program to provide Warburton's with specific varieties. By meeting customer needs, the CWB increased wheat shipments to Warburton's from 82 525 tonnes in 1996-97 to 103 700 tonnes in 1997-98.

Foreign Subsidies Return

Canadian farmers reacted to market signals and planted less wheat and barley. However, the market signals to European and American farmers were masked by subsidies. The European Union's (EU) annual budget for cereal grain support payments totals $20 billion. U.S. farmers benefit from the loan deficiency program, which provides a floor price for farmers, and they also receive substantial payments through the production flexibility contract. These subsidies had the effect of driving world prices even lower.

On June 8, 1998, 11 Prairie farm leaders and CWB Commissioner Richard Klassen met with Dr. Franz Fischler, the EU Commissioner for Agriculture, to call for a substantial reduction in EU subsidies. In 1998-99 the CWB anticipates holding further meetings with Prairie farm leaders to discuss prices and farm income. The CWB also plans to brief federal government negotiators on trade impacts of the subsidies.

Canadian farm leaders at the meeting with the European Union's Commissioner for Agriculture.
First row (left to right): Alan Holt (Wild Rose Agricultural Producers), John Pearson (Prairie Pools Inc.), Don Dewar (Keystone Agricultural Producers) and Bob Friesen (Canadian Federation of Agriculture).
Second row (left to right): Stewart Wells (National Farmers Union), Greg Rockafellow (Western Barley Growers Association), Richard Klassen (CWB), Leroy Larsen (Saskatchewan Wheat Pool), Charlie Swanson (Manitoba Pool Elevators), Leo Meyer (Alberta Oat Producers Association), Neil Hardy (Saskatchewan Association of Rural Municipalities), Wilfred Harder (CWB Advisory Committee).

Service Expectations Rise

Area Representatives Eron Gross (left) and Mel Ashcroft (right) outside the regional office in Regina, Saskatchewan.

Farmers expect continuously improved service and we are responding. Farmers said they want to be paid for their selected barley when they deliver it to the local elevator, rather than after the grain arrives at port or processor. In response, the CWB developed the risk-offset program at the end of the 1997-98 crop year. The two-year program was to go into effect at the start of the 1998-99 crop year. By the final year (1999-2000) of the program, a grain company can receive a payment if it purchases at least 80 per cent of the company's total selected requirements at the time of delivery to the primary elevator.

As well as speeding up payments on malting barley, the CWB looked for ways to facilitate quicker payments on all grains with changes to the cash advance program. Corporations, partnerships, cooperatives and other business enterprises can now be pre-approved (just as individual farmers have been in the past) for cash advances. As well, the CWB worked with the Alberta Soft Wheat Producers Commission to provide an increased cash advance limit for farmers with irrigation. The higher value reflects the higher yields of irrigated crops.

The CWB has also been helping find ways to help farmers move their grain more quickly. The CWB supported grain-related amendments to the Canada Labour Code that were made in 1997-98. The amended legislation forces non-grain employers and unions to enter into negotiations during strikes and lockouts by preventing them from holding grain hostage. Furthermore, after the serious grain movement backlog in 1996-97, the Federal Government commissioned a review of the grain handling and transportation system in Western Canada. The CWB outlined an effective, low-cost transportation and handling system that links farmers, industry partners, customers and the CWB in working agreements.

On a pilot project basis, the CWB opened a regional office in the heart of Canada's grain-growing region to provide farmers with more opportunity to meet with CWB staff and sort out issues one-on-one. The Regina office opened on December 1, 1997. If the project is successful, offices may be opened at other points across the Prairies.

The CWB also hosted nine Windows to World Markets crop demonstration plots across the Prairies. Through the 1-800 line, the CWB received 131,000 calls. And another 1,600 people took advantage of tours of the CWB in 1997-98.

Great Strides in Technology

With improving computer technology the number of people using personal computers and the Internet continues to increase. To meet the demands of those wanting to do business through the computer, the CWB is continually providing more information through its Web site. In April 1998, the CWB's efforts were recognized with a 1997 Signature Award for "Best Web Site" from the Advertising Association of Winnipeg.

In June 1998, the CWB developed a working group made up of industry officials, farmer representatives and CWB staff to try to develop an electronic on-line permit book. Once completed this will allow farmers confidential, up-to-the-minute access to all of their delivery, contracting, pricing and cash advance information.

New software has also allowed management to improve budgeting procedures and track expenses better. A new Inventory Control department was established to consolidate and streamline the administration, tracking and recording of CWB inventory through one central database.
The opportunities as a result of the new technology seem limitless, but there are also some hurdles - the most significant being the Year 2000 problem. The CWB was one of the first organizations in Canada to develop its capability from a systems aspect to recognize dates beyond December 31, 1999. As a result of our foresight we fully expect to have all of our systems ready for the changeover well in advance of the new millennium.

Internet specialist Richard Martin displays the CWB's Signature Award.

"I just received a copy of the barley variety survey conducted by your office. You are to be warmly congratulated for such an effort - this information is like a gold mine to many people - myself included!"

M.C. Therrien,
Research Scientist, Brandon, Manitoba

Management Discussion and Analysis

OPERATING RESULTS

The 1997-98 crop year was one farmers and industry will remember with mixed feelings. On a positive note, durum wheat values were near record levels, grain movement was very good and farmers produced a high-quality crop. On the flip side, world demand declined for wheat and barley, foreign subsidies returned after a three-year reprieve and dry weather resulted in lower yields.

The lower yields and reduced wheat and barley prices affected the total export value of the 1997-98 crop. Sales values from the four pool accounts - wheat, durum, barley and designated barley - to domestic and export markets reached $4.6 billion down from the record of $6.1 billion set in 1996-97. Despite the reduced total value, only the three major car manufacturers (General Motors of Canada Ltd., Chrysler Canada Ltd. and Ford Motor Co. of Canada Ltd.) and IBM Canada generated more sales revenue from exports than the CWB.

The CWB anticipated that the value of the 1997-98 crop would be highest early in the year. To take advantage of the expected early higher prices, the marketing strategy was to move 50 per cent of the crop year exports by December 31, 1997 and 85 per cent by May 31, 1998. The well-planned strategy had a very positive impact on pool returns as prices, particularly durum, declined over the crop year. Improved rail service helped the CWB earn $4.4 million in net despatch revenue. Despatch is earned when ships are loaded ahead of schedule.

Difficult Growing Season

Cool conditions in late April and early May delayed seeding of the 1997 wheat and barley crops. Seeding began the first week of May, but eastern and northern regions did not start planting until the end of the month. In northern Alberta and northeastern Saskatchewan, seeding operations were delayed due to wet soil conditions and the fact that farmers still had to complete a portion of the 1996 harvest. Flooding in Manitoba's Red River Valley also caused significant delays, postponing seeding until early June.

Farmers responded to the CWB market outlook signals by seeding less wheat and barley and increasing durum acreage. Spring wheat acreage dropped 10 per cent from the previous year to 8.9 million hectares (22 million acres). Durum area increased by eight per cent from 1996 to 2.2 million hectares (5.4 million acres) and winter wheat area decreased to 67,000 hectares (166,000 acres). Barley acreage dropped five per cent to 4.7 million hectares (11.6 million acres). The drop in acreage was due to increased oilseed and special crop acreage.

Area Representative Bert Dupasquier (centre) discusses the Pool Return Outlook with Doug Latta (left) and Dean Louvier (right) at the Manitoba Pool elevator in Rosser, Manitoba.

Temperatures in June were normal to above normal. Rainfall varied across the Prairies, with western regions receiving normal amounts and eastern regions receiving below normal amounts. Dryness in southwestern Manitoba and southeastern Saskatchewan caused poor germination and limited the yield potential of all crops. In Alberta, rains delayed seeding.

In July, temperatures started out normal and increased to above normal by the end of the month. Above normal temperatures and minimal precipitation across most of the Prairies caused crop conditions to decline rapidly in the last half of July.

The hot, dry weather continued in August, which further deteriorated crop conditions. Wheat matured rapidly under the warm, dry weather and harvesting began in some southern areas by mid-August. Rains returned to the Prairies mid-month improving conditions in some northern areas, although it was too late for the bulk of the crop.

Weather conditions in the latter half of August and into September were nearly ideal. This allowed the harvest to near completion (95 per cent) by the end of September. Northern Alberta was the exception, as heavy rains in the Peace River region delayed harvest and reduced crop quality.

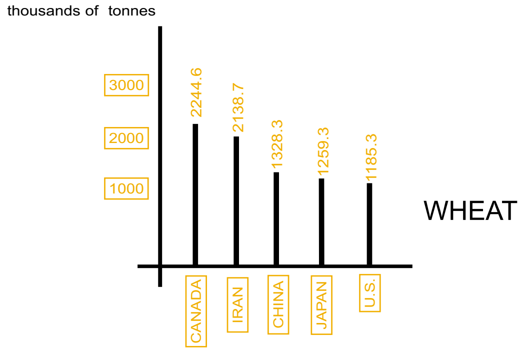
Customers at Home and Abroad

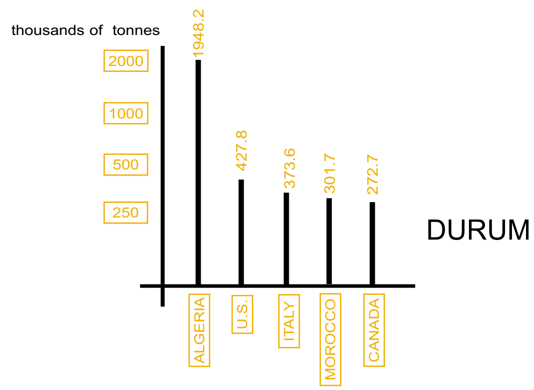
For the second consecutive year, the Canadian wheat and malting barley industries were the single largest market for western Canadian grain. Sales of non-durum wheat to the domestic milling market were 2.24 million tonnes, just down from 2.25 million tonnes in 1996-97. The domestic industry was also the top malting barley customer. During 1997-98 the CWB provided 1.1 million tonnes of malting barley to domestic maltsters for production of domestic and export malt.

The top customer for non-durum wheat abroad was Iran, which purchased 2.1 million tonnes, up from two million tonnes in 1996-97. The demand for durum in Algeria continued to grow as it imported almost two million tonnes in 1997-98 up from 1.2 million tonnes in 1996-97.

In feed barley marketing, total exports dropped substantially as the domestic industry provided one of the highest feed barley values in the world. Saudi Arabia again topped the list of importers with 434 000 tonnes. The top two importers of malting barley continued to be the United States and China, where sales volumes reached record levels.

LARGEST VOLUME CUSTOMER COUNTRIES





Analysis of Wheat Pool Account

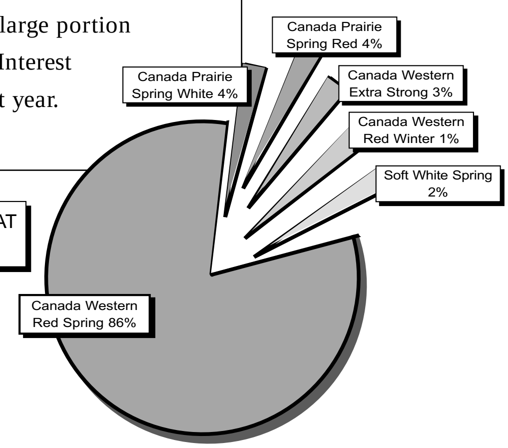
The CWB projected non-durum wheat values would drop in 1996-97 and farmers responded by planting 10 per cent less wheat than the previous year. As a result of the drop in seeded acreage and dry conditions, western Canadian non-durum wheat production totalled 18.98 million tonnes, down sharply from last year's 25 million tonnes.

While the crop was smaller, it was very high quality. More than 80 per cent of wheat receipts was Canada Western Red Spring (CWRS) and of that, nearly two-thirds made the No. 1 grade compared to less than one-third the previous year. Protein content, measured by the Canadian Grain Commission using Combustion Nitrogen Analysis (CNA), was also well above average. The mean protein of No. 1 CWRS in 1997 was 13.4 per cent, up from the five-year average of 13.2 per cent.

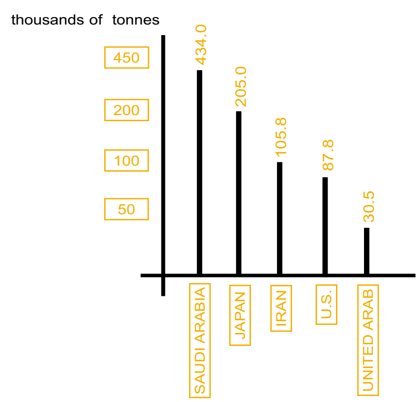
The total sales value was $3.09 billion on receipts of 15.2 million tonnes of wheat. The average sales value of $203.12 per tonne in store Vancouver/Thunder Bay was down about 5 per cent from the previous year.

The CWB's total operating costs were $51.5 million which represented a 55 per cent decrease from the previous year. The biggest reason for the decrease was a smoothly shipped sales program due to improved rail service that allowed the CWB to earn $3.7 million despatch on grain movement. During 1996-97 the CWB paid $18.7 million in demurrage. Country elevator carrying charges and freight to terminal costs were also significantly lower largely as a result of the smaller crop. Additional freight costs were lower, reflecting an average 1.2 per cent freight rate decrease that took effect August 1, 1998. Drying costs decreased by more than $13 million due to the almost ideal harvest conditions. CWB administration expenses increased about $4.7 million. A large portion of the increase is a result of costs incurred making the CWB Year 2000 compliant. Interest earnings on the wheat pool account amounted to $65 million for the second straight year.

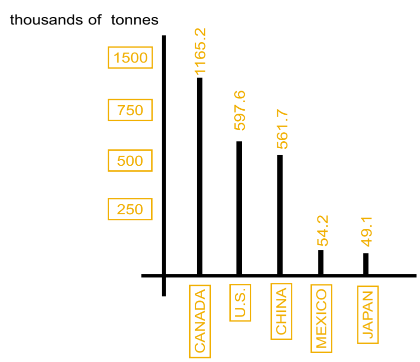
WESTERN CANADIAN WHEAT PRODUCTION BY CLASS



LARGEST VOLUME CUSTOMER COUNTRIES



FEED BARLEY



DESIGNATED BARLEY

Analysis of Durum Pool Account

The 1997-98 Canada Western Amber Durum (CWAD) values were the second highest on record. The average sales value of the durum pool was $284 per tonne in store Vancouver/Thunder Bay, almost 15 per cent more than last year. The total revenue exceeded $1.1 billion on 3.9 million tonnes of receipts from producers.

Durum production was 4.35 million tonnes, just less than the 4.63 million tonnes produced in 1996-97. The grades were significantly up from the past two years. More than 80 per cent of the crop fell in the top two grades, compared to 50 per cent the previous year. The protein in the top grade of CWAD was 12.8 per cent, just above the five-year average.

Costs to the pool account decreased by about $2 million in 1997-98 compared to the year before. Good movement of product resulted in a terminal storage expense decrease of about $1 million and earnings of $651,271 on despatch. The previous year the CWB paid $1.29 million in demurrage. Drying expenses were reduced by about $2 million due to ideal harvest conditions. Freight rates were reduced by 1.2 per cent which resulted in a recovery of $306,000. Country elevator charges were about $1.5 million higher than the year before because both the higher per tonne value of the product being financed and interest rates were higher than the previous year. Additional freight to terminals increased slightly as some durum was moved from non-traditional catchment areas. Administrative expenses were $9.9 million, up from $6.3 million in 1996-97. The increase was largely as a result of increased costs to prepare for the Year 2000 challenge and the fact that durum wheat accounted for a higher percentage of total receipts, therefore absorbing a higher percentage of the total expenses. Interest earnings were $11 million up from $8.8 million the previous year.

Analysis of Barley Pool Account

In total 12.5 million tonnes of barley were produced in Western Canada, down from 15 million tonnes in 1996-97. The total area sown to barley was about five per cent more than the five-year average.

The average sales value per tonne for barley sold by the CWB was $124.07 per tonne in store Vancouver/Thunder Bay. Feed barley returns were affected for the second consecutive year by aggressive export intervention on the part of the European Union (EU). While the off-shore market was affected by subsidies, the boom in the hog and beef industries helped make the Canadian domestic market among the most lucrative in the world. As a result, most barley that was produced for feed in 1997-98 was sold by farmers into the high-value domestic industry. Receipts of feed barley from producers plummeted from 2.4 million tonnes in 1996-97 to 262 000 tonnes in 1997-98.

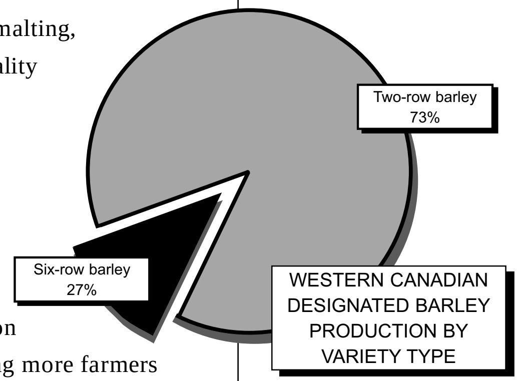
Costs to the barley pool were substantially lower than 1996-97. Total costs were $618,000 compared to $18.3 million the previous year. The decrease in pool size affected all facets of costs. Additional freight costs were also decreased as a result of lower freight rates and good rail movement.

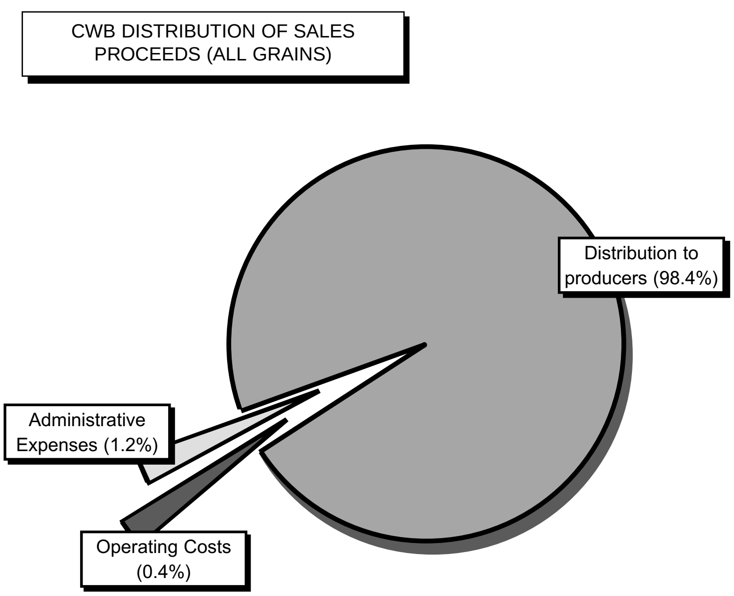
Analysis of Designated Barley Pool Account

Designated barley refers to barley selected and accepted from producers for use in malting, pot or pearling. The ideal harvest conditions resulted in ample supplies of high quality designated barley in 1997.

Receipts from producers were 2.3 million tonnes, down a little more than 100 000 tonnes from the previous year. The average sales value fell to $195.55 per tonne in store Vancouver/Thunder Bay from $221.01 the previous year.

Overall costs to the pool were higher in 1997-98 at $3.4 million up from $2.3 million the year before. Country elevator charges were higher due to grain companies paying more farmers in full at 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. Administrative expenses rose by about $1.7 million from the previous year largely because designated barley accounted for a higher percentage of total receipts, which translated into higher expenses. Despatch was earned as a result of good rail movement and a well-executed sales plan. Interest earnings rose to $4.6 million from $3 million the previous year primarily due to higher interest rates.





Management Discussion and Analysis

FINANCIAL REVIEW

Credit Granting Activities

The CWB works with the federal government to develop credit programs that facilitate the sale of Western Canadian grain. The federal government provides guarantees, credit limits and support program structures that will best meet this need. The CWB, acting within the guidelines established by the Department of Finance and other government departments, works closely with individual customers and commercial banks to customize credit facilities best suited to customer needs. The credit programs available are an important factor in building and maintaining market share for CWB stakeholders in many foreign markets, particularly when competitors use credit programs. In some cases, foreign governments of other grain exporters provide concessional credit terms on their export sales.

The CWB uses the following programs to offer credit carrying commercial terms:

Credit Grain Sales Program

The Credit Grain Sales Program allows the CWB to sell grain on credit to customers who can provide a sovereign guarantee of repayment to the CWB from their central bank or ministry of finance. The Government of Canada, in consultation with the CWB, establishes country eligibility and individual country credit ceilings for this program. The Government of Canada guarantees repayment of all credit receivables under the Credit Grain Sales Program, which means that all amounts due to the CWB are contingent liabilities of the Government of Canada.

Grain elevators at Newdale, Manitoba.

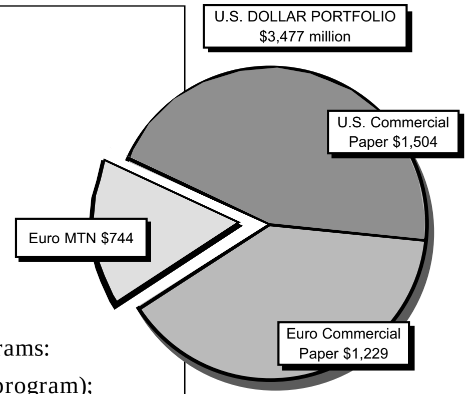
Agri-food Credit Facility

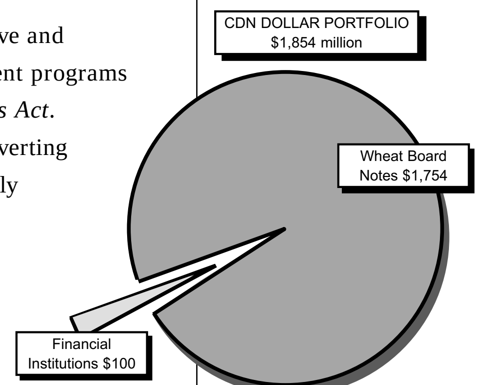
The Agri-food Credit Facility allows CWB to sell grain, either directly or through Accredited Exporters, on credit to private importers where the importer cannot provide a sovereign guarantee of repayment. Since these transactions involve private buyers and their foreign banks, there are no country credit ceilings but instead the Government of Canada evaluates each transaction on a case by case basis. Under this program the Government of Canada guarantees a declining percentage of the receivables based on the repayment term of the credit. The CWB assumes this nominal risk not covered by the Government of Canada.

Other Credit Programs

Due to the recent disturbances in emerging economies certain existing customers have switched from a cash basis of settlement to requiring credit. To facilitate the needs of these customers, the CWB has worked closely with the federal government and Canadian commercial banks to make credit arrangements. During the past year, credit has been extended to customers in both Indonesia and South Korea. Under these arrangements, the credit risk that is not covered under the Credit Grain Sales Program or the Agri-food Credit Facility is assumed by a commercial bank, without recourse to the CWB.

CANADIAN WHEAT BOARD BORROWING PROGRAMS





Funding Activities and Liquidity

Funding Activity

Under the *Canadian Wheat Board Act*, and with the approval of the Minister of Finance, the CWB is empowered "to borrow money by any means, including the issuing, reissuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness". The CWB's funding requirements are met primarily through four distinct borrowing programs:

* a short term domestic Commercial Paper Program (the "Wheat Board Note" program);
* a short term U.S. Commercial Paper Program;
* a short term Euro Commercial Paper Program; and
* a Euro Medium-Term Note Program.

The CWB borrows money in order to finance grain inventories, credit sales, administrative and operating expenses, as well as to administer the Government of Canada's advance payment programs under the *Agricultural Marketing Programs Act* and the *Prairie Grain Advance Payments Act*. Although the CWB borrows in a variety of currencies, currency risk is eliminated by converting borrowings into either Canadian or U.S. dollars. The CWB's total debt portfolio generally fluctuates between $6 and $7 billion Canadian dollar equivalent.

The CWB continues to explore new borrowing opportunities in all financial markets in an ongoing effort to further reduce borrowing costs, expand and diversify investor base and maintain access to money. The CWB is one of Canada's largest borrowers and competes for funds in all markets against other highly rated, sizable organizations. Since all CWB borrowings are fully guaranteed by the Government of Canada, money is borrowed at rates comparable to those of the Government of Canada.

On June 11, 1998, the Parliament of Canada enacted Bill C-4, *An Act to amend the Canadian Wheat Board Act*. Under the amended Act, the CWB ceased to be an Agent of Her Majesty in right of Canada on December 31, 1998. All borrowings, however, continue to be unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada. Any amount required to be paid pursuant to the guarantee will be paid out of the Consolidated Revenue Fund of Canada, the aggregate of all public moneys.

The CWB has the following credit ratings:

	Domestic Long-Term	Domestic Short-Term	Foreign Currency Long-Term	Foreign Currency Short-Term
Moody's	Aa1	P1	Aa2	P1
Standard & Poor's	AAA	A1+	AA+	A1+
Dominion Bond Rating Service	AAA	R-1H	AAH	R-1H
Canadian Bond Rating Service	AA+	A-1+	AA+	A-1+

Liquidity

In the course of normal operations, the CWB's funding programs provide sufficient liquidity to meet daily cash requirements. The CWB also holds highly rated short term investments for cash management purposes to ensure that sufficient liquidity is available. The CWB also maintains sufficient lines of credit with financial institutions to provide additional access to money.

Risk Management Activities

The Government of Canada guarantees an initial payment to producers during the pool year and also seeks to minimize risks to the total return farmers will receive while participating in the pool accounts. Certain risks do exist that may affect the ability of the CWB to meet these objectives and obligations. These risks include market risk and credit risk as described below.

The CWB manages its financial risk exposures relating to foreign exchange, commodity prices and interest rate exposures within formal corporate policies. The policies were approved by the Board of Commissioners in June 1997 and are in accordance with the Federal Government's *Financial Risk Management Guidelines for Crown Corporations.*

Market Risk

Market risk is the risk to the CWB's financial condition resulting from adverse movements in the level or volatility of market prices. The CWB is exposed to market risk in three areas of its operations including commodity price risk, foreign exchange risk and interest rate risk.

Commodity Price Risk

Commodity price risk is defined as the risk of reduced revenue to the organization resulting from adverse changes in commodity prices.

In 1997-98, 37 per cent of the wheat pool was sold on basis contracts where the full contract price was determined at a later date. Basis contracts enable the CWB and the customer to manage price risk independently, and also provide the customer with the ability to determine the date that the contract will be priced. The result is that the CWB faces the risk of a movement in the price of grain between the time the grain is sold and the time the grain is priced. To offset this risk, at the time these sales contracts are entered into, the CWB sells grain futures contracts on regulated U.S. futures markets. Because of the nature and size of the futures contracts traded the CWB may not be perfectly

Customer country flags fly at CWB *Windows to World Markets* display outside Headingly, Manitoba.

hedged against these price fluctuations. However, the degree to which the pool accounts are at risk due to these incomplete hedges poses no material risk of loss to the pool accounts. In most cases, the final contract price is determined through an exchange of futures contracts with the customer.

In addition, during 1997-98 the CWB entered into grain futures contracts on regulated U.S. futures markets to price grain where the opportunity to do so was not available in the physical market. These transactions were small in volume and did not materially affect any pool account.

Foreign Exchange Risk

Foreign exchange risk is defined as the exposure to the potential impact of adverse movements in foreign exchange rates.

All sales entered into by the CWB are priced directly or indirectly in U.S. dollars. Sales priced in Canadian dollars are determined by reference to the U.S. dollar value of the grain at the time the sale is entered into or priced in the case of deferred basis contracts. Therefore, the pool returns are subject to the risk of adverse movements in the U.S. dollar exchange rate in a particular pool year. The CWB enters into over-the-counter foreign exchange forward and option contracts to minimize the corporation's exposure to adverse foreign exchange rate movement. By utilizing these hedging instruments, the CWB is able to establish the conversion rate for the U.S. dollar on the sales contracts entered into.

Interest Rate Risk

The CWB has substantial financial assets that earn interest revenue and financial liabilities that incur interest expense. Interest revenue less interest expense results in net interest earnings. Interest rate risk exists when there is a mismatch between the interest rate repricing dates and term of the assets and liabilities. In the event of a mismatch, an adverse change in interest rates could reduce net interest earnings.

The CWB's assets are primarily Canadian and U.S. dollar denominated credit receivables arising from the sale of grain. These floating rate assets are financed predominantly through the issuance of either short term debt or medium term debt that has been swapped to a floating rate of interest. Therefore floating rate assets are financed through floating rate debt, thus reducing the interest rate risk of the organization which is consistent with "best practices".

The CWB's Board of Commissioners has established limits within which asset/liability management is conducted.

Karen Bailey (left) tours farmers through the Finance Department.

Credit Risk

Credit risk is the risk of potential loss should a counter-party fail to meet its contractual obligations and is comprised of current, potential and settlement exposure. The CWB has exposure to credit risk with respect to non-guaranteed accounts receivable due from foreign customers, investing transactions, and derivative transactions.

The CWB's exposure to credit risk on accounts receivable due from foreign customers is limited to those receivables that are not guaranteed by the Government of Canada. Under the Agri-food Credit Facility the Government of Canada guarantees a declining percentage of the receivables based on the repayment term of the credit. The CWB assumes the risk not covered by the Government of Canada or by a commercial bank. No defaults have been experienced against these programs to date, including in the current year.

Where credit risk on a non-guaranteed receivable has been assumed by a commercial bank, the bank has no recourse to the CWB. The CWB's exposure in these situations is limited to the risk of non-performance of the commercial bank in the event of non-payment by the customer. The CWB manages this exposure by contracting only with those financial institutions having a very high credit rating.

The CWB manages exposure to risk of loss from an investing counter-party by transacting investments only with highly rated counter-parties. Investments adhere to the credit rating requirements of the *Canadian Wheat Board Act* and the *Minister of Finance Credit Policy Guidelines for Crown Corporations.*

Credit risk associated with derivatives entered into for treasury management and foreign exchange purposes represents the replacement cost of contracts with a positive fair value. The CWB manages its exposure to the risk of non-performance of a derivative counter-party by contracting only with financial institutions having very high credit ratings qualified to the financial risk management guidelines approved by the CWB's Board of Commissioners and by the Minister of Finance. In addition to strict credit rating requirements, the CWB utilizes International Swaps and Derivatives Association, Inc. master agreements to minimize the credit risk, payment risk and legal risk associated with interest rate related derivative transactions.

Year 2000 Computer Compliance

The Year 2000 presents a major challenge for computer systems around the world. The problem is that many of the world's computers use two-digit date fields and may be unable to recognize the century change, from 1999 to 2000, resulting in systems failure or inaccurate results.

The CWB is a leader among Canadian businesses in dealing with this problem, having begun work to correct this problem in 1995, pioneering some techniques that are now in use outside of the CWB. For the CWB, the task is both large and complex. The CWB keeps track of producer deliveries, grain stocks and accounts receivable with the help of computers. Many of these software programs were written specifically for the CWB and could not be replaced with commercially available software. As a result, significant staff time and resources have been invested in modifying computer infrastructure over the past three years, by repairing some applications and replacing others. It is anticipated that all reprogramming and replacement efforts for systems will be completed by June 1999.

However, the Year 2000 challenge extends beyond safeguarding CWB computer systems. The CWB regularly receives information from grain elevator companies, railways, banks and grain customers via computer. The CWB is now in the process of verifying where these and other companies stand in terms of Year 2000 compliance. The CWB, as a major player in the Canadian grain industry, is working towards coordinating efforts within the industry to ensure that shipments of Western Canadian grain continue without disruption on January 1, 2000 and beyond.

The sun sets on a field of Canada Western Extra Strong wheat near Roland, Manitoba.

Glossary of Financial Terms

Cross-currency interest rate swap
a contractual agreement for specified parties to exchange principal and fixed and floating interest rate payments, in different currencies. Notional amounts upon which the interest rate payments are based are not exchanged.

Currency call option
a contractual agreement which gives the purchaser of the call option the right to buy the currency at a predetermined price at a specific point in time or during a specified period. The seller of the call option has the obligation to sell the currency if the option is exercised.

Currency put option
a contractual agreement which gives the purchaser of the put option the right to deliver the currency to the seller of the option at a predetermined price at a specific point in time or during a specified period. The seller of the put option has the obligation to accept delivery if the option is exercised.

Currency swap
a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

Derivative instrument
a contract or security that obtains much of its value from price movements in a related or underlying security, future, or other instrument or index.

Fair value
an estimate of the amount of consideration that would be agreed upon between two arm's length parties to buy or sell a financial instrument at a point in time.

Foreign exchange forward
an agreement to buy and sell currency at a specified price and date in the future.

Foreign exchange swap
a transaction in which a foreign currency is simultaneously purchased in the spot market and sold in the forward market or vice-versa.

Futures contract
a future commitment to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. The futures contract is an obligation between the corporation and the organized exchange upon which the contract is traded.

Hedge
a risk management technique used to decrease the risk of adverse commodity price, interest rate or foreign exchange movements by establishing offsetting or risk-mitigating positions intended to reduce or minimize the corporation's exposure.

International Swaps and Derivatives Association, Inc. (ISDA)
the principal swap industry trade group whose agreements are used as standard documentation for over-the-counter derivative instruments.

Liquidity
having sufficient funds available to meet corporate obligations in a timely manner.

Option
a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a specific point in time or during a specified period.

Risk management
the application of financial analysis and diverse financial instruments to the control and, typically, the reduction of selected types of risk.

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

Swap
a contractual agreement to exchange a stream of periodic payments with a counter-party.

financial results

Index to Financial Statements July 31, 1998

CWB

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, 1998 and the financial status of the CWB as of 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 Chair of the CWB Advisory Committee and an independent outside member, 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.

D.E. Vernon

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

Adrian Measner

Adrian Measner
Executive Director, Marketing

423 Main Street
PO Box 816
Winnipeg, Manitoba
Canada R3C 2P5

Phone (204) 983-0239
Fax (204) 983-3841
Telex 07-57801
Internet: www.cwb.ca

423, rue Main
C.P. 816, succ. Main
Winnipeg (Manitoba)
Canada R3C 2P5

Tél. : (204) 983-0239
Téléc. : (204) 983-3841
Télex. : 07-57801
Internet : www.cwb.ca

Auditors' Report

Deloitte & Touche

To the Canadian Wheat Board:

We have audited the financial statements of the Canadian Wheat Board set out as Exhibits I to VIII and notes thereto which include the balance sheet at July 31, 1998 and the statements of operations and distribution of earnings to producers for the 1997-98 pool accounts for wheat and amber durum wheat for the period August 1, 1997 to completion of operations on August 31, 1998 and for barley and designated barley for the period August 1, 1997 to completion of operations on September 30, 1998, the statement of cash flow for the year ended July 31, 1998, the statement of special account transactions for the year ended July 31, 1998, and the statement of administrative and general expenses and allocations to operations for the year ended July 31, 1998. 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, 1998 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 + Touche

Deloitte & Touche

Winnipeg, Manitoba
December 21, 1998

Deloitte Touche
Tohmatsu
International

Exhibit I

BALANCE SHEET
as at July 31

	1998	1997
ASSETS		
Accounts Receivable		
Credit sales (Note 3)	$7,022,939,980	$6,418,291,510
Completed sales	17,223,160	66,184,064
Advance payment programs (Note 4)	75,893,749	161,575,235
Other	29,630,222	5,907,272
	7,145,687,111	6,651,958,081
Stocks of grain (Note 5)	946,686,022	1,682,137,024
Deferred and prepaid expenses (Note 6)	16,190,470	38,127,819
Fixed assets (Note 7)	66,276,729	52,724,986
TOTAL ASSETS	$8,174,840,332	$8,424,947,910
LIABILITIES		
Borrowings (Note 8)	$6,715,579,384	$6,240,754,143
Accounts payable and accrued expenses (Note 9)	117,561,738	105,772,615
Liability to agents of the CWB (Note 10)	730,240,623	1,364,322,369
Liability to Producers (Note 11)	601,023,394	703,327,514
Provision for final payment expenses (Note 12)	7,643,324	8,108,840
Special Account – net balance of undistributed payment accounts (Note 13)	2,791,869	2,662,429
TOTAL LIABILITIES	$8,174,840,332	$8,424,947,910

APPROVED

Lorne F. Hehn
Chief Commissioner

Richard H. Klassen
Commissioner

Gordon P. Machej
Commissioner

Donald E. Vernon
Executive Director, Finance and Treasurer

Exhibit II

1997-98 POOL ACCOUNT - WHEAT
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1997 to completion of operations on August 31, 1998
(with prior year comparatives for the period ended September 30, 1997)

	1997-98		1996-97	
	Amount	Rate per Tonne	Amount	Rate per Tonne
Receipts from Producers: Tonnes	15 201 105		19 756 578	
Revenue (Note 18)	$3,087,651,013	$203.120	$4,230,897,275	$214.151
Deduct Operating Costs				
Country Elevator Carrying Charges	43,252,471	2.845	56,525,504	2.861
Terminal Storage	15,495,422	1.019	14,944,608	0.756
Demurrage / Despatch	(3,732,998)	(0.245)	18,779,575	0.950
Additional freight - to terminals	23,155,431	1.523	38,131,697	1.930
- freight rate change	(2,486,330)	(0.163)	2,686,523	0.136
Drying	563,754	0.037	13,804,982	0.699
Interest and Depreciation on CWB Hopper Cars	2,306,893	0.152	2,371,393	0.120
Administrative Expenses	38,235,780	2.515	33,565,468	1.699
Interest earnings	(65,308,740)	(4.296)	(65,258,729)	(3.303)
	51,481,683	3.387	115,551,021	5.848
Earnings Distributed to Producers	$3,036,169,330	$199.733	$4,115,346,254	$208.303
Earnings Distributed as follows:				
Initial Payments at delivery	$2,421,760,919	$159.314	$3,707,842,403	$187.676
Adjustment Payments	306,316,251	20.151	176,336,478	8.926
Interim Payment	114,430,256	7.528	-	-
Final Payment	193,583,966	12.735	231,066,148	11.696
Rebate on Producer Cars	77,938	0.005	101,225	0.005
	$3,036,169,330	$199.733	$4,115,346,254	$208.303

Exhibit III

1997-98 POOL ACCOUNT - AMBER DURUM WHEAT
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1997 to completion of operations on August 31, 1998
(with prior year comparatives for the period ended September 30, 1997)

	1997-98		1996-97	
	Amount	Rate per Tonne	Amount	Rate per Tonne
Receipts from Producers: Tonnes	3 937 885		3 882 848	
Revenue (Note 18)	$1,118,374,947	$284.004	$962,792,723	$247.961
Deduct Operating Costs				
Country Elevator Carrying Charges	13,434,440	3.411	11,965,467	3.082
Terminal Storage	4,040,368	1.026	5,010,878	1.290
Demurrage / Despatch	(651,271)	(0.165)	1,294,828	0.333
Additional freight - to terminals	1,986,996	0.505	1,225,932	0.316
- freight rate change	(306,196)	(0.078)	604,658	0.156
Drying	39,904	0.010	2,180,510	0.562
Interest and Depreciation on CWB Hopper Cars	597,606	0.152	466,060	0.120
Administrative Expenses	9,910,012	2.516	6,251,570	1.610
Interest earnings	(11,046,126)	(2.805)	(8,883,675)	(2.288)
	18,005,733	4.572	20,116,228	5.181
Earnings Distributed to Producers	$1,100,369,214	$279.432	$942,676,495	$242.780
Earnings Distributed as follows:				
Initial Payments at delivery	$ 891,059,979	$226.279	$682,288,454	$175.719
Adjustment Payments	138,010,307	35.047	161,120,614	41.495
Interim Payment	23,591,190	5.991	-	-
Final Payment	47,688,676	12.110	99,260,014	25.564
Rebate on Producer Cars	19,062	0.005	7,413	0.002
	$1,100,369,214	$279.432	$942,676,495	$242.780

Exhibit IV

1997-98 POOL ACCOUNT - BARLEY
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1997 to completion of operations on September 30, 1998
(with prior year comparatives for the period ended September 30, 1997)

	1997-98		1996-97	
	Amount	Rate per Tonne	Amount	Rate per Tonne
Receipts from Producers: Tonnes	261 960		2 440 097	
Revenue (Note 18)	$32,500,922	$124.068	$385,966,275	$158.177
Deduct Operating Costs				
Country Elevator Carrying Charges	2,761,565	10.542	9,362,874	3.837
Terminal Storage	1,360,008	5.192	2,462,246	1.009
Demurrage / Despatch	(46,023)	(0.176)	4,090,147	1.677
Additional freight - to terminals	624,561	2.384	1,929,869	0.791
- freight rate change	160,587	0.613	232,271	0.095
Drying	47,965	0.183	3,493,943	1.432
Interest and Depreciation on CWB Hopper Cars	39,755	0.152	292,886	0.120
Administrative Expenses	663,073	2.531	4,163,495	1.706
Interest earnings	(4,993,579)	(19.062)	(7,678,940)	(3.147)
	617,912	2.359	18,348,791	7.520
Earnings Distributed to Producers	$31,883,010	$121.709	$367,617,484	$150.657
Earnings Distributed as follows:				
Initial Payments at delivery	$28,914,535	$110.378	$339,813,142	$139.262
Adjustment Payments	339,049	1.294	13,787,821	5.651
Final Payment	2,627,839	10.031	14,006,741	5.740
Rebate on Producer Cars	1,587	0.006	9,780	0.004
	$31,883,010	$121.709	$367,617,484	$150.657

Exhibit V

1997-98 POOL ACCOUNT - DESIGNATED BARLEY
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1997 to completion of operations on September 30, 1998
(with prior year comparatives for the period ended September 30, 1997)

	1997-98		1996-97	
	Amount	Rate per Tonne	Amount	Rate per Tonne
Receipts from Producers: Tonnes	2 267 423		2 402 091	
Revenue (Note 18)	$443,390,259	$195.548	$530,873,216	$221.005
Deduct Operating Costs				
Country Elevator Carrying Charges	1,929,197	0.851	599,100	0.250
Demurrage / Despatch	(34,932)	(0.016)	219,284	0.091
Additional freight – to terminals	65,108	0.029	25,582	0.011
– freight rate change	25,439	0.011	152,268	0.063
Interest and Depreciation on CWB Hopper Cars	344,145	0.152	288,279	0.120
Administrative Expenses	5,704,875	2.516	4,084,200	1.700
Interest earnings	(4,566,046)	(2.014)	(3,043,871)	(1.267)
	3,467,786	1.529	2,324,842	0.968
Earnings Distributed to Producers	$439,922,473	$194.019	$528,548,374	$220.037
Earnings Distributed as follows:				
Initial Payments at delivery	$375,755,680	$165.719	$436,485,500	$181.711
Adjustment Payments	16,712,999	7.371	65,696,042	27.350
Interim Payment	9,070,255	4.000	-	-
Final Payment	24,989,161	11.021	15,945,563	6.638
Producer Contract Storage	13,394,378	5.908	10,421,269	4.338
	$439,922,473	$194.019	$528,548,374	$220.037

Exhibit VI

STATEMENT OF CASH FLOW
for the year ended July 31

	1998	1997
Cash Flow from Operating Activities		
Cash received from the sale of grain	$4,681,917,141	$6,110,529,489
Interest earned	85,914,491	84,865,215
Cash paid for operating costs	(159,487,605)	(241,206,097)
Add items not requiring an outlay of cash - depreciation	5,397,502	5,221,774
Cash flow from operating activities before working capital changes	4,613,741,529	5,959,410,381
Changes in working capital	87,691,927	(69,001,523)
	4,701,433,456	5,890,408,858
Cash Flow from Other Activities		
(Increase) decrease in accounts receivable - credit sales	(604,648,470)	234,986,289
Purchase of fixed assets	(18,949,245)	(13,783,833)
	(623,597,715)	221,202,456
Net Cash Flow before Distribution	4,077,835,741	6,111,611,314
Cash Distributed to Producers		
Cash balance undistributed in prior year	(360,396,885)	(299,275,785)
Current year balances distributed to producers prior to July 31	(4,192,264,097)	(5,593,791,723)
	(4,552,660,982)	(5,893,067,508)
Net (decrease) increase in Cash	(474,825,241)	218,543,806
Borrowings at beginning of year	(6,240,754,143)	(6,459,297,949)
Borrowings at end of year	($6,715,579,384)	($6,240,754,143)

Exhibit VII

STATEMENT OF SPECIAL ACCOUNT TRANSACTIONS
for the year ended July 31

	1998	1997
Balance of Special Account at beginning of year	$2,662,429	$3,235,545
Add transfer to Special Account from payment accounts authorized by Order-in-Council P.C. 1998-916	906,027	-
	3,568,456	3,235,545
Deduct expenditures authorized by Order-in-Council noted below	(768,897)	(562,076)
Deduct payments to Producers against old payment accounts	(7,690)	(11,040)
Balance of Special Account at end of year	$2,791,869	$2,662,429

During the year ended July 31, 1998, the balances from payment accounts for 1989 Wheat, 1989 Durum, 1988 Barley, and 1989 Barley were transferred to the Special Account under Order-in-Council P.C. 1998-916.

Details of Expenditures:

Authorized by Order-in-Council	Description of Purpose	Unexpended as at July 31, 1997	Authorized Crop Year 1997-98	Expended Crop Year 1997-98	Unexpended as at July 31,1998
P.C. 1994-1305 P.C. 1995-2202 P.C. 1998-917	Market Development	$179,229	$175,000	$186,165	$168,064
P.C. 1998-918	Canadian International Grains Institute -capital expenditures	-	120,000	111,304	8,696
P.C. 1990-1538	Scholarship Program	-	350,000	311,428	38,572
P.C. 1997-1628	Agribusiness Chair	-	160,000	160,000	-
		$179,229	$805,000	$768,897	$215,332

As at July 31, 1998 there were unexpended authorizations totalling $215,332 leaving an unallocated balance of $2,576,537.

Exhibit VIII

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

Administrative and General Expenses:	1998	1997
Advisory Committee	$ 223,861	$ 212,019
Annual report, “Grain Matters” and other CWB publications	837,476	731,974
Area representatives	371,621	375,485
Audit fees	163,000	163,000
Bonds and insurance	76,013	60,701
Car Allocation Policy Group - CWB share of operating expenses	35,000	35,000
Canadian International Grains Institute - CWB share of operating expenses	1,577,458	1,623,164
Communications and information	514,429	195,818
Computing equipment - rentals and services	8,631,539	5,762,260
Depreciation on automobiles, building, computer equipment and systems, furniture and equipment	4,415,824	2,559,696
District meetings	25,223	21,947
Human resources - salaries	21,299,537	21,386,370
Human resources - employment insurance, pension, group insurance, medical and other employee benefits	4,934,058	4,882,949
Human resources - recruitment	150,422	252,863
Human resources - training and development	699,516	203,665
Legal fees and court costs	40,419	376,808
Management consulting	1,127,400	482,812
Manitoba Health and Education Tax	546,203	472,799
Office and miscellaneous	1,071,653	1,195,881
Postage	964,019	934,771
Printing, stationery and supplies	581,542	539,379
Publications and subscriptions	449,676	325,800
Rental and lighting of offices, including maintenance of the Canadian Wheat Board building	2,165,456	2,059,766
Repair and rental of office equipment	421,720	309,214
Telecommunications	761,421	753,458
Travelling and transfer of staff	1,627,916	1,506,784
	$53,712,402	$47,424,383

During the 1997-98 crop year, the CWB incurred costs, including legal costs, totalling $2,745,874 related to the level of services complaint filed with the Canadian Transportation Agency in April 1997. These costs have been netted against proceeds from CN for this reporting period under the commercial no-fault agreement. Proceeds in excess of this amount have been included in Revenue and have been distributed to the pool accounts.

Exhibit VIII (continued)

Allocation to Operations:	1998	1997
Marketing of Producers' Grain		
1997-98 Pool Accounts		
- Wheat	$22,846,839	
- Durum	5,918,531	
- Barley	393,718	
- Designated Barley	3,407,874	
1996-97 Pool Accounts		
- Wheat	14,258,604	$19,306,864
- Durum	2,807,595	3,443,975
- Barley	1,778,942	2,384,553
- Designated Barley	1,736,787	2,347,413
1995-96 Pool Accounts		
- Wheat		12,347,138
- Durum		3,768,713
- Barley		1,090,647
- Designated Barley		2,193,290
Cost allocated to pool accounts based on relative tonnage	53,148,890	46,882,593
Distributing Final Payments to Producers		
1990-91 to 1996-97 Pool Accounts (1989-90 to 1995-96 Pool Accounts for the prior year)		
- Wheat	339,989	327,032
- Durum	91,245	91,620
- Barley	74,759	65,020
- Designated Barley	57,519	58,118
Cost allocated to payment accounts based on activity	563,512	541,790
	$53,712,402	$47,424,383

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.

Effective December 31, 1998 the CWB will no longer be an agent of Her Majesty and will no longer be a Crown corporation within the meaning of the *Financial Administration Act*.

The CWB is exempt from income taxes under Section 149(1)(d) of the *Income Tax Act*.

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:

Stocks of grain – Stocks of grain on hand at July 31 at the values which were ultimately received as sale proceeds.

Expenses incurred subsequent to July 31 - 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.

Liability to producers - Balances not yet distributed to producers at July 31 where marketing operations have been completed for the 1997-98 pool accounts are included in Liability to Producers.

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

The Government of Canada guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program. On receivables resulting from sales made under the Agri-food Credit Facility, the Government of Canada guarantees a declining percentage of the receivable based on the repayment term of the credit, with the CWB assuming the risk not covered by the Government of Canada.

For receivables resulting from credit sales made outside of the Credit Grain Sales Program and the Agri-food Credit Facility, the CWB may enter into arrangements with commercial banks who will assume the credit risk, without recourse to the CWB.

As a result of the government guarantees of credit receivables and the arrangements entered into with commercial banks, no provision is made 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 (to 1/20 residual value)	1 to 5 years
Automobiles (to 1/3 residual value)	2 years
Building and office alterations	3 years
Computer systems development	10 years
Office furniture and equipment	10 years
Hopper cars	30 years
Building	40 years

(d) Translation of foreign currencies

Sales contracts denominated in foreign currencies are hedged by foreign exchange forward and option contracts. Forward exchange contracts are translated into Canadian dollars at the rates provided therein. Purchased option contracts are translated into Canadian dollars at the higher of the option strike price or the market price net of premium. Written option contracts are translated into Canadian dollars at the option strike price when exercised by the purchaser. These amounts are recorded in Revenue as an adjustment to the underlying sales transactions. 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 foreign currency denominated assets or liabilities are included in accounts payable and accrued liabilities.

Borrowings in currencies other than the Canadian or United States dollar are concurrently hedged by currency or cross-currency interest rate swap agreements and are converted 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. Any settlements 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) Derivative financial instruments

In order to manage its exposure to currency and interest rate risks the CWB uses various types of derivative financial instruments such as currency and interest rate swaps and foreign exchange forward and option contracts.

Interest rate agreements - Periodic payments under swap and forward contracts are accounted for on an accrual basis with the net accrued interest receivable or payable included in borrowings. The costs of the contracts are recognized in the period in which they occur and are reported in current income as a component of interest revenue.

Foreign exchange agreements - Currency exchange settlements arising from foreign exchange agreements and the costs associated with these contracts are included in sales revenue. Contract costs and exchange rate settlements are recognized in the same pool account in which the related foreign currency transaction occurs.

(g) 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.

(h) 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.

(i) Pension plan

Employees participate in the Public Service Superannuation Account administered by the Government of Canada. The CWB matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the CWB. The CWB is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Public Service Superannuation Account.

(j) Post-employment benefits

Employees of the CWB are entitled to specified benefits provided upon retirement or termination. The liability for these benefits is recorded in the accounts as the benefits accrue to employees. The unrecognized balance as at July 31, 1993 of $7,980,330 is being amortized on a straight line basis over ten years commencing with the 1993-94 crop year. The unrecognized balance at July 31, 1998 is $3,990,165 (1997 - $4,788,198).

3 ACCOUNTS RECEIVABLE FROM CREDIT SALES

	1998				1997
	Credit Grain Sales Program	Agri-food Credit Facility	Other Credit	Total	Total
Due from foreign customers:					
Current	$ 392,098,123	$23,801,306	$9,070,741	$ 424,970,170	$ 226,758,452
Overdue	680,004,637	-	-	680,004,637	578,518,611
Subject to a Paris Club rescheduling	-	-	-	-	283,364,048
Rescheduled	5,861,457,027	-	-	5,861,457,027	5,276,890,424
	6,933,559,787	23,801,306	9,070,741	6,966,431,834	6,365,531,535
Due from Government of Canada	56,508,146	-	-	56,508,146	52,759,975
	$6,990,067,933	$23,801,306	$9,070,741	$7,022,939,980	$6,418,291,510

The CWB sells grain on credit under the following credit arrangements in order to meet competitive pressures and to meet the needs of customers:

Credit Grain Sales Program

The CWB can sell grain on credit under this program to customers who can offer a sovereign guarantee of repayment to the CWB from their central bank or ministry of finance. The Government of Canada, in consultation with the CWB, approves country eligibility for this program and individual country credit ceilings on an annual basis. Repayment terms cannot exceed 36 months from time of shipment, and commercial rates of interest are charged. Under this program, the Government of Canada guarantees repayment of all credit receivables.

These accounts receivable arise from sales of grain to Algeria, Brazil, China, Egypt, Ethiopia, Haiti, Indonesia, Iran, Iraq, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. Of the $6,933,559,787 (1997 - $6,365,531,535) principal and accrued interest due from foreign customers, $5,118,725,537 (1997 - $4,490,063,911) represents the Canadian equivalent of $3,385,624,404 (1997 - $3,258,391,808) repayable in United States funds.

Overdue accounts receivable at July 31, 1998 represent amounts due from Iraq and Pakistan where payments for past credit sales had not been received on due dates and were still outstanding at year end.

Through a forum known as the Paris Club, the Government of Canada and other creditors have periodically agreed to extend the repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment.

Under terms agreed to by the Government of Canada at the Paris Club, the CWB has entered into agreements to reschedule certain receivables beyond their original maturity dates for Algeria, Brazil, Egypt, Ethiopia, Haiti, Jamaica, Peru, Poland, Russia and Zambia. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years. In addition to debt relief by means of extending the repayment terms, the Government of Canada has, in certain cases, agreed to reduce various levels of principal outstanding for Egypt, Ethiopia, Haiti, Poland and Zambia. Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the CWB by the Government of Canada. The amount of $56,508,146 (1997 - $52,759,975) due from the Government of Canada as at July 31, 1998 under these debt reduction agreements represents accrued interest from the date of the last payment. Of this amount, $31,361,591 (1997 - $28,922,874) represents the Canadian equivalent of $20,743,165 (1997 - $20,989,023) which will be repayable in United States funds.

Agri-food Credit Facility

The CWB can sell grain on credit under this facility to private importers where the importer cannot offer a sovereign guarantee of repayment. Since these transactions involve private buyers, the Government of Canada has not set country credit ceilings but evaluates each transaction on a case-by-case basis.

Under this facility, the Government of Canada guarantees a declining percentage of the receivables based on the repayment term of the credit. The CWB assumes the risk not covered by the Government of Canada. The CWB's maximum credit risk exposure under this facility at July 31, 1998 is $694,135 (1997 - $0).

Accounts receivable under this facility arise from sales to customers in Brazil and South Korea. The balance of $23,801,306 (1997 - $0) principal and accrued interest due under the Agri-food Credit Facility represents the Canadian equivalent of $15,742,646 (1997 - $0) repayable in United States funds.

Other Credit

In certain credit sales under the Credit Grain Sales Program and the Agri-food Credit Facility, the CWB will partner with commercial banks who will assume part of the credit risk of the sale, without recourse to the CWB. The risk that is shared by the bank is not guaranteed by the Government of Canada. The CWB's exposure in this type of transaction is the risk of non-performance of the commercial bank in the event of non-payment by the customer. The CWB manages this exposure by contracting only with those financial institutions having a very high credit rating.

The balance of $9,070,741 (1997 - $22,100,819) principal and interest due represents the Canadian equivalent of $5,999,564 (1997 - $16,038,331) repayable in United States funds.

Fair Value

All accounts due from credit receivables as at July 31, 1998 have contractual interest rate repricing dates under 365 days. As a result of the short terms to repricing dates of these financial instruments, fair value approximates the carrying values.

Maturities

The accounts receivable from credit sales mature as follows:

	1998	1997
Within		
1 year	$ 560,596,541	$ 373,523,321
2 years	119,734,802	63,088,244
3 years	135,868,087	95,019,027
4 years	216,649,420	123,318,138
5 years	321,654,188	206,659,378
More than 5 years	4,988,432,305	4,978,164,791
Overdue	680,004,637	578,518,611
	$7,022,939,980	$6,418,291,510

4 ACCOUNTS RECEIVABLE FROM ADVANCE PAYMENT PROGRAMS

	1998			1997
	Agricultural Marketing Programs Act	Prairie Grain Advance Payments Act	Total	Total
Due from producers:				
Principal balances outstanding	$72,227,218	-	$72,227,218	$167,255,202
Recovery of interest costs on advances over $50,000	873,380	$2,047,002	2,920,382	1,788,155
	73,100,598	2,047,002	75,147,600	169,043,357
Due from Government of Canada:				
Recovery of interest costs on advances under $50,000	10,184,013	530,284	10,714,297	446,922
Less principal collected from producers subsequent to reimbursement by Government of Canada	-	(7,767,682)	(7,767,682)	(5,705,479)
Less default interest collected from producers on behalf of Government of Canada	-	(2,200,466)	(2,200,466)	(2,209,565)
	10,184,013	(9,437,864)	746,149	(7,468,122)
	$83,284,611	($7,390,862)	$75,893,749	$161,575,235

Cash advances totalling $536,929,688 were issued by the CWB to producers under the Government of Canada's *Agricultural Marketing Programs Act* during the year ended July 31, 1998, which was the first year of the program. In previous years, cash advances were made under the Government of Canada's *Prairie Grain Advance Payments Act*. Cash advances issued by the CWB to producers under the *Prairie Grain Advance Payments Act* since 1957 total $11,316,856,057, including $874,948,103 issued during the previous 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.

5 STOCKS OF GRAIN

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

	1998	1997
Wheat	$703,173,287	$1,166,874,727
Durum	176,984,054	329,674,513
Barley	7,888,961	107,241,670
Designated Barley	58,639,720	78,346,114
	$946,686,022	$1,682,137,024

6 DEFERRED AND PREPAID EXPENSES

	1998	1997
Prepaid cost of moving inventory to eastern export position	$11,310,907	$18,063,545
Foreign exchange options premiums applicable to subsequent pool accounts	7,009,342	5,395,248
Purchase options on leased hopper cars	5,137,335	5,137,335
Deposits on commodity margin accounts	3,451,415	5,431,555
Other	3,233,836	779,590
Net results of commodity hedging activities applicable to subsequent pool accounts	(13,952,365)	3,320,546
	$16,190,470	$38,127,819

7 FIXED ASSETS

			1998	1997
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Hopper cars	$ 86,571,175	$53,386,840	$33,184,335	$36,145,393
Computer systems development	26,057,049	1,915,941	24,141,108	9,076,356
Computer equipment	11,646,958	7,040,890	4,606,068	3,708,391
Office furniture & equipment	5,560,380	3,108,365	2,452,015	1,976,143
Building and land	4,572,956	3,868,837	704,119	804,506
Building & office alterations	2,390,277	1,781,441	608,836	598,622
Automobiles	712,352	232,966	479,386	356,239
Leasehold improvements	161,883	61,021	100,862	59,336
	$137,673,030	$71,396,301	$66,276,729	$52,724,986

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, 88 cars have been wrecked and dismantled leaving 1,912 still in the fleet. The CWB is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

8 BORROWINGS

	Effective Interest Rate (%)	1998	1997
Short term debt instruments and loans			
Canadian dollars	4.65 – 5.10	$1,653,793,348	$1,816,763,099
United States dollars ($2,604,191,482)	5.44 – 5.89	3,937,277,102	3,944,082,032
		5,591,070,450	5,760,845,131
Medium term debt instruments			
United States dollars ($743,772,031)	5.50 – 5.75	1,124,508,934	479,909,012
		$6,715,579,384	$6,240,754,143

Borrowings denominated in currencies other than the Canadian or United States dollar have been fully swapped into Canadian or United States dollars as shown above. All borrowings have contractual interest rate repricing dates under 365 days. As a result of the short term to maturity of these financial instruments, fair value approximates the carrying values.

The CWB's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct borrowings of the CWB and thus constitute borrowings undertaken on behalf of Her Majesty in right of Canada and carry the full faith and credit of the Government of Canada.

These borrowings are used to fund the following:

	1998	1997
To finance credit sales	$7,022,939,980	$6,418,291,510
To finance Government of Canada advance payment programs:		
Agricultural Marketing Programs Act	83,284,611	-
Prairie Grain Advance Payments Act	(7,390,862)	161,575,235
Less funds on deposit from operations	(383,254,345)	(339,112,602)
	$6,715,579,384	$6,240,754,143

9 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	1998	1997
Accounts payable and accrued liabilities	$ 48,928,153	$ 12,574,974
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	35,155,794	62,555,310
Deferred sales revenue	33,477,791	30,642,331
	$117,561,738	$105,772,615

10 LIABILITY TO AGENTS OF THE CWB

	1998	1997
For grain purchased from producers	$582,870,509	$1,191,064,200
For deferred cash tickets	147,370,114	173,258,169
	$730,240,623	$1,364,322,369

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 3 211 587 (1997 – 6 648 763) 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.

11 LIABILITY TO PRODUCERS

	1998	1997
Outstanding producer cheques at July 31		
Wheat	$129,456,442	$177,196,112
Durum	54,992,362	112,295,373
Barley	56,952	3,169,751
Designated Barley	437,708	50,269,393
	184,943,464	342,930,629
Undistributed earnings to producers		
Wheat	308,092,160	231,167,373
Durum	71,298,928	99,267,427
Barley	2,629,426	14,016,521
Designated Barley	34,059,416	15,945,564
	416,079,930	360,396,885
	$601,023,394	$703,327,514

12 PROVISION FOR FINAL PAYMENT EXPENSES

The amount of $7,643,324 (1997 - $8,108,840) 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.

13 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.

14 LEASE COMMITMENTS

The CWB 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, 1998, amounting to $20,362,628 (1997 - $18,889,422) have been recovered by the CWB. Lease terms are for 20 and 25 years, expiring in 2000 and 2006.

The CWB has entered into operating leases for certain premises. Lease terms are for a period of one to three years, expiring between December 1998 and March 2000. The CWB has the option to renew most of these leases for additional terms of up to three years. Total lease payments made in the year ended July 31, 1998 were $590,350 (1997 - $403,904).

15 UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

16 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:

		1998		1997
	Notional Amounts	Fair Value	Notional Amounts	Fair Value
Interest rate contracts				
Single-currency interest rate swaps	$1,395,786,080	$15,537,820	$384,875,400	($760,671)
Cross-currency interest rate swaps	51,059,934	(5,159,871)	300,769,012	4,968,204
Currency swaps	790,526,240	(2,877,300)	710,413,893	(29,625,867)
	2,237,372,254	7,500,649	1,396,058,305	(25,418,334)
Foreign exchange contracts				
Foreign exchange forwards	911,987,863	(33,333,556)	969,526,082	(2,949,600)
Foreign exchange swaps	188,594,063	10,855	158,670,547	1,882
Foreign exchange purchased options	901,092,400	4,389,443	1,059,682,000	10,396,500
Foreign exchange sold options	450,546,200	(1,231,979)	784,082,000	(1,674,550)
	2,452,220,526	(30,165,237)	2,971,960,629	5,774,232
	$4,689,592,780	($22,664,588)	$4,368,018,934	($19,644,102)

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 the Department of Finance. In addition, the CWB uses master netting agreements, for interest rate transactions, to reduce credit risk of counter-party default.

The CWB's maximum credit risk exposure at July 31, 1998 for these classes of financial instruments is calculated as $22,353,448 (1997 - $21,366,996). Credit exposure is calculated as the sum of all positive fair values for these classes of financial instruments as of July 31.

17 RESTATEMENT OF PRIOR YEAR'S BALANCES

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

18 REVENUE

Net sales are calculated as follows:

(a) Wheat pool account

	1997-98		1996-97	
	Tonnes	Amount	Tonnes	Amount
Completed sales to July 31	13 947 589	$2,843,703,002	16 824 059	$3,917,408,522
Sales shipped subsequent to July 31	3 634 905	703,173,287	6 122 735	1,166,874,727
Weight losses in transit and in drying	1 039	-	34 764	-
	17 583 533	3,546,876,289	22 981 558	5,084,283,249
Deduct:				
Grain acquired from other than producers	84 739	14,534,610	67 090	12,744,146
Sales used to value prior pool account	2 297 689	444,690,666	3 157 890	840,641,828
Net sales of Wheat	15 201 105	$3,087,651,013	19 756 578	$4,230,897,275
The disposition of wheat stocks in tonnes is segregated as follows:				
Domestic sales	1 873 107		2 439 607	
Export sales	13 005 899		18 209 498	
Sales to subsequent pool account	2 703 488		2 297 689	
Weight losses in transit and in drying	1 039		34 764	
	17 583 533		22 981 558	

(b) Durum pool account

	1997-98		1996-97	
	Tonnes	Amount	Tonnes	Amount
Completed sales to July 31	3 807 048	$1,101,582,347	3 587 073	$862,701,240
Sales shipped subsequent to July 31	730 233	176,984,054	1 285 549	329,674,513
Weight losses in transit and in drying	2 166	-	10 218	-
	4 539 447	1,278,566,401	4 882 840	1,192,375,753
Deduct:				
Grain acquired from other than producers	20 634	4,986,099	20 961	4,271,236
Sales used to value prior pool account	580 928	155,205,355	979 031	225,311,794
Net sales of Durum	3 937 885	$1,118,374,947	3 882 848	$962,792,723
The disposition of durum stocks in tonnes is segregated as follows:				
Domestic sales	222 322		194 774	
Export sales	3 888 913		4 096 920	
Sales to subsequent pool account	426 046		580 928	
Weight losses in transit and in drying	2 166		10 218	
	4 539 447		4 882 840	

(c) Barley pool account

	1997-98		1996-97	
	Tonnes	Amount	Tonnes	Amount
Completed sales to July 31	728 352	$112,663,815	2 092 668	$351,797,407
Sales shipped subsequent to July 31	83 868	7,888,961	739 671	107,241,670
Weight losses in transit and in drying	(173)	-	8 989	-
	812 047	120,552,776	2 841 328	459,039,077
Deduct:				
Grain acquired from other than producers	1 998	208,454	21 730	3,001,277
Sales used to value prior pool account	548 089	87,843,400	379 501	70,071,525
Net sales of Barley	261 960	$32,500,922	2 440 097	$385,966,275
The disposition of barley stocks in tonnes is segregated as follows:				
Domestic sales	113 344		4 315	
Export sales	650 230		2 279 935	
Sales to subsequent pool account	48 646		548 089	
Weight losses in transit and in drying	(173)		8 989	
	812 047		2 841 328	

(d) Designated Barley pool account

	1997-98		1996-97	
	Tonnes	Amount	Tonnes	Amount
Completed sales to July 31	2 044 716	$397,887,327	2 005 173	$457,492,403
Sales shipped subsequent to July 31	289 137	58,639,720	417 487	78,346,114
	2 333 853	456,527,047	2 422 660	535,838,517
Deduct:				
Grain acquired from other than producers	4 251	755,802	2 294	360,701
Sales used to value prior pool account	62 179	12,380,986	18 275	4,604,600
Net sales of Designated Barley	2 267 423	$443,390,259	2 402 091	$530,873,216
The disposition of designated barley stocks in tonnes is segregated as follows:				
Domestic sales	297 275		372 017	
Export sales	1 977 513		1 988 464	
Sales to subsequent pool account	59 065		62 179	
	2 333 853		2 422 660	

Advisory
Committee

Senior
Management

TOP ROW:
William Nicholson-District 2, John Clair-District 5, Dan Cutforth-District 9, Terry Hanson-District 3, Micheal Halyk-District 4, Robert Ponto-District 10, Derek Dewar-District 7

BOTTOM ROW:
Arthur Macklin(Chair)-District 11, Wilfred Harder(Vice-Chair)-District 1

MISSING:
Lorne Pattison-District 8, William Rosher-District 6

TOP ROW:
Larry Nentwig-General Director, Finance, Brian White-Head, Market Analysis Group, Keith McMahon-Corporate Controller, Ward Weisensel-Assistant General Director, Transportation, Bill Spafford-General Director, Sales & Marketing Development

MIDDLE ROW:
Margaret Redmond-General Counsel and Corporate Secretary, Robert Roehle-Head, Corporate Communications, Jim McDonald-General Director, Country Services, Bob Harris-General Director, Transportation, Tami Reynolds-Head, Corporate Policy Group, Greg Hauser-Business Manager, Information Technology (contractor)

FRONT ROW:
Adrian Measner-Executive Director, Marketing, Pat Wallace-Executive Director, Human Resources, Donald Vernon-Executive Director, Finance, and Treasurer

OFFICES OF THE CANADIAN WHEAT BOARD

HEAD OFFICE
WINNIPEG, MANITOBA

423 Main Street
P.O. Box 816, Stn. Main
Winnipeg, Manitoba
Canada R3C 2P5
Phone (204) 983-0239
Fax (204) 983-3841
Telex 07-57801

REGINA, SASKATCHEWAN

424 McDonald Street
Regina, Saskatchewan
Canada S4N 6E1
Phone (306) 751-2690
Fax (306) 751-2691

VANCOUVER, BRITISH COLUMBIA

650-355 Burrard Street
Vancouver, B.C.
Canada V6C 2G8
Phone (604) 666-2992
Fax (604) 666-0293

TOKYO, JAPAN

3rd Floor, Toranomon No.11 Mori Building
6 - 4, Toranomon 2-chome
Minato-ku
Toyko 105-0001, Japan
Phone 011-81-33-519-2288
Fax 011-81-33-519-2287

BEIJING, CHINA

Suite 708, Tower B
Beijing COFCO Plaza
8 Jianguomen Nei Street
Beijing, China 100005
Phone 011-86-10-6526-3906, 6526-3908
Fax 011-86-10-6526-3907

CWB