Prairie strong

CWB Annual Report

This is the PDF version of the 1998-99 Annual Report. In order to make the .pdf version as small as possible, many of the images have been reduced in size and resolution.

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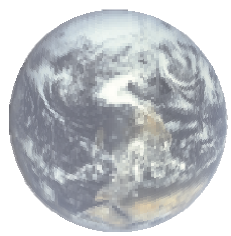
worldwide



Financial highlights

($ millions)	1998-99	1997-98	1996-97	1995-96	1994-95
Revenue	**$ 4,026.7**	$ 4,757.7	$ 6,185.8	$ 5,873.7	$ 4,638.5
Direct costs	**149.1**	170.7	266.0	187.3	267.5
Administrative expenses	**55.2**	52.9	46.4	41.4	39.6
Grain industry organizations	**1.7**	1.6	1.7	1.4	1.3
Net interest earnings	**(72.5)**	(75.9)	(82.5)	(80.9)	(66.4)
Operating costs	**133.5**	149.3	231.6	149.2	242.0
Distributed to producers	**$ 3,893.2**	$ 4,608.4	$ 5,954.2	$ 5,724.5	$ 4,396.5

Note – Comparative figures have been restated to reflect pooling points as Vancouver/St. Lawrence

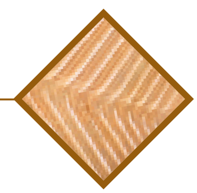
Receipts from Producers *(000 tonnes)*					
Wheat	**12 513**	15 201	19 757	14 352	14 641
Durum	**4 905**	3 938	3 883	3 973	4 068
Barley	**277**	262	2 440	1 268	1 060
Designated barley	**1 922**	2 267	2 402	2 550	2 260
Total	**19 617**	21 668	28 482	22 143	22 029

How did we do?

1998-99 Goal	Result
Export 14.5 million tonnes of wheat, durum and barley.	The target of 14.5 million tonnes was surpassed, the final total exports being 15.3 million tonnes. Effective grain transportation and handling resulted in record despatch earnings of $6.6 million dollars for farmers.
Develop systems to enable farmers and the grain industry to conduct business and exchange information via the Internet.	This project was deferred because of a lack of information technology resources in grain industry organizations due to Year 2000 priorities.
Advocate changes to compensate farmers directly based on protein and moisture content in farmers' grain deliveries.	A program offering premiums to farmers for each 1/10th of a per cent increase in protein for delivery of high-grade wheat and durum was introduced on August 1, 1999. Discussions continue between the CWB and grain companies to determine the merits of a similar program based on moisture content.
Develop programs and computer systems so new producer pricing options can be offered.	Meetings were held with farmers in June 1999 to explore details on how new pricing option programs might work. CWB staff are currently determining how these options can be implemented.
Prepare CWB computer systems for the year 2000.	In June 1999 repairs and replacements of all major components of our computer systems were completed. Systems supporting critical business process have also been undergoing testing since September 1998 and this is expected to be done by October 1999. As a further precaution, ongoing monitoring and testing will continue.
Increase market share in top quality pasta and noodle markets by developing market demand for extra strong durum and hard white wheat varieties.	Market testing for extra strong durum varieties was completed, resulting in a sale to Italy. Contract programs with farmers for delivery of these varieties were introduced for the 1999-2000 crop year. Market testing for AC-Vista, a hard white wheat, continues. Small samples have been sent to customers for testing and a contract program has been introduced for 1999-2000. Other new varieties are being developed and will be market tested.
Implement a new rail car allocation system to provide more flexibility to grain companies while retaining the benefits of CWB involvement.	The CWB worked with grain companies to establish a new zone allocation system that was introduced in the fall of 1998. The transportation review by Justice Willard Estey and the ensuing Kroeger process for implementing Estey recommendations threaten to reduce CWB/farmer involvement in rail car allocation and transportation.

1998-99 Goal	Result
Work with business groups and farmers to establish value-added processing and possible joint ventures in Western Canada.	The CWB is meeting with Prairie Pasta Producers to establish a policy for New Generation Cooperatives that encourages value-added processing on the Prairies without forgoing returns to farmers. The CWB hosted a value-added conference in Winnipeg focusing on biotechnology issues.
Improve communications with farmers.	New initiatives included the following: • The Board of Directors held meetings in Red Deer and Regina so local farmers could meet their new Directors. • More information was provided on the Web site. • Focus group meetings were held with farmers to see what type of information they wanted to receive in CWB publications. • Farm groups were invited to tour the Winnipeg grain industry. • A durum conference was held for farmers in December 1998.
Advocate farmers' interests in the next round of negotiations of the World Trade Organization.	The CWB worked with trade officials in Canada and the U.S. to ensure farmer/CWB positions were known. This included participating in the preliminary WTO conference in Ottawa and inviting U.S. officials to Winnipeg to show that CWB operations are consistent with the objectives of a more liberal trade environment. The CWB position is posted on the Web at http://www.cwb.ca.

New millennium initiatives



Vision

To create value for Prairie farmers by being an innovative world leader in marketing grain.

Goals

- To attract, develop and retain markets by delivering quality products and service to customers worldwide.
- To provide and demonstrate to Prairie farmers the competitive advantage of single-desk selling of wheat and barley.
- To demonstrate the CWB is controlled by Prairie farmers.
- To demonstrate accountability to Prairie farmers by seeking out, listening to and responding to their concerns.
- To be transparent by providing Prairie farmers with information including market related information, that does not jeopardize the competitive and commercial position of the CWB.
- To provide equitable opportunity for Prairie farmers to access world grain markets.
- To distribute returns to Prairie farmers in a manner consistent with the relative value of their products through mechanisms that strive for fairness and equity.
- To operate in a manner that encourages value-added initiatives on the Prairies.
- To maintain a healthy and safe work environment and provide employees opportunities for personal growth and professional excellence in an equitable manner that respects diversity.
- To actively represent Prairie farmers' interests on relevant issues to governments and industry.
- To provide industry leadership to achieve the most efficient handling and transportation system.

A letter from the Chair

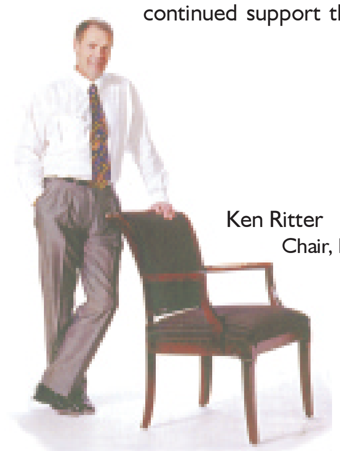
This was the year that farmers officially took the helm at the Canadian Wheat Board (CWB). As one of the 10 elected farmers on the new 15-member Board of Directors, I am proof of that.

Our top priority since taking office on December 31, 1998, has been to make the CWB more open and accountable. We have taken great efforts to provide as much information as possible without compromising our commercial position. For the first time ever, this year's annual report provides extensive disclosure of the results of our financial operations and substantially more information than is provided by other companies in the Canadian and world grain industry. We have participated in more than 80 meetings in the first seven months of our mandate, including Board meetings in Red Deer and Regina. We've also invited the Auditor General of Canada to examine CWB accounts.

Where do we go from here? Over the coming months and years, we will continue to listen and take action. For instance, farmers have told us they are interested in using some of the new pricing options that the CWB legislation allows. Those options include being able to lock in a price for their grain at seeding, cashing out of the pool account prior to the crop year end or borrowing against the expected full value of the grain. We have asked staff to determine how these options could be implemented. In addition, farmers have given us their views regarding the Board of Directors election process and we intend to turn those comments into positive changes prior to the next election.

This is just the beginning. We are making changes to the programs and services the CWB provides for farmers, but we must also look at changing the handling and transportation system where it improves the efficiency of grain marketing. Transportation is a key component in serving customers' needs. Our Board has put forward positions that are contractual, commercial and beneficial to farmers and customers.

We have achieved a great deal in 1998-99 and I would like to acknowledge the enormous contribution made by my fellow Board members and the CWB staff. I would also like to thank our customers and Prairie grain growers for their confidence and continued support throughout the year.



Ken Ritter
Chair, Board of Directors

strong

Corporate governance

The CWB's new Board of Directors replaced the former Commissioner structure on December 31, 1998. The Board is responsible for the overall governance of the corporation and its strategic direction. This includes the setting of goals, monitoring performance and ensuring the company's internal control and reporting procedures are adequate and effective.

Composition of the Board

The Board of Directors is made up of 15 members, including 10 farmers who are elected to represent their respective districts. The Directors are elected for a four-year term, with elections in five districts every two years. The Governor-in-Council appoints the final five directors based on their business expertise.

The Board retains the responsibility for managing its own affairs including selecting the Chair. The President and CEO is appointed by the Governor-in-Council, on the advice of the Minister responsible for the Canadian Wheat Board. The Minister must consult with the Board prior to making an appointment. The Board is responsible for setting the remuneration of the President and CEO.

Board Committees

While overall responsibility for the CWB's performance is accepted by the Board as a whole, standing committees made up of Directors have been established to assist the Board in specific areas. There are currently standing committees of the Board in audit, strategic issues, communications and corporate governance. Due to the importance of transportation and trade issues, ad hoc committees were also developed to investigate these issues. Once the specific duties of the ad hoc committees are complete, they will be disbanded. Committees of the Board generally meet prior to each regularly scheduled meeting. The Chair of each standing committee will be chosen annually.

Audit and Finance Committee

Primary responsibility for the CWB's financial reporting, accounting systems and internal controls is vested in senior management and overseen by the Board of Directors. The Audit and Finance Committee duties include ensuring the CWB's accounting and financial reporting systems provide accurate and timely information, facilitating the annual audit, and ensuring financial plans, proposals and risk policies are consistent with the CWB's objectives.

CWB Board of Directors
front row (l to r) James Chatenay, Greg Arason (President & CEO), John Clair, middle row (l to r) Terry Hanson, David Hilton, Betty-Ann Heggie, Micheal Halyk, Ian McCreary, Ken Ritter (Chair), Ross Keith, back row (l to r) Wilfred Harder, Larry Hill, Art Macklin, James Stanford, Bill Nicholson.

Strategic Issues and Risk Management Committee

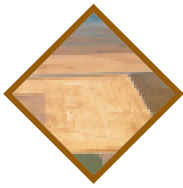
The role of the Strategic Issues and Risk Management Committee is to assist the Board by recommending priorities, time frames and processes for identified and defined areas of strategy, policy and corporate risk.

Communications Committee

The purpose of the Communications Committee is to assist the Board of Directors in developing strategies and policies regarding communications with farmers, industry, government, customers, employees and the general public.

Corporate Governance and Management Resources Committee

The purpose of the Corporate Governance and Management Resources Committee is to provide a focus on governance to enhance the CWB's effectiveness, to assist the Directors in fulfilling obligations relating to human resources and compensation, and to establish a senior management continuity and development plan.



A letter from the President & CEO

I consider it a privilege to have been asked to be the first President and Chief Executive Officer of what has been characterized as the "new" CWB. Based on the work through 1999, I am pleased with the progress that we have made in preparing the CWB for the future.

Every year brings with it new challenges and opportunities. The 1998-99 crop year was no exception. On the marketing front, farmers harvested one of the highest quality yet smallest crops of wheat in recent memory. Faced with smaller volumes, the CWB's marketing strategy from the beginning of the year was to pace export sales throughout the year and target the markets that provided the best return for farmers. This sales strategy was in sharp contrast to the previous year when every effort was made to move as much grain as possible in the autumn.

A fact that is often overlooked in this era of globalization is the value of Canada's domestic market to farmers. The Canadian milling industry, operating at near capacity, was the CWB's largest single customer for wheat. Similarly, the domestic malt industry was the largest volume market for Prairie farmers' malting barley while the majority of the feed barley produced was consumed by livestock in Western Canada.

In order to meet the needs of our customers and farmers, we will continue to actively represent their interests on all fronts that affect our job of marketing. The World Trade Organization negotiations are to begin in Seattle in November, 1999. It is anticipated that the issue of genetically modified crops will be a major topic and a clear direction must be established, taking into account responsible advances in technology as well as consumer concerns and interests. Tariff and subsidy imbalances will undoubtedly be on the table. The CWB is committed to open access, fair trade practices and a level playing field for Canadian producers. At present Prairie farmers are forced to compete with subsidies that distort market signals and depress market values. As well, a cooperative effort involving government and industry is underway to identify and develop new technologies that will enhance quality control systems to satisfy our customers' rising expectations.

As we confront each of these challenges the new Board of Directors will provide leadership and direction to the CWB. I have every confidence that the CWB will meet the needs of farmers by remaining a leader in marketing wheat and barley around the world.

Greg S. Arason
President and Chief Executive Officer

Senior management

The senior management team, with the Board of Directors, is responsible and accountable for developing the goals and objectives of our business strategy. The business of marketing focuses not only on meeting the needs of our customers and farmer stakeholders today, but also on putting in place policies and programs

CWB Executive Team
from left to right Gordon Miles, Margaret Redmond, Greg Arason, Gord Menzie, Adrian Measner, Pat Wallace.

that will serve us well into the next century. Of prime importance to our customers is providing a product that meets the needs of their changing marketplace. Equally important are the business relationships developed in providing them quality products and services. While technology has truly put us into the information age, customers largely prefer to do business face-to-face. This is still the most effective way to understand each other's business needs and maintain long-term relationships.

We also place great importance on linking farmers with their customers and their marketing organization. Every effort goes into listening to farmers and providing them with an opportunity for input into developing programs and services that meet their business needs. Many staff at the CWB are either from a farm or continue to be connected to a farming business. They are all very much aware of their responsibilities to farmers in doing the very best job.

With the change in corporate governance under the new *Canadian Wheat Board Act*, we have aligned responsibilities within the CWB under a new corporate structure. The Executive Committee is comprised of the President and Chief Executive Officer and the Executive Vice-Presidents of Marketing, Corporate Affairs, Finance, and Human Resources. The Executive Committee is responsible for the performance and management of the organization.

Within this corporate structure, departments are headed by vice-presidents who are responsible for leadership in developing and executing the programs and services to customers and farmers. Key to this success is the quality of the staff and their motivation and dedication to do the best possible job. We are continually working to improve the services we deliver and how we deliver them.

CWB Vice-Presidents
from left to right Ward Weisensel, Larry Nentwig, Brian White, Bob Harris, Bill Spafford, Jim McDonald, Tami Reynolds, Keith McMahon, Robert Roehle .

Looking back at 1998-99

August 1998

The CWB announced a two-year incentive program to encourage elevator companies to pay farmers for their selected barley when they deliver it to the local elevator, rather than when the grain arrives at port or processor. Almost seventy per cent of malting barley was purchased "on the driveway" by August 1, 1999.

Durum harvest on the Borotsik farm near Brandon, Manitoba.

In response to the early harvest, the CWB worked with Agriculture and Agri-Food Canada to implement the cash advance program two weeks earlier than originally scheduled.

The CWB offered a delivery program for fusarium-affected grain. The delivery program allowed farmers to deliver certain classes and grades of wheat and barley with fusarium damage above the tolerance levels established by the Canadian Grain Commission, while maintaining export standards and protecting customer requirements.

September 1998

The CWB proposed 10 industry solutions to Willard Estey for improved grain movement.

The Canadian Transportation Agency ruled that Canadian Pacific Railway failed to meet its service obligation regarding the delivery of grain to major corridors and that there was "undue discrimination" against CWB grain moving to Vancouver. This positive ruling was the necessary first step in recovering the damages farmers suffered during the winter of 1996-97. Later in the year, CP Rail and the CWB settled for about $15 million. The settlement will be paid to the CWB in 1999 and 2000 and will be distributed to farmers through the pool accounts.

The Governor of South Dakota announced that truck shipments of Canadian grain and livestock would be inspected at border crossings. However, the CWB did not experience any business disruptions because American customers are not served by trucks travelling through South Dakota. The majority of Canadian wheat and barley sales to the U.S. is moved by rail directly to end-users.

October 1998

The grain industry moved to a new system of rail car allocation for wheat and barley. The CWB now allocates rail cars to grain companies by zones, instead of train runs. Grain companies then determine on which train runs and at which delivery points the CWB cars will be placed and loaded. Zone allocation provides companies with increased flexibility to manage their resources, ensures the CWB's ability to originate the grain, grade and protein to meet customer requirements and provides the opportunity for increased system efficiencies.

Grain cars loading at the Mundare, Alberta, Agricore elevator.

for farmers

November 1998

CWB staff and management were given access to personal data, training, and career planning information through their personal computers. Using this technology also allowed Human Resources to improve the salary administration and recruiting process.

The annual CWB Moving Up Market Conference was held in Winnipeg to explore the vast universe of biotechnology and cereal grains. The conference delved into such topics as growing and marketing genetically enhanced crops and consumer reaction to genetically modified foods. This is part of the CWB's strategy to meet customers' concerns about genetically enhanced products while developing systems and agreements to serve all parties.

The first-ever election of a CWB Board of Directors took place. KPMG was selected by a panel of three University representatives to coordinate the election.

More than 20,000 farmers responded to the CWB's 1998-99 variety survey. The survey, mailed to farmers in June, asked farmers which varieties they seeded in 1998 and what percentage of total acres was seeded to the varieties in each class of grain. AC Barrie was the most popular Canada Western Red Spring variety. Two-row malting barley varieties accounted for 70 per cent of the total malting barley area. The survey results were posted on the CWB's Web site at http://www.cwb.ca.

Robin Hood Flour Mills in Saskatoon, Saskatchewan is a major user of Prairie grown wheat.

Recipients of 1998-99 CWB scholarships and fellowships were recognized at annual scholarship luncheons in each of the three Prairie provinces. The CWB awards program funds a maximum of 47 students per academic year with awards totalling $350,000.

Weyburn Inland Terminal (WIT) won the CWB's Quality First Program for the second consecutive year. WIT was Western Canada's top performing supplier among all elevators for sales to the U.S., loading rail cars to specification with 99 per cent accuracy in 1997-98. With the introduction of the Quality First Program, shipping accuracy has improved from 55 per cent in 1995-96 to 97 per cent in 1998-99.

December 1998

The CWB's 15 new directors officially took office. Ten directors were elected by farmers, while the remaining five were appointed by the federal government based on their business expertise.

A one-day durum wheat conference was organized by the Canadian Wheat Board in Swift Current, Saskatchewan.

January, 1999

The CWB Board of Directors called on the federal government to immediately legislate a settlement to the labour-management dispute underway at the export terminals in Vancouver and along the St. Lawrence. The Directors expressed their concern that the disruption in grain exports due to a labour dispute between the Canadian Grain Commission and the Public Service Alliance of Canada was creating economic hardship across the Prairies. The labour disruption finally ended in March.

Looking back at 1998-99 (continued)

February 1999

Market development efforts were expanded to include the three new wheat varieties AC Crystal, AC Vista and AC Morse. In 1999-2000 variety-specific delivery programs will be offered to farmers to ensure sufficient supplies are available to conduct extensive testing in domestic and export markets.

Concerned that the long-term objectives of Canada's quality control system are slowly being eroded, the CWB called on the federal government to increase funding to the Canadian Grain Commission.

The Directors went on the road participating in 61 "Let's talk transportation" meetings across the Prairies. The Estey report on grain handling and transportation was discussed.

March 1999

Gordon Miles was appointed Executive Vice-President of Corporate Affairs.

CWB Market Development Manager Earl Geddes discussed new extra strong durum varieties with officials at the Delverde pasta plant in Italy.

GrainWorld '99, the annual agriculture conference in Winnipeg sponsored and organized by the CWB, explored "Changes in Agriculture."

The CWB was the major sponsor of the "Profiting from Agricultural Change" conference in Saskatoon. More than 200 people attended the conference organized by the Agriculture Institute of Management in Saskatchewan (AIMS).

An action plan was released by the CWB to strengthen the grain supply chain and provide solutions to the transportation debate gripping Western Canada. The plan to create a marketplace in which many of the Estey recommendations could be implemented was discussed with Transport Minister David Collenette and Ralph Goodale, Minister Responsible for the CWB.

Greg Arason, President and CEO, met with members of the House of Commons Standing Committee on Agriculture and Agri-Food to express CWB concerns regarding foreign grain subsidies.

April 1999

At the Board of Directors meeting in Red Deer, Alberta, it was announced that the Auditor General of Canada will be invited to audit the CWB early in the year 2000. The audit was announced in response to farmer requests that the CWB be as open and accountable as possible.

The CWB, along with leaders of the major Prairie farm organizations, called on federal Transport Minister David Collenette to initiate a grain freight rate costing review.

The CWB and China National Cereals, Oils and Foodstuffs Import and Export Corporation (COFCO) signed a Memorandum of Agreement for Canadian milling wheat sales to China estimated at more than CDN$100 million. The agreement calls for milling wheat sales to be negotiated under normal commercial practices and at market value.

Tian Peng An, Vice-President of COFCO and Greg Arason, President and CEO of the CWB seal a memorandum of agreement for more than $100 million, with a handshake.

May 1999

The CWB Web site at http://www.cwb.ca was expanded to include real-time weather information for 115 locations across Western Canada. By the end of the crop year, 176,194 people visited the Web site and 1,184 of those people sent in questions, usually getting responses within 24 hours.

market

A preliminary ruling by the U.S. Commerce Department upheld that the CWB does not subsidize Canadian producers of live cattle. The ruling stated there was no evidence to suggest there was a significant price differential between Canadian and U.S. markets. The final ruling is expected in the fall of 1999.

June 1999

Ken Ritter of Kindersley, Saskatchewan was elected Chair of the Board of Directors for a one-year term.

The first "Windows to World Markets" crop demonstration took place at Oyen, Alberta. The 10 demonstration plots across the Prairies attracted more than 900 farmers.

The CWB participated as an exhibitor in the Regina Farm Progress Show. The CWB also participated in trade shows in Red Deer, Saskatoon and Brandon during the 1998-99 crop year.

A ship bound for Asia loads with grain at the James Richardson International (JRI) terminal in Vancouver, British Columbia.

Good loading performance during the crop year earned farmers $6.6 million. This marked the second consecutive year the CWB earned despatch for loading vessels ahead of schedule.

An analysis commissioned by the CWB entitled "An estimate of the contribution earned by the federal railways in 1997 and 1998 from handling of statutory grain and grain products" was released. The report showed the railways earned contributions of 45 per cent above long-run variable costs in 1997 and 44 per cent above long term variable costs in 1998. This was more than double the contribution rate of 20 per cent above long-run variable costs prescribed under the current legislation. The authors, John Edsforth, President of Travacon Research Ltd. and Ed Weinberg, President of PRR Transportation Consulting Inc., presented their findings to the working group of Arthur Kroeger's Estey implementation process.

July 1999

The CWB announced that farmers involved in New Generation Cooperatives can receive full payment for their grain upon delivery. The CWB also agreed to meet to discuss other potential options to increase value-added processing on the Prairies while benefiting farmers who grow wheat and barley.

The first vessel of the shipping season arrived in Churchill, taking about 21 000 tonnes of wheat to Mexico. The shipping season traditionally runs from August until October. In total, the CWB expects to export 350 000 tonnes of grain through the northern port.

The 1-800 call centre handled 144,278 inbound and outbound telephone calls during the past 12 months. During the same period, 1,252 people toured the CWB and staff spoke at 108 external functions.

Canadian National Railways assumed ownership of Illinois Central giving them a continuous rail link from the Prairies to New Orleans. The merger provided more competitive rates allowing the CWB sales department used to capture niche markets in the Caribbean.

Management discussion & analysis

Crop year

Reduced Canadian export volumes, a high grade, high protein spring wheat crop and continued weak world grain prices characterized the 1998-99 crop year.

World wheat prices were pressured in 1998-99 due to the largest world wheat supplies on record. Major exporter ending stocks increased by 35 per cent to burdensome levels. In addition, flat world wheat import demand continued in 1998-99 due to lingering economic problems in several major importing regions, particularly Southeast Asia.

This vessel loading with Canada Western Red Spring Wheat at Vancouver, British Columbia was among the CWB's 15.2 million tonnes of exports in 1998-99.

Farmers in Western Canada responded to the depressed world prices by shifting more land out of wheat and barley production in 1998. Compared to 1997, spring wheat acreage was down 17 per cent and barley acres declined 10 per cent. Durum acreage increased 32 per cent due to relatively better returns than other crops. As a result of smaller Prairie spring wheat and barley crops, CWB export volumes were down from the previous year. The CWB exported 15.2 million tonnes of grain in the 1998-99 crop year, surpassing the marketing target of 14.5 million tonnes. This was down from 21.8 million tonnes of CWB wheat and barley exports in the 1997-98 crop year.

While western Canadian farmers responded to market signals and decreased their wheat acreage in 1998, producers in other parts of the world did not. For example, producers in the European Union (EU) maintained acreage at a level similar to 1997 due to massive EU internal support and export subsidies that insulated them from world price signals.

The CWB export program was evenly distributed throughout the 1998-99 crop year. Producer delivery opportunities were matched to customer demand for a high grade, high protein crop and to maximize pool returns. A record $6.6 million in despatch was earned in the 1998-99 pool accounts, as many vessels were loaded ahead of schedule due to the efficient management of grain shipments. The previous record was $4.6 million set in 1984-85.

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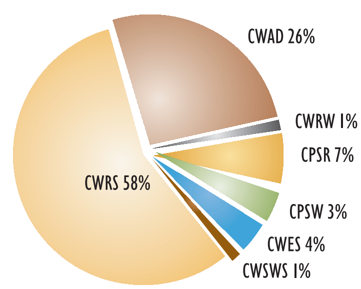
Wheat production by class



in review

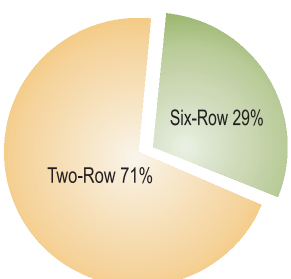
Domestic Industry

The Canadian domestic industry continues to grow in importance as a user of Prairie-grown wheat, durum and barley. For the third consecutive year the domestic milling industry was the top volume customer for wheat, taking more than 2.2 million tonnes. Domestic durum mills purchased 272 000 tonnes, making them the fifth largest customer for Canadian durum. The domestic malting industry kept its spot as the largest customer by purchasing 990 000 tonnes of designated barley (barley used for malting and human consumption). The strong domestic feed market resulted in most feed barley being used in Canada.

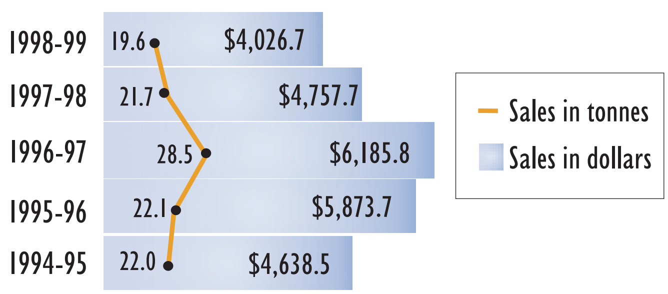
Japan, United States, Indonesia and Mexico were the largest-volume export markets for non-durum wheat. Strong sales to Algeria, United States, Morocco and Italy contributed to a durum pool of 4.9 million tonnes. Japan was the highest volume importer of feed barley and the United States was the largest importer of malting barley.

Westcan Malt at Alix, Alberta is a major user of Prairie-grown designated barley.

Barley production by class



5-Year sales history (in millions)



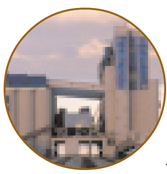
Management discussion & analysis

1998-99 Pool Accounts

The combined total sales revenue from the four pool accounts – wheat, durum, barley and designated barley – exceeded $4 billion on 19.6 million tonnes, maintaining the CWB's position as Canada's fifth largest exporter, by sales revenue.

Operating costs are divided into four components for easier understanding:

Direct Costs



The United Grain Growers terminal at Thunder Bay, Ontario.

Direct costs include country carrying charges, terminal storage, demurrage net of despatch earnings, drying charges, depreciation and interest on the CWB hopper cars, and additional freight related to adverse movement to terminals, movement eastward of Thunder Bay into export position, and freight rate changes. Direct costs totalled $149 million or 3.7 per cent of sales revenue in 1998-99, compared to $171 million or 3.6 per cent of sales revenue in the previous year.

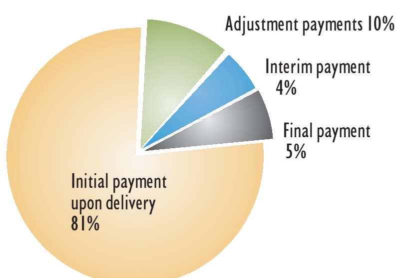
The disclosure of revenue and direct costs for each pool account now reflects the pooling points of Vancouver, Churchill and the St. Lawrence. Prior to this year, the eastern pooling point had been reported as Thunder Bay. The net impact of this change is an increase in revenue to reflect the St. Lawrence value, and separate disclosure of the net costs of moving grain beyond Thunder Bay into eastern export position as a direct cost. This change was made to present financial results on the same basis as the pooling points that are used for determining initial payment rates, and to ensure comparable values are used to measure sales revenue on the east and west coasts. Prior year comparative figures have been restated on this basis. This change does not impact the total earnings distributed to producers.

Administrative and General Expenses

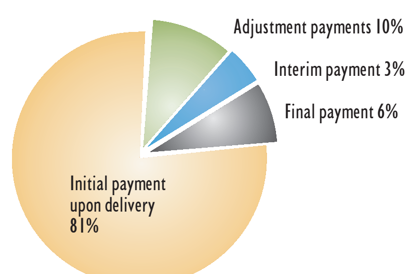
Administrative and general expenses represents the allocation to the pool accounts of the cost of running the CWB. The total administrative and general expenses of $56.6 million were up nine per cent compared to 1997-98, as outlined in the section entitled *Running the CWB*. The rate per tonne of $2.81 charged to the pool accounts is up by 15 per cent compared to last year. This is partially due to the fact that these costs are being applied to a smaller volume of grain. The volume delivered to the pool accounts

Earnings Distributed to Farmers
(by percent)

1998-99



1997-98



results

was down nine per cent from the previous year.

Grain Industry Organizations

The cost of grain industry organizations represents the CWB's 40 per cent share of the Canadian International Grains Institute (CIGI) operating costs and the 33 per cent share of the Car Allocation Policy Group (CAPG) operating costs. Total cost incurred during the current crop year is up five per cent over the prior year due to an increase in the operating costs for the Canadian International Grains Institute.

CIGI is a non-profit organization providing technical service and educational programs supporting market development for grain, oilseeds and pulse crops. CAPG sets policy for high level rail car allocation and all costs are shared equally by the CWB, the Western Grain Elevator Association and the railways.

Net Interest Earnings

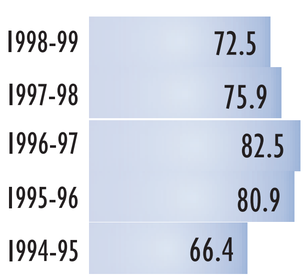
Net interest earnings for all of the pool accounts amounted to $72.5 million in 1998-99, down slightly from $75.9 million the previous year. These arise mainly from financing credit receivables. When the CWB sells grain on credit, the CWB borrows money equal to the amount extended as credit to pay farmers, rather than have the farmer wait for payment from the credit customer. The CWB borrows the money at a lower rate of interest than the rate extended to the credit customer, and thereby the credit granting activities are a source of net interest earnings which go directly into the pool accounts to be paid as part of the final payments.

Dennis Tully demonstrates dough properties at the Canadian International Grains Institute (CIGI) bakery.

Interest is also earned on the cash balances that build up in the pool accounts during the year, and is charged to customers on sales.

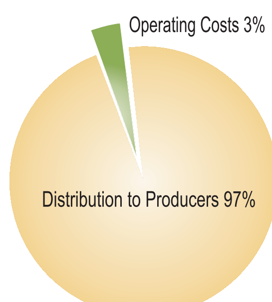
After deducting net operating costs of $133 million, the CWB returned almost $3.9 billion, 97 per cent of sales proceeds, back to western Canadian farmers from marketing their wheat and barley. Of the earnings distributed to producers in 1998-99, 91 per cent was returned prior to August 1, 1999, in the form of initial and adjustment payments, and designated barley producer contract storage payments. This is similar to the 1997-98 pool accounts.

Net Interest Earnings
(millions of dollars)



Distribution of sales proceeds

1998-99



Management discussion & analysis

Wheat

Wheat pool results				
$ per tonne, except as noted	**1998-99**	1997-98	Change	Per cent
Pool size (tonnes)	**12 512 726**	15 201 105	(2 688 379)	(18)
Sales	**$ 205.71**	$ 204.59	$ 1.12	1
Direct costs	**5.18**	5.98	(0.80)	(13)
Administrative and general expenses	**2.81**	2.45	0.36	15
Grain industry organizations	**0.09**	0.07	0.02	28
Net interest earnings	**(4.15)**	(3.64)	(0.51)	(14)
	3.93	4.86	(0.93)	(19)
Earnings distributed to producers	**$ 201.78**	$ 199.73	$ 2.05	1

An early planting season and intermittent rain during the latter part of a hot July, produced high yields, a good grade pattern and extraordinarily high protein. The warm, dry weather continued into September allowing producers to complete harvest two weeks earlier than normal. Despite the excellent growing conditions, production fell to a ten-year low of 16.4 million tonnes because of reduced spring wheat plantings. Deliveries to the wheat pool account were 12.5 million tonnes in 1998-99, down 18 per cent from the previous year.

Alicia Tan of Singapore eats a mooncake made with wheat flour.

Demand for high grade, high protein wheat is generally spread out evenly over the crop year as customers prefer consistent, reliable supplies. In 1998-99, there was a very wide price spread between high grade, high protein milling wheat and low grade, low protein wheat. To aggressively sell the crop early in the marketing year and not target quality-conscious customers throughout the year would have resulted in lower pool returns. The high grade, high protein profile of the Canada Western Red Spring (CWRS) crop therefore required steady marketing throughout the year to maximize returns. Also, our market view was that global wheat prices would recover from the lows experienced in the early fall of 1998. World wheat prices did improve from October through March, before weakening again later in the crop year.

Conversely, the CWB's marketing approach during the 1997-98 crop year had been to maximize sales and shipments early in the crop year in expectation of declining market prices. Wheat and durum prices did decline dramatically over that crop year and market lows were reached in August/September of 1998. Stock levels for both milling wheat and durum were drawn down to minimal levels at the end of the 1997-98 crop year. This limited the volumes that were available for shipment during August/ September 1998, so the export program for the 1998-99 crop year was highly dependent on new-crop supplies, which normally enter export channels in October.

Direct costs to the wheat pool decreased this year by $0.80, over 13 per cent, on a per tonne basis compared to the prior year. Direct costs represented 2.5 per cent of sales revenue on a per tonne basis this year, comparing favourably to 2.9 per cent in 1997-98. Efficient loading of grain vessels led to net despatch earnings of over $5.4 million this year, $0.43 per tonne, far surpassing last year's record of $3.7 million or $0.25 per tonne. Decreased adverse freight to terminal charges,

at results

resulting from sufficient supply of high protein wheat stocks in Alberta and western Saskatchewan to meet west coast export commitments, and reduced volume of grain shipped from east coast ports reduced additional freight costs which had positive effects on the wheat pool account. Drying charges were negligible this year due to the high quality of the wheat crop. These amounts were partially offset by higher country carrying charges this year, primarily as a result of higher average inventory levels in the country during the year.

Net interest earnings in the wheat pool account totalled $52 million for 1998-99, a decrease of six per cent compared to the previous year. This decrease is primarily attributable to lower average cash positions in the pool account during the year as a result of a smaller pool size and a higher percentage of cash paid out in the form of initial and adjustment payments. Net interest earnings on a per tonne basis are up this year - primarily because they are applied to 18 per cent fewer tonnes.

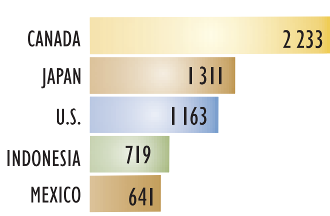
In the 1998-99 wheat pool account, 98 per cent of sales proceeds were returned to producers, consistent with the previous year. Of this amount, 92 per cent was distributed prior to August 1, 1999 through initial and adjustment payments, comparing favourably to 90 per cent the previous year.

CWB Technical Services Manager Graham Worden (left) meets with Bobby Chung Ah Ngee of Malayan Flour Mills in Malaysia.

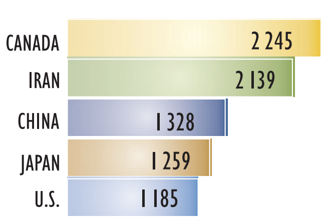
Largest volume wheat customer countries

(000 tonnes)

1998-99

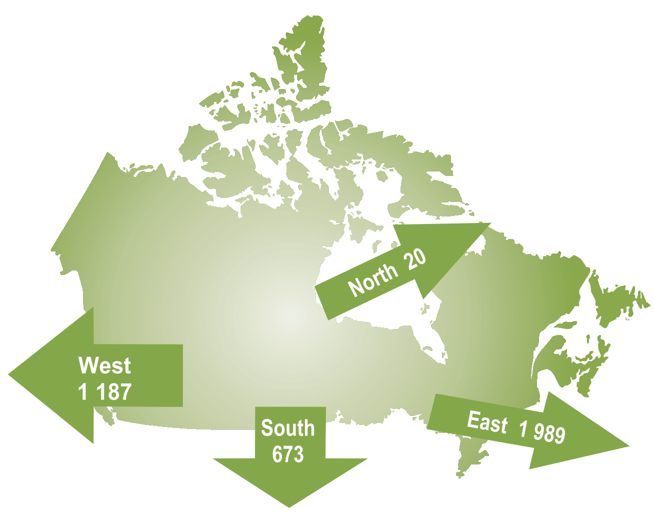


1997-98



1998-99 Wheat exports by corridor

(000 tonnes)



Management discussion & analysis

Durum

Durum pool results

$ per tonne, except as noted	**1998-99**	1997-98	Change	Per cent
Pool size (tonnes)	**4 904 639**	3 937 885	966 754	25
Sales	**$ 220.65**	$ 297.53	$ (76.88)	(26)
Direct costs	**16.44**	18.39	(1.95)	(11)
Administrative and general expenses	**2.81**	2.45	0.36	15
Grain industry organizations	**0.09**	0.07	0.02	28
Net interest earnings	**(2.05)**	(2.81)	0.76	27
	17.29	18.10	(0.81)	(4)
Earnings distributed to producers	**$ 203.36**	$ 279.43	$ (76.07)	(27)

Farmers responded to high price premiums for durum over spring wheat by planting a record 7.2 million acres of durum in 1998. Good yields were achieved in most of the durum growing areas in Western Canada and an all-time record crop of six million tonnes was produced, up from 4.4 million tonnes in 1997. The increased western Canadian production represented the equivalent of 30 per cent of global demand. The durum pool was more than 4.9 million tonnes in 1998-99, representing an increase of 25 per cent over the previous year.

Sales Manager Chris Gillen (left) inspects durum with customers Nadia Chikhaoui from Algeria (centre) and Ms. Lucidi from Italy (right).

World durum wheat production increased by 25 per cent in 1998 while import demand was down 18 per cent. World ending stocks more than doubled in 1998-99 and a significant increase in U.S. stocks contributed to lower prices.

Due to the large increase in the durum pool size, all sales opportunities were pursued aggressively throughout the 1998-99 crop year. Our dominant market share in the world market increased to 66 per cent of bulk durum trade, despite a 20 per cent increase in global export supplies. Algeria was again the largest Canadian export customer, taking 1.5 million tonnes. The United States increased its imports of Canadian durum from 428 000 to 658 000 tonnes. Despite a record crop, the CWB was able to accept all but 300 000 tonnes of durum offered for delivery by farmers.

Direct costs to the durum pool account totalled $16.44 per tonne, down from $18.39 the previous year. Direct costs represented 7.4 per cent of sales revenue on a per tonne basis this year, up from 6.2 per cent in 1997-98 as a result of significantly lower sales values. Efficient loading of grain vessels contributed to net despatch earnings of $1.2 million this year, representing the second highest level in the history of this pool account. The net costs of moving grain into eastern export position is $11.34 on a per tonne basis, down from $13.53 the prior year, as a result of a lower percentage of sales shipped from the east coast.

Net interest earnings in the durum pool account

results

totalled $10 million for 1998-99, a decrease of nine per cent compared to the previous year. This decrease is primarily attributable to lower average cash positions in the pool account during the year as a result of lower durum values and a higher percentage of cash paid out in the form of initial and adjustment payments. Net interest earnings on a per tonne basis are down 27 per cent this year - primarily because the lower net earnings are applied to 25 per cent greater tonnes.

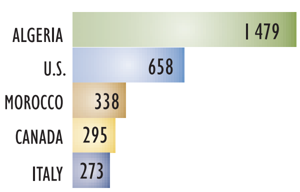
In the 1998-99 durum pool account, 92 per cent of sales proceeds were returned to producers, down slightly from 94 per cent in the previous year. As a result of poor harvest quality of the U.S. durum crop, values increased significantly after the end of the current crop year. Although this benefited the 1998-99 pool account values, it also ended up reducing the per cent of earnings distributed through initial and adjustment payments to 89, compared to 93 per cent the previous year.

Farmer Matt Derksen (left) talks with the CWB's Tokyo office manager, David Iwaasa (centre) and Japanese customer Nobuyuki Tsuzuki (right).

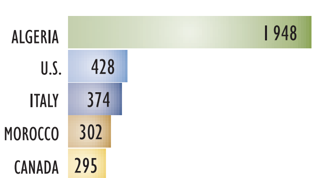
Largest volume durum customer countries

(000 tonnes)

1998-99

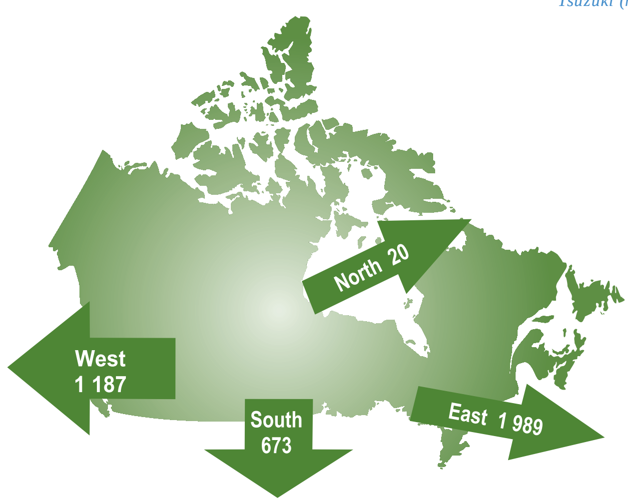


1997-98



1998-99 Durum exports by corridor

(000 tonnes)



Management discussion & analysis

Barley

Feed barley pool results

$ per tonne, except as noted	**1998-99**	1997-98	Change	Percent
Pool size (tonnes)	**277 100**	261 960	15 140	6
Sales	**$ 138.39**	$ 124.84	$ 13.55	11
Direct costs	**8.25**	19.00	(10.75)	(57)
Administrative and general expenses	**2.81**	2.45	0.36	15
Grain industry organizations	**0.09**	0.07	0.02	28
Net interest earnings	**(22.34)**	(18.39)	(3.95)	(21)
	(11.19)	3.13	(14.32)	(458)
Earnings distributed to producers	**$ 149.58**	$ 121.71	$ 27.87	23

Seeded barley acreage in Western Canada was 10.7 million acres in 1998, consistent with the ten-year average of 10.6 million acres. With above average yields, production was 11.7 million tonnes, compared to 12.5 million tonnes in 1997.

Due to strong demand from the Canadian domestic feed market, less feed barley was available for export in 1998-99. A tight domestic feed grain supply situation existed in 1998-99, as there was a limited amount of feed wheat available due to an excellent quality crop.

The CWB chose to sell more feed barley than it traditionally has into the domestic market because of relatively strong domestic prices. Japan was the largest export customer at 118 000 tonnes. Saudi Arabia, which had been one of Canada's largest feed barley customers, was able to source cheaper feed barley from other origins, such as the European Union and the Former Soviet Union. Deliveries to the barley account totalled 277 000 tonnes, up from 262 000 tonnes the previous year.

Strong demand from the Canadian domestic market reduced exportable feed barley supplies.

Direct costs to the barley pool decreased by $10.75, or 57 per cent, on a per tonne basis compared to the previous year. Direct costs represented six per cent of sales revenue on a per tonne basis this year, comparing favourably to 15.2 per cent in 1997-98. Country carrying charges and terminal storage were $7.26 per tonne in 1998-99, compared to $15.73 per tonne the previous year, as deliveries later in the crop year were moved through the grain handling system very quickly. Also contributing to the decrease were lower additional freight to terminal costs resulting from a sharp drop in barley shipments through the port of Prince Rupert.

Net interest earnings in the barley pool account totalled $6.2 million for 1998-99, a 28 per cent increase compared to the previous year. This increase is primarily attributable to higher average cash positions in the pool account during the year from higher sales values and lower inventory levels. On a per tonne basis, net interest earnings totalled $22.34 in 1998-99, compared to $18.39 the previous year.

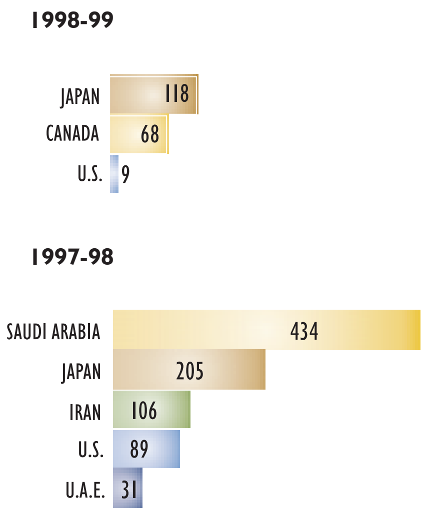
The 1998-99 barley pool account average return to producers was $149.58 per tonne, representing $11 more than average sales values achieved. This is because the majority of the net interest earnings in the barley pool account are earned from credit receivables and do not fluctuate with pool size or with the cash build-up in the pool accounts. During years when the number of tonnes in the pool account is small, the interest earned on a per tonne basis can be substantial, and can exceed total direct costs and administrative costs resulting in net operating earnings. This was the situation in 1998-99, with

results

108 per cent of the barley sales proceeds returned to producers, compared to 98 per cent the previous year. Of this amount, 88 per cent was distributed prior to August 1, 1999 through initial and adjustment payments, down from 92 per cent in the previous year due in part to the uncertainty of projecting net interest earnings.

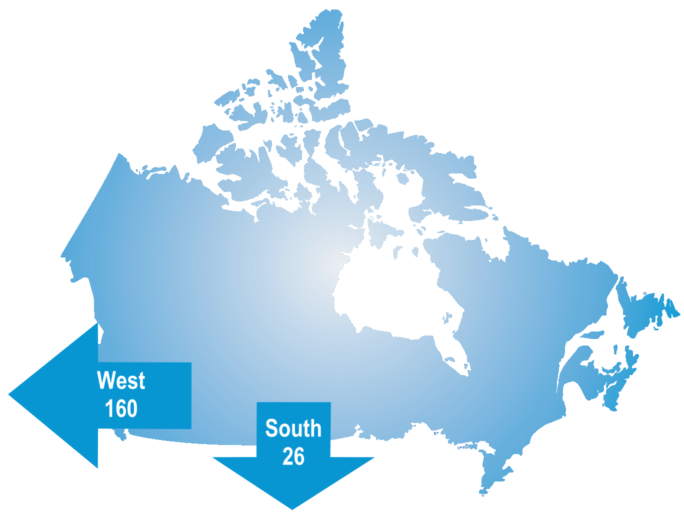
Largest volume feed barley customer countries

(000 tonnes)



1998-99 Feed barley exports by corridor

(000 tonnes)



Designated barley pool results

$ per tonne, except as noted	**1998-99**	1997-98	Change	Per cent
Pool size (tonnes)	**1 921 667**	2 267 423	(345 756)	(15)
Sales	**$ 172.81**	$ 195.55	$ (22.74)	(12)
Direct costs	**0.71**	1.02	(0.31)	(30)
Administrative and general expenses	**2.81**	2.45	0.36	15
Grain industry organizations	**0.09**	0.07	0.02	28
Net interest earnings	**(2.24)**	(2.01)	(0.23)	(11)
	1.37	1.53	(0.16)	(10)
Earnings distributed to producers	**$ 171.44**	$ 194.02	$ (22.58)	(12)

The 1998-99 crop year was characterized by continued aggressive EU export subsidies on malting barley and malt. The EU malt export subsidy was about $125 per tonne in 1998-99 and the average export subsidy for bulk barley was about $94 per tonne. Exports of Canadian malt and malting barley in 1998-99 were down 21 per cent from the previous year. Import demand from the world's largest buyer of malting barley, China, remained flat in 1998-99 due to a larger supply carryover and slowing economic growth. In response to aggressive competition from both Australia and the European Union, the CWB targeted customers prepared to pay a premium for Canadian varieties and quality.

China was the world's largest buyer of malting barley in 1998-99.

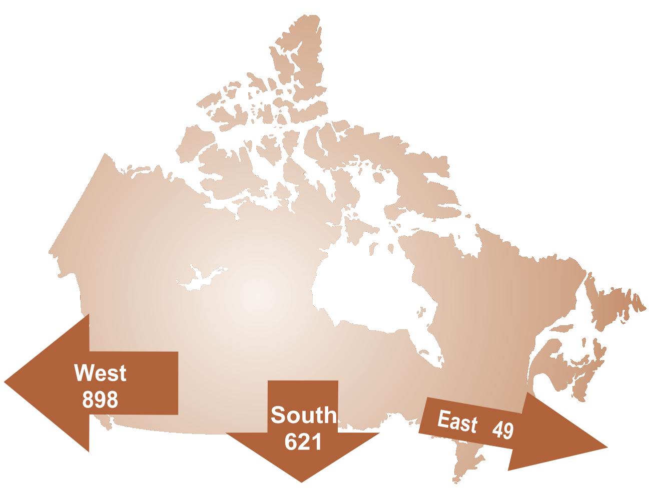
Receipts in the designated barley pool were 1.9 million tonnes, down from 2.3 million tonnes the previous year. Direct costs to the designated barley pool account totalled $0.71 per tonne, down from $1.02 incurred during the previous year. Direct costs represented 0.4 per cent of sales revenue on a per tonne basis this year, consistent with 0.5 per cent in 1997-98. The decrease in direct costs can be attributed primarily to a decrease in country carrying charges and terminal storage to $0.55 per tonne from $0.85 in 1997-98. In addition, the pool account earned net despatch earnings of $63,558, representing $0.03 per tonne, as a result of efficient loading of grain vessels.

Net interest earnings in the designated barley pool account totalled $4.3 million for 1998-99, a decrease of six per cent compared to the previous year. The majority of the net interest earnings in the designated barley pool account are earned on cash balances in the pool account since there are minimal designated barley credit receivables. The decrease is primarily attributable to lower average cash positions in the pool account during the year as a result of lower designated barley values. Net interest earnings on a per tonne basis, however, are up 11 per cent this year - primarily because there are 14 per cent fewer tonnes in the pool account.

In the 1998-99 designated barley pool account, over 99 per cent of sales proceeds were returned to producers, consistent with the previous year. Of this amount, 90 per cent was distributed prior to August 1, 1999 through initial and adjustment payments and producer contract storage, down slightly from 92 per cent in the previous year.

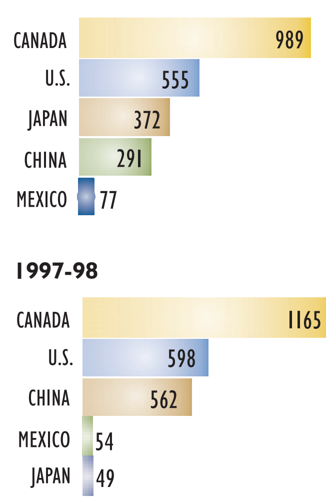
1998-99 Designated barley exports by corridor

(000 tonnes)



Largest volume designated barley customer countries

(000 tonnes)



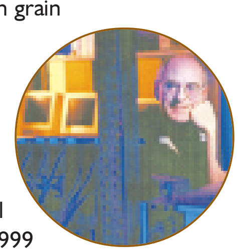
Year 2000

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 issue, having begun work to correct the problem in 1995. For the CWB, the task is both large and complex. Many of the computer systems in use at the CWB were written for the company and could not be replaced with commercially available software. As a result, significant resources have been invested in modifying computer infrastructure over the past four years, by converting some systems and replacing others.

As of July 31, 1999, the CWB had converted or replaced all of its critical systems, and had performed testing on them to ensure that they still operate in the original fashion. A subsequent phase of testing of systems that support critical business processes was completed in November 1999. As a further precaution, ongoing monitoring and testing will continue beyond this time as required. Embedded systems such as office facilities and equipment have been addressed with suppliers.

The year 2000 challenge also extends beyond safeguarding the CWB's computer systems. The CWB regularly receives information from grain elevator companies, railways, banks and grain customers via computer, and has implemented a process to assess the readiness of business partners and monitor their progress in dealing with the issue. 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.



Terry Kulchycki oversaw the CWB's Year 2000 preparations.

The CWB estimates that the total cost of the year 2000 project will be $24 million. These costs have been capitalized to minimize the impact on any particular pool account. Total costs incurred to July 31, 1999 are $21.2 million, including $9.2 million incurred in the current year.

Despite the efforts taken by the CWB, and considering the uncertainty surrounding third party readiness, there cannot be absolute assurance that uncertainties caused by the year 2000 issue will not materially and adversely affect the CWB's ability to conduct normal business operations. In connection with this, the CWB developed contingency plans for the year 2000 issue. These plans are being developed to mitigate the effect of any potential problems and to ensure the continuity of CWB operations.

Management discussion & analysis

Administrative and general expenses		
For the year ended July 31 (000's)	**1999**	1998
Advisory Committee	**$ 55**	$ 224
Board of Directors, including elections	**2,068**	–
Computer systems and services	**7,874**	8,632
Communications	**1,339**	1,743
Facilities and office services	**4,710**	4,907
Human resources	**28,242**	27,084
Other	**624**	450
Professional fees and outside services	**2,604**	1,651
Taxes	**952**	1,063
Travel	**1,285**	1,930
	49,753	47,684
Depreciation	**6,836**	4,416
	$ 56,589	$ 52,100

Total administrative and general expenses incurred during the year ended July 31, 1999, are up nine per cent from the previous year. This is due to the increased costs of the new corporate governance structure and increased depreciation on the investment in information systems - including costs preparing CWB systems for the year 2000.

On June 11, 1998, Bill C-4, *An Act to Amend the Canadian Wheat Board Act* changed the CWB's governance structure. Effective December 31, 1998, a Board of Directors, comprising ten elected and five appointed members, replaced the previous framework of up to five Commissioners, and the farmer-elected Advisory Committee. The costs associated with the Board of Directors include $1,242,423 for the elections held in the fall of 1998. Director remuneration totalling $432,444 and expenses related to the directors and to Board activities totalling $392,866 are outlined at the end of this section.

Marketing wheat, durum and barley requires extensive technological support systems. The cost of computer systems and services covers maintenance and operations, including the cost of computer contractors required to supplement the CWB's information technology staff. These costs were down nine per cent from the previous year, primarily due to a reduction in the number of computer contractors required during the year as some major systems development initiatives began to wind down.

As Western Canada's single-desk marketing agency, the CWB must ensure that farmers, customers, staff, media, government and the public at large are informed about the CWB and related grain and agricultural issues. Communication costs include the cost of printing and issuing the Annual Report, *Grain Matters*, customer newsletters, permit books, delivery contracts, applications and other similar documents. This category also includes advertising fees, crop demonstration sites and producer tours. These costs were down 23 per cent because fewer newsletters were published, certain publications were made available on-line, and the production costs of the 1997-98 annual report were scaled back.

The cost of operating CWB facilities and related office services was also reduced by four per cent compared to the previous year, a saving of almost $200,000. The CWB operates branch the CWB

offices in Vancouver and Regina, along with marketing offices in Beijing, China and Tokyo, Japan.

Human resource costs represent the costs associated with building and maintaining a motivated, skilled, professional work force. They comprise 50 per cent of the total cost of running the CWB and include salaries and employee benefits, the cost of recruiting staff for new and replacement positions, as well as training and development. These costs increased by four per cent compared to the previous year, due to an average salary increase of 3.5 per cent on August 1, 1998, and the cost of the severance packages for CWB Commissioners related to the termination of their appointments on December 31, 1998 under Bill C-4. There was a six per cent decrease in overall staff during the year, with 542 positions at July 31, 1999, compared to 577 the year before.

The aggregate executive officer compensation during the year ended July 31, 1999 totalled $2,511,393 as follows:

Executive officer compensation

For the year ended July 31 (000's)	1999
Salaries (including severance)	$ 2,141
Benefits	370
	$ 2,511

Executive officer compensation amounts are included in human resource costs and reflect the transition in governance structure from Commissioners to a President and Chief Executive Officer. The executive officers were comprised of three Commissioners and three Executive Directors for the period from August 1 to December 31, 1998, and a President and Chief Executive Officer and four Executive Vice-Presidents for the period from December 31, 1998 to July 31, 1999.

Professional fees and outside services are comprised of the costs associated with the Corporation's annual audit, along with legal and court fees, management consulting services, temporary staffing agencies and insurance. A number of factors contributed to an increase in costs of $953,000. Legal costs were incurred to deal with trade issues related to the Harmonized Tariff Schedule, End Use Certificates, and Countervailing Duties, and to prepare new legal documentation for the CWB's borrowing programs as a result of the changes under Bill C-4, *An Act to Amend the Canadian Wheat Board Act*. During the year the CWB engaged management consulting services to review corporate risk management policies and practices. Finally, the CWB was required to obtain directors' and officers' liability insurance coverage as a result of the legislative changes to the corporate structure.

Taxes include the Manitoba Health and Education Tax that is assessed on salaries for employees based in Manitoba, along with business and property tax assessments. These costs decreased by 10 per cent compared to the previous year, primarily as a result of the City of Winnipeg's decision to lower downtown property taxes in an effort to stimulate usage of surplus property.

Travel costs are significant for a marketing agency with customers all over the globe. Travel costs were down 33 per cent this year as a result of a smaller, high quality crop and strong cost control efforts. The CWB takes advantage of reduced airfares and combines business trips whenever possible.

Depreciation expense reflects the amortization of the CWB's investment in capital assets - with the exception of the CWB hopper cars, which are charged directly to the pool accounts. Depreciation expense increased by $2.4 million this year compared to the previous year due to significant investment in new or enhanced computer systems that are critical to the marketing of wheat, durum and barley. Major investments have been made during the current year to deal with the year 2000 issue and changes in the corporate governance structure, to provide management and staff with better information for decision making, and to permit faster closing of the pool accounts and earlier distribution of final payments. These investments are also expected to result in better integration of operations and improved cost control.

Board remuneration

	Remuneration			Attendance		
Director	Board and Committee Retainers	Per Diems	Total	Board Meetings	Committee Meetings	Industry Meetings
Arason, Greg	N/A	N/A	N/A	9	N/A	N/A
Chatenay, James	$ 11,667	$ 16,000	$ 27,667	10	16	26
Clair, John	11,667	21,750	33,417	10	18	37
Halyk, Michael	12,834	28,750	41,584	10	14	26
Hanson, Terry	11,667	27,000	38,667	10	12	24
Harder, Wilfred	11,667	19,250	30,917	10	10	23
Heggie, Betty-Ann	11,667	11,314	22,981	9	7	–
Hill, Larry	12,834	19,125	31,959	10	11	40
Hilton, David	11,667	11,750	23,417	10	14	8
Keith, Ross	11,667	15,500	27,167	10	11	5
Macklin, Art	11,667	17,150	28,817	10	17	15
McCreary, Ian	14,000	22,750	36,750	10	18	38
Nicholson, William	11,667	21,600	33,267	10	18	17
Ritter, Ken (Chair)	15,000	19,250	34,250	10	15	41
Stanford, James	12,834	8,750	21,584	6	6	–
Total	$ 172,505	$ 259,939	$ 432,444			

For the performance of their duties, Directors are paid a basic annual retainer as well as per diem allowances. The Chair of the Board receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $2,000. A per diem of $500 per full meeting day is also paid to each member. Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties on behalf of the corporation. Elected Directors are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The Chair has a salary cap of $90,000 and all other members have a cap of $50,000. These caps can only be exceeded with special Board approval.

Board of Directors' expenses totalled $392,866 during the 1998-99 crop year. Of this, travel, accommodation and meals totalled $220,896; costs incurred for the purpose of communicating directly with farmers in the Directors' respective districts totalled $24,600; and, in addition, costs totalling $147,370 were incurred for general expenses incurred by the Board or committees, not related to specific members.

Credit sales

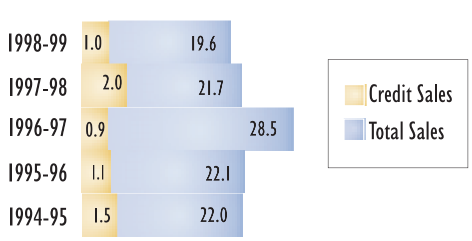
The CWB works with the federal government to develop credit programs that facilitate the sale of western Canadian grain. The federal government provides guarantees, credit limits and support program structures that will best meet this need. The CWB, acting within the guidelines established by the Department of Finance and other government departments, works closely with individual customers and commercial banks to customize credit arrangements best suited to customer needs. These arrangements are an important factor in many foreign markets. During 1998-99, credit sales comprised five per cent of total sales, compared to nine per cent in the previous year. 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 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 on an annual basis. Repayment terms cannot exceed 36 months from time of shipment, and commercial rates of interest are charged.

During the year ended July 31, 1999, sales made under this program totalled $95 million (1998 - $422 million). Since the Government of Canada guarantees repayment of the principal and interest of all credit receivables under this program, the CWB makes no allowance for credit losses.

CWB Credit Sales History
(millions of tonnes)



Agri-food Credit Facility

The Agri-food Credit Facility allows the 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, country credit ceilings do not apply but instead, the Government of Canada evaluates each transaction on a case-by-case basis. During the year ended July 31, 1999, sales made under this program totalled $95 million (1998 - $23 million). The Government of Canada guarantees a declining percentage of the receivables under this program based on the repayment terms of the credit, with the CWB assuming the nominal risk not covered. The entire credit risk assumed by the CWB under this program at July 31, 1999, of $1,902,971 (1998 - $694,135) is considered collectible, therefore there is no allowance for credit losses.

Other

From time to time, Canadian commercial banks may participate in assuming a portion of the credit risk associated with sales made under the above programs. In these cases, the participating bank assumes the payment risk on its portion of the credit extended without recourse to the CWB. The remaining exposure is guaranteed by the Government of Canada. During the year ended July 31, 1999, sales made under these arrangements totalled $5 million (1998 - $9 million).

The Corporation's exposure in this type of transaction is limited to the risk of non-performance of the commercial bank in the event of non-payment by the customer. This exposure is managed by contracting only with those financial institutions having a very high credit rating, and as a result there is no allowance for credit losses for these balances.

Funding and liquidity

Funding

On June 11, 1998, the Parliament of Canada enacted Bill C-4, *An Act to Amend the Canadian Wheat Board Act.* The amended Act continued the CWB as a Shared Governance Corporation, without share capital, effective December 31, 1998, but the CWB ceased to be an Agent of Her Majesty in right of Canada as of that date. All borrowings of the Corporation are 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 this Statutory Guarantee is payable out of, and constitutes a charge on, the Consolidated Revenue Fund of Canada, which is the aggregate of all public moneys. CWB credit ratings were unaffected by the change in the corporate governance structure, and are listed in the table below.

Glenn Bunston and Wendi Thiessen in Treasury Operations borrow money to finance the CWB.

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:

- Domestic Commercial Paper Program (the "Wheat Board Note" program);
- U.S. Commercial Paper Program;
- Euro Commercial Paper Program; and
- 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 to match the assets being financed. The total debt portfolio generally fluctuates between $6 and $7 billion Canadian dollar equivalent.

The CWB continues to explore new borrowing opportunities in an ongoing effort to further reduce borrowing costs, expand and diversify investor base and maintain access to money. Since all borrowings are unconditionally and irrevocably guaranteed by the Government of Canada, money is borrowed at rates comparable to those of the Government of Canada.

Liquidity

In the course of normal operations, the CWB's funding programs provide sufficient liquidity to meet daily cash requirements. The CWB may hold highly rated short-term investments for cash management purposes to ensure that sufficient funds are available. Sufficient lines of credit are also maintained with financial institutions to provide additional access to funds.

The CWB has the following credit ratings, which are unchanged from the previous year:

	Domestic		Foreign Currency	
Credit Ratings:	*Long-term*	*Short-term*	*Long-term*	*Short-term*
Moody's Investor Service	Aa1	P1	Aa2	P1
Standard & Poor's Ratings Group	AAA	A1+	AA+	A1+
Dominion Bond Rating Service	AAA	R-1H	AAH	R-1H
Canadian Bond Rating Service	AA+	A-1+	AA+	A-1+

Risk management

The CWB seeks to minimize risks related to the financial operations of the corporation. Certain risks exist that may affect the ability of the CWB to meet its objectives and obligations. These risks include market risk and credit risk as described below. The CWB has controls in place to monitor and manage exposures to these risks and to ensure adherence to approved corporate policies and risk management guidelines.

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, foreign exchange and interest rate risk.

Commodity price risk - The CWB sold 45 per cent of 1998-99 wheat on basis contracts, which enable the CWB and the customer to manage price risk independently, and provide the customer with the ability to determine the date that the contract will be priced. The CWB manages the risk of an adverse movement in the price of grain between the time the grain is sold and when it is priced by selling grain futures contracts on regulated U.S. futures markets. Because of the nature of exchange-traded futures contracts, it is possible that the CWB may not be perfectly hedged. However, the degree of risk to the pool accounts is not significant. The CWB may also utilize exchange traded grain futures contracts to price grain where there is no opportunity to do so in the physical market. These transactions were small in volume during the year, and did not have a material effect on any pool account.

Foreign exchange risk - All CWB sales contracts are priced either directly or indirectly in U.S. dollars. Sales priced in Canadian dollars are determined in reference to the U.S. dollar value at the time of sale or when priced in the case of deferred basis contracts. The CWB hedges the risk of an adverse movement in the U.S. dollar exchange rate by entering into over-the-counter foreign exchange swap, forward and option contracts, thereby establishing the conversion rate for contracted and anticipated U.S. dollar sales.

Interest rate risk - The CWB has substantial financial assets that earn interest revenue, primarily receivables arising from the sale of grain on credit. In order to generate the required proceeds from these sales for distribution to producers during the crop year, these assets are financed predominantly through the issuance of short-term or medium-term debt. Interest rate risk exists when there is a mismatch between the terms of the assets and liabilities. In the event of a mismatch an adverse change in interest rates could reduce net interest earnings. The CWB manages this risk by financing these floating interest rate assets with debt that is converted to a floating rate of interest, thereby reducing the negative impact of an adverse change in interest rates.

Credit Risk

Credit risk is the risk of potential loss should a counter-party fail to meet its contractual obligations. The Corporation is exposed to credit risk with respect to non-guaranteed accounts receivable, investing, and derivative transactions.

Receivables - The CWB exposure to credit risk on receivables is limited to those receivables that are not guaranteed by the Government of Canada. There have been no defaults to date related to sales made under the Agri-food Credit Facility, and all amounts currently outstanding are considered collectible. The CWB exposure would be limited to the share of the receivables under this program that the Government of Canada does not guarantee. For non-guaranteed receivables where credit risk has been assumed by a commercial bank, the bank has no recourse to the CWB, and the CWB's exposure would be limited to the risk of non-performance of the commercial bank in the event of non-payment by the customer. The CWB manages this risk by contracting only with highly rated financial institutions.

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

Derivative transactions - The risk of loss on derivative financial instruments is limited to the replacement cost of contracts having a positive fair value. The CWB manages exposure to the risk of non-performance of a counter-party by contracting only with highly rated financial institutions that fall within the CWB's financial risk management guidelines approved by the Minister of Finance.

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 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.

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

Notional amounts - a reference amount upon which payments for derivative financial instruments are based.

Option - a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a 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 counterparty.

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Management report

The financial statements of the Canadian Wheat Board included in this Annual Report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances and reflect the results for the 1998-99 pool accounts and the financial status of the Corporation at July 31, 1999.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by an internal audit department that conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit and Finance Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit and Finance Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit and Finance Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Greg S. Arason
President and Chief Executive Officer

Gordon P. Menzie
Executive Vice-President, Finance and Treasurer

Winnipeg, Manitoba

December 14, 1999

Auditors' report

To the Board of Directors of the Canadian Wheat Board:

We have audited the financial statements of the Canadian Wheat Board which includes the balance sheet at July 31, 1999 and the combined statement of operations and statement of distribution to producers for the 1998-99 pool accounts, the statements of operations and the statements of distribution to producers for the 1998-99 pool accounts for wheat, amber durum wheat and barley for the period August 1, 1998 to completion of operations on August 31, 1999 and for designated barley for the period August 1, 1998 to completion of operations on September 30, 1999, the statement of cash flow for the year ended July 31, 1999, and the statement of administrative and general expenses for the year ended July 31, 1999. These financial statements are the responsibility of the Corporation'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, 1999 and the results of its operations and cash flow for the periods shown in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba

December 14, 1999

Financial results

Balance sheet

As of July 31 (000's)	1999	1998
Assets		
Accounts Receivable		
Credit programs *(Note 3)*	**$ 6,875,649**	$ 7,022,940
Non-credit sales	**30,432**	17,223
Advance payment programs *(Note 4)*	**72,073**	75,894
Other	**20,961**	29,630
	6,999,115	7,145,687
Inventory of Grain *(Note 5)*	**1,105,747**	950,471
Deferred and Prepaid Expenses *(Note 6)*	**24,332**	16,190
Capital Assets *(Note 7)*	**75,665**	66,277
Total Assets	**$ 8,204,859**	$ 8,178,625
Liabilities		
Borrowings *(Note 8)*	**$ 6,768,869**	$ 6,715,579
Accounts Payable and Accrued Expenses *(Note 9)*	**137,438**	121,347
Liability to Agents *(Note 10)*	**758,523**	730,241
Liability to Producers – Outstanding Cheques *(Note 11)*	**171,055**	184,943
Liability to Producers – Undistributed Earnings *(Note 12)*	**359,020**	416,080
Provision for Producer Payment Expenses *(Note 13)*	**5,934**	7,643
Special Account – Net Balance of Undistributed Payment Accounts *(Note 14)*	**4,020**	2,792
Total Liabilities	**$ 8,204,859**	$ 8,178,625

On behalf of the Board:

Ken Ritter
Chair, Board of Directors

Greg S. Arason
President and Chief Executive Officer

Financial results

Combined statement of operations

Pool Account ($000's)	**1998-99**	1997-98
Receipts from producers (tonnes)	**19 616 132**	21 668 373
Revenue *(Note 18)*	**$ 4,026,703**	$ 4,757,682
Operating costs		
Direct costs		
Country elevator carrying charges	**71,988**	61,377
Terminal storage	**17,960**	20,895
Despatch earnings, net of demurrage costs	**(6,662)**	(4,465)
Additional freight		
- to terminals	**4,149**	25,832
- to move grain into eastern export position	**58,530**	65,718
- from freight rate changes	**(75)**	(2,605)
Drying charges	**69**	652
CWB hopper cars – interest and depreciation	**3,163**	3,289
Total direct costs	**149,122**	170,693
Administrative and general expenses *(Note 19)*	**55,204**	52,902
Grain industry organizations *(Note 20)*	**1,699**	1,612
Net interest earnings	**(72,519)**	(75,868)
Total operating costs	**133,506**	149,339
Earnings for distribution to producers	**$ 3,893,197**	$ 4,608,343

Combined statement of distribution to producers

Pool Account ($000's)	**1998-99**	1997-98
Earnings distributed to producers		
Initial payments on delivery	**$ 3,162,228**	$ 3,717,491
Adjustment payments	**360,688**	461,378
Interim payment	**172,410**	147,091
Final payment	**186,506**	268,890
Producer contract storage payments	**11,261**	13,394
Rebate on producer cars	**104**	99
Total earnings distributed to producers	**$ 3,893,197**	$ 4,608,343

Financial results

1998-99 Wheat pool account statement of operations

($000's, except rates per tonne)	1998-99 Amount	1998-99 Rate per Tonne	1997-98 Amount	1997-98 Rate per Tonne
Receipts from producers (tonnes)	**12 512 726**		15 201 105	
Revenue *(Note 18)*	**$ 2,574,023**	**$ 205.71**	$ 3,109,935	$ 204.59
Operating costs				
Direct costs				
Country elevator carrying charges	**52,656**	**4.21**	43,253	2.85
Terminal storage	**10,769**	**0.86**	15,495	1.02
Despatch earnings, net of demurrage costs	**(5,414)**	**(0.43)**	(3,733)	(0.25)
Additional freight				
- to terminals	**2,301**	**0.18**	23,155	1.52
- to move grain into eastern export position	**2,660**	**0.21**	12,410	0.81
- from freight rate changes	**(187)**	**(0.02)**	(2,486)	(0.16)
Drying charges	**36**	**0.01**	564	0.04
CWB hopper cars – interest and depreciation	**2,017**	**0.16**	2,307	0.15
Total direct costs	**64,838**	**5.18**	90,965	5.98
Administrative and general expenses *(Note 19)*	**35,214**	**2.81**	37,105	2.45
Grain industry organizations *(Note 20)*	**1,084**	**0.09**	1,131	0.07
Net interest earnings	**(51,991)**	**(4.15)**	(55,435)	(3.64)
Total operating costs	**49,145**	**3.93**	73,766	4.86
Earnings for distribution to producers	**$ 2,524,878**	**$ 201.78**	$ 3,036,169	$ 199.73

Statement of distribution to producers

($000's, except rates per tonne)	1998-99 Amount	1998-99 Rate per Tonne	1997-98 Amount	1997-98 Rate per Tonne
Earnings distributed to producers				
Initial payments on delivery	**$ 2,070,448**	**$ 165.47**	$ 2,421,761	$ 159.31
Adjustment payments	**242,257**	**19.36**	306,316	20.15
Interim payment	**112,598**	**8.99**	114,430	7.53
Final payment	**99,496**	**7.95**	193,584	12.73
Rebate on producer cars	**79**	**0.01**	78	0.01
Total earnings distributed to producers	**$ 2,524,878**	**$ 201.78**	$ 3,036,169	$ 199.73

For the period August 1, 1998 to completion of operations on August 31, 1999
(with prior year comparatives for the period ended August 31, 1998)

Financial results

1998-99 Durum pool account statement of operations

($000's, except rates per tonne)	**1998-99** Amount	**1998-99** Rate per Tonne	1997-98 Amount	1997-98 Rate per Tonne
Receipts from producers (tonnes)	**4 904 639**		3 937 885	
Revenue *(Note 18)*	**$ 1,082,241**	**$ 220.65**	$ 1,171,654	$ 297.53
Operating costs				
Direct costs				
Country elevator carrying charges	**16,780**	**3.42**	13,434	3.41
Terminal storage	**6,664**	**1.36**	4,040	1.03
Despatch earnings, net of demurrage costs	**(1,178)**	**(0.24)**	(651)	(0.16)
Additional freight				
- to terminals	**1,846**	**0.38**	1,987	0.50
- to move grain into eastern export position	**55,624**	**11.34**	53,279	13.53
- from freight rate changes	**76**	**0.01**	(306)	(0.08)
Drying charges	**23**	**0.01**	40	0.01
CWB hopper cars – interest and depreciation	**791**	**0.16**	598	0.15
Total direct costs	**80,626**	**16.44**	72,421	18.39
Administrative and general expenses *(Note 19)*	**13,802**	**2.81**	9,617	2.45
Grain industry organizations *(Note 20)*	**425**	**0.09**	293	0.07
Net interest earnings	**(10,030)**	**(2.05)**	(11,046)	(2.81)
Total operating costs	**84,823**	**17.29**	71,285	18.10
Earnings for distribution to producers	**$ 997,418**	**$ 203.36**	$ 1,100,369	$ 279.43

Statement of distribution to producers

($000's, except rates per tonne)	**1998-99** Amount	**1998-99** Rate per Tonne	1997-98 Amount	1997-98 Rate per Tonne
Earnings distributed to producers				
Initial payments on delivery	**$ 796,906**	**$ 162.48**	$ 891,060	$ 226.28
Adjustment payments	**92,534**	**18.87**	138,010	35.05
Interim payment	**44,420**	**9.06**	23,591	5.99
Final payment	**63,535**	**12.95**	47,689	12.11
Rebate on producer cars	**23**	**0.00**	19	0.00
Total earnings distributed to producers	**$ 997,418**	**$ 203.36**	$ 1,100,369	$ 279.43

For the period August 1, 1998 to completion of operations on August 31, 1999
(with prior year comparatives for the period ended August 31, 1998)

Financial results

1998-99 Barley pool account statement of operations

($000's, except rates per tonne)	**1998-99** Amount	**1998-99** Rate per Tonne	1997-98 Amount	1997-98 Rate per Tonne
Receipts from producers (tonnes)	**277 100**		261 960	
Revenue *(Note 18)*	**$ 38,348**	**$ 138.39**	$ 32,703	$ 124.84
Operating costs				
Direct costs				
Country elevator carrying charges	**1,602**	**5.78**	2,761	10.54
Terminal storage	**409**	**1.48**	1,360	5.19
Despatch earnings, net of demurrage costs	**(6)**	**(0.02)**	(46)	(0.17)
Additional freight				
- to terminals	**1**	**0.00**	625	2.39
- to move grain into eastern export position	**246**	**0.89**	29	0.11
- from freight rate changes	**(12)**	**(0.04)**	161	0.61
Drying charges	**–**	**–**	48	0.18
CWB hopper cars – interest and depreciation	**45**	**0.16**	40	0.15
Total direct costs	**2,285**	**8.25**	4,978	19.00
Administrative and general expenses *(Note 19)*	**781**	**2.81**	644	2.45
Grain industry organizations *(Note 20)*	**24**	**0.09**	19	0.07
Net interest earnings	**(6,192)**	**(22.34)**	(4,821)	(18.39)
Total operating costs	**(3,102)**	**(11.19)**	820	3.13
Earnings for distribution to producers	**$ 41,450**	**$ 149.58**	$ 31,883	$ 121.71

Statement of distribution to producers

($000's, except rates per tonne)	**1998-99** Amount	**1998-99** Rate per Tonne	1997-98 Amount	1997-98 Rate per Tonne
Earnings distributed to producers				
Initial payments on delivery	**$ 32,897**	**$ 118.72**	$ 28,914	$ 110.38
Adjustment payments	**3,701**	**13.35**	339	1.29
Interim payment	**1,940**	**7.00**	–	–
Final payment	**2,910**	**10.50**	2,628	10.03
Rebate on producer cars	**2**	**0.01**	2	0.01
Total earnings distributed to producers	**$ 41,450**	**$ 149.58**	$ 31,883	$ 121.71

For the period August 1, 1998 to completion of operations on August 31, 1999
(with prior year comparatives for the period ended September 30, 1998)

Financial results

1998-99 Designated barley pool account statement of operations

($000's, except rates per tonne)	**1998-99** Amount	Rate per Tonne	1997-98 Amount	Rate per Tonne
Receipts from producers (tonnes)	**1 921 667**		2 267 423	
Revenue *(Note 18)*	**$ 332,091**	**$ 172.81**	$ 443,390	$ 195.55
Operating costs				
Direct costs				
Country elevator carrying charges	**950**	**0.49**	1,929	0.85
Terminal storage	**118**	**0.06**	–	–
Despatch earnings, net of demurrage costs	**(64)**	**(0.03)**	(35)	(0.02)
Additional freight				
- to terminals	**1**	**0.00**	65	0.03
- from freight rate changes	**48**	**0.02**	26	0.01
Drying charges	**10**	**0.01**	–	–
CWB hopper cars – interest and depreciation	**310**	**0.16**	344	0.15
Total direct costs	**1,373**	**0.71**	2,329	1.02
Administrative and general expenses *(Note 19)*	**5,407**	**2.81**	5,536	2.45
Grain industry organizations *(Note 20)*	**166**	**0.09**	169	0.07
Net interest earnings	**(4,306)**	**(2.24)**	(4,566)	(2.01)
Total operating costs	**2,640**	**1.37**	3,468	1.53
Earnings for distribution to producers	**$ 329,451**	**$ 171.44**	$ 439,922	$ 194.02

Statement of distribution to producers

($000's, except rates per tonne)	**1998-99** Amount	Rate per Tonne	1997-98 Amount	Rate per Tonne
Earnings distributed to producers				
Initial payments on delivery	**$ 261,977**	**$ 136.33**	$ 375,756	$ 165.72
Adjustment payments	**22,196**	**11.55**	16,713	7.37
Interim payment	**13,452**	**7.00**	9,070	4.00
Final payment	**20,565**	**10.70**	24,989	11.02
Producer contract storage payments	**11,261**	**5.86**	13,394	5.91
Total earnings distributed to producers	**$ 329,451**	**$ 171.44**	$ 439,922	$ 194.02

For the period August 1, 1998 to completion of operations on September 30, 1999
(with prior year comparatives for the period ended September 30, 1998)

Financial results

Statement of cash flow

For the year ended July 31 (000's)	**1999**	1998
Increases (decreases) of cash during the year		
Cash flow from operating activities		
Cash received from sale of grain	**$ 4,026,703**	$ 4,757,682
Net cash paid for operating costs	**(133,506)**	(149,338)
Add items not requiring an outlay of cash		
Depreciation on CWB hopper cars	**2,884**	2,885
Depreciation on other capital assets	**6,836**	4,416
Cash flow from operating activities before changes in working capital	**3,902,917**	4,615,645
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	**(719)**	110,919
Inventory of grain	**(155,276)**	731,666
Deferred and prepaid expenses	**(8,142)**	21,937
Accounts payable and accrued expenses	**16,091**	15,573
Liability to agents	**28,282**	(634,081)
Liability to producers for outstanding cheques	**(13,889)**	(157,987)
Provision for producer payment expenses	**(1,709)**	(466)
Special account	**1,228**	129
	3,768,783	4,703,335
Cash flow from financing activities		
Increase in borrowings	**53,290**	474,825
	53,290	474,825
Cash flow from investing and other activities		
(Increase) decrease in accounts receivable – credit programs	**147,291**	(604,648)
Purchase of capital assets	**(19,400)**	(21,171)
Proceeds from sale of capital assets	**292**	320
	128,183	(625,499)
Cash distributed to producers		
Distribution of cash balances that were undistributed at beginning of year	**(416,080)**	(360,397)
Distribution of cash balances prior to July 31 related to the current year	**(3,534,176)**	(4,192,264)
	(3,950,256)	(4,552,661)
Net increase in cash and cash equivalents	**–**	–
Net cash position at beginning of year	**–**	–
Net cash position at end of year	**$ –**	$ –

Statement of administrative and general expenses

For the year ended July 31 (000's)	1999	1998
Advisory Committee	**$ 55**	$ 224
Board of Directors		
Remuneration	**433**	–
Expenses	**393**	–
Elections	**1,242**	–
	2,068	–
Computing systems and services	**7,874**	8,632
Communications		
Communications and information	**676**	582
CWB publications – annual report, *Grain Matters*, etc.	**663**	1,161
	1,339	1,743
Facilities and office services		
Equipment rental and maintenance	**351**	422
Facilities – rental, operation and maintenance	**1,614**	1,649
Information support	**356**	408
Office services	**337**	389
Postage	**704**	640
Printing, stationery and supplies	**494**	595
Telecommunications	**854**	804
	4,710	4,907
Human resources		
Salaries	**22,596**	21,300
Benefits	**4,820**	4,934
Recruitment	**123**	150
Training and development	**703**	700
	28,242	27,084
Other		
Donations	**97**	78
Miscellaneous other expenses	**527**	372
	624	450
Professional fees and outside services		
Audit fees	**163**	163
Insurance	**170**	76
Legal fees and court costs	**653**	40
Management consulting	**1,366**	1,127
Temporary agencies	**252**	245
	2,604	1,651
Taxes		
Business and property taxes	**415**	517
Manitoba health and education tax	**537**	546
	952	1,063
Travel	**1,285**	1,930
Total before depreciation	**49,753**	47,684
Depreciation	**6,836**	4,416
Total administrative & general expenses	**$56,589**	$52,100

Notes to the financial statements

1. Act of incorporation and mandate

The Canadian Wheat Board (the Corporation) was established by the *Canadian Wheat Board Act*, a statute of the Parliament of Canada. On June 11, 1998, Bill C-4, *An Act to Amend the Canadian Wheat Board Act* continued the CWB as a Shared Governance Corporation, without share capital, effective December 31, 1998. The Corporation's mandate continues to be the marketing in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation by virtue of its new structure is headed by a Board of Directors, comprised of ten producer elected and five government appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected Board members and to Parliament through the Minister responsible for the Canadian Wheat Board.

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

2. Significant accounting policies

(a) Results of Operations

The financial statements 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 Corporation at July 31 include:

Revenue – Revenue from grain sales recognized in the accounts at the time that shipment is made, at the equivalent value of the proceeds receivable at Vancouver, Churchill or the St. Lawrence. Previously, revenue for sales made on the east coast was recognized at the equivalent value at Thunder Bay. The net impact of this reclassification of costs is to increase revenue to represent the St. Lawrence value, and to disclose separately the net costs of moving grain beyond Thunder Bay into eastern export position as a direct cost. There is no impact on the earnings for distribution to producers.

Inventory – Inventory of grain on hand at July 31 at the values that were ultimately expected to be 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 inventories 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, 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 current pool accounts are included in Liability to Producers.

(b) Allowances for Losses on Accounts Receivable

Accounts receivable from credit programs – 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, and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility. The Corporation assumes 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 Corporation may enter into arrangements with commercial banks who will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation.

Accounts receivable from advance payment programs – The Government of Canada guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act* and the *Prairie Grain Advance Payments Act*.

As a result of these guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations.

(c) Capital Assets and Depreciation

Capital 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)	3 years
Building and office improvements	3 years
Computer systems development	10 years
Office furniture and equipment	10 years
Hopper cars	30 years
Building	40 years
Leasehold improvements	Term of lease

(d) Translation of Foreign Currencies

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance sheet date. The Corporation hedges its United States dollar assets and liabilities on a portfolio basis. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than the Canadian or United States dollar are hedged by currency exchange agreements and are converted into Canadian or United States dollars at the rates provided therein.

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 at the higher of the option strike price or the market price net of premium, and written option contracts 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.

(e) Derivative Financial Instruments

The Corporation uses various types of derivative financial instruments such as currency and interest rate swaps, foreign exchange forward and option contracts, and commodity future and option contracts in order to manage its exposure to currency, interest rate and commodity price risks. These instruments are designated as hedges and are only used for risk management purposes.

Notes to the financial statements

Interest rate contracts – Amounts to be paid or received under swap and forward contracts are recognized in the period in which they occur, as a component of net interest earnings.

Currency exchange contracts – Amounts to be paid or received under currency exchange contracts are recognized in the same pool account in which the related foreign currency transaction occurs, as a component of sales revenue.

Commodity contracts – Amounts to be paid or received under wheat future and option contracts are recognized in the same pool account as the related sale that is being hedged, as a component of sales revenue.

(f) Net Interest Earnings

Net interest earnings includes interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities, and interest earned on each pool account during the pool period and until final distribution of earnings to producers. Interest revenue and expenses 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.

(g) Administrative and General Expenses

Administrative and general expenses, except for that portion of such expenses attributable to distributing final payments to producers, are allocated to the various pool accounts to which the services relate on the basis of the relative tonnage. Expenses attributable to final payments are allocated on the basis of the number of producers receiving payments from the various pool accounts. A portion of the administrative and general expenses incurred in the current crop year are allocated to the previous year's pool accounts to reflect the cost of marketing activities for those pool accounts during the year. A portion of the administrative and general expenses incurred in the current crop year are also allocated to the provision for payment expenses to reflect the cost of administering the payment accounts during the year.

(h) Pension Plan

Employees participate in the *Public Service Superannuation Act* pension plan administered by the Government of Canada. The Corporation 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 Corporation. The Corporation is not required under present legislation to make contributions with respect to any actuarial deficiencies of the plan.

(i) Post-Employment Benefits

Employees of the Corporation are entitled to specified benefits provided upon retirement or termination.

The liability for long service allowance and unused sick leave accumulated prior to 1988 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, 1999 is $3,192,132 (1998 – $3,990,165).

The costs of health care and life insurance benefits for retirees are expensed as paid.

3. Accounts receivable from credit programs

(000's)	Credit Grain Sales Program	Agri-food Credit Facility	Other Credit	1999 Total	1998 Total
Due from foreign customers					
Current	**$ 112,244**	**$ 79,247**	**$ 850**	**$ 192,341**	$ 424,970
Overdue	**714,228**	**–**	**–**	**714,228**	680,005
Subject to Paris Club rescheduling	**116,539**	**–**	**–**	**116,539**	–
Rescheduled	**5,795,377**	**–**	**–**	**5,795,377**	5,861,457
	6,738,388	**79,247**	**850**	**6,818,485**	6,966,432
Due from Government of Canada	**57,164**	**–**	**–**	**57,164**	56,508
	$ 6,795,552	**$ 79,247**	**$ 850**	**$ 6,875,649**	$ 7,022,940
Credit risk:					
Guaranteed by Government of Canada	**$ 6,795,552**	**$ 77,344**	**$ –**	**$ 6,872,896**	$ 7,013,175
Guaranteed by commercial banks	**–**	**–**	**850**	**850**	9,071
Assumed by CWB	**–**	**1,903**	**–**	**1,903**	694
	$ 6,795,552	**$ 79,247**	**$ 850**	**$ 6,875,649**	$ 7,022,940

The Corporation's maximum exposure to credit risk related to these accounts receivable is limited to $1,902,971 (1998 – $694,135). The credit risk for all other balances is assumed by either the Government of Canada guarantee of principal and interest balances resulting from sales made under the Credit Grain Sales Program and the Agri-food Credit Facility, or by commercial banks who have assumed part of the credit risk without recourse to the Corporation.

Accounts receivable balances are classified under the applicable credit programs:

Credit Grain Sales Program

Accounts receivable under this program arise from sales to Algeria, Brazil, Egypt, Ethiopia, Haiti, Iran, Iraq, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. Of the $6,738,388,380 (1998 – $6,933,559,787) principal and accrued interest due from foreign customers, $4,924,152,682 (1998 – $5,118,725,537) represents the Canadian equivalent of $3,269,038,493 (1998 – $3,385,624,404) repayable in United States funds.

Overdue accounts receivable at July 31, 1999 represent amounts due from Jamaica, 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 Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Algeria, Brazil, Egypt, Ethiopia, Haiti, Jamaica, Pakistan, 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.

Also under terms agreed to by the Government of Canada at the Paris Club, the Corporation will be entering into an agreement with Russia to reschedule certain receivables totalling $116,539,325 at July 31, 1999 beyond their original maturity dates under previous rescheduling agreements. This amount is classified as subject to Paris Club rescheduling until the agreement is signed.

In addition to debt relief by means of extending the repayment terms, the Government of Canada has, in certain cases, agreed to reduce the debt owed to the Corporation by 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 Corporation by the Government of Canada. A total of $57,164,229 (1998 – $56,508,146) was due from the Government of Canada as at July 31, 1999 under these debt reduction agreements. Of this amount, $30,211,715 (1998 – $31,361,591) represents the Canadian equivalent of $20,056,904 (1998 – $20,743,165) which will be repayable in United States funds.

There is no allowance for credit losses, as the Government of Canada guarantees repayment of the principal and interest of all credit receivables under this program.

Agri-food Credit Facility

Accounts receivable under this facility arise from sales to customers in Brazil, China, Indonesia, South Korea and Peru. The balance of $79,246,559 (1998 – $23,801,306) principal and accrued interest due under the Agri-food Credit Facility represents the Canadian equivalent of $52,610,077 (1998 – $15,742,646) repayable in United States funds.

The maximum exposure to credit risk under this facility at July 31, 1999 is $1,902,971 (1998 – $694,135), representing the risk not covered by the Government of Canada. Management considers this balance collectible in its entirety therefore there is no allowance for credit losses.

Other Credit

Accounts receivable under this category arise from sales made to South Korea. The balance of $850,074 (1998 – $9,070,741) principal and interest due represents the Canadian equivalent of $564,346 (1998 – $5,999,564) repayable in United States funds.

For certain credit sales made under the Credit Grain Sales Program and the Agri-food Credit Facility, the Corporation will partner with commercial banks who will assume part of the credit risk of the sale, without recourse to the Corporation. The risk that is shared by the bank is not guaranteed by the Government of Canada. The Corporation'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. This exposure is managed by contracting only with highly rated financial institutions. As a result, there is no allowance for credit losses.

Fair Value

All accounts receivable resulting from sales made under credit programs as at July 31, 1999 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.

Notes to the financial statements

Maturities

These accounts receivable mature as follows:

(000's)	1999	1998
Amounts due:		
within 1 year	**$ 502,112**	$ 560,597
from 1 - 2 years	**147,653**	119,735
from 2 - 3 years	**216,063**	135,868
from 3 - 4 years	**320,803**	216,649
from 4 - 5 years	**417,565**	321,654
over 5 years	**4,557,225**	4,988,432
overdue	**714,228**	680,005
	$ 6,875,649	$ 7,022,940

4. Accounts receivable from advance payment programs

(000's)			1999	1998
	Agricultural Marketing Programs Act	Prairie Grain Advance Payments Act	Total	Total
Due from Producers				
Principal balances outstanding	**$ 72,641**	**$ –**	**$ 72,641**	$ 72,227
	72,641	**–**	**72,641**	72,227
Due from (to) Government of Canada				
Recovery of interest costs on advances under $50,000	**1,502**	**(38)**	**1,464**	10,714
Principal collected from producers subsequent to reimbursement by Government of Canada	**(413)**	**(419)**	**(832)**	(7,767)
Interest on defaulted accounts collected from producers on behalf of Government of Canada	**(1,149)**	**(51)**	**(1,200)**	720
	(60)	**(508)**	**(568)**	3,667
	$ 72,581	**$ (508)**	**$ 72,073**	$ 75,894

Cash advances issued by the Corporation to producers under the Government of Canada's *Agricultural Marketing Programs Act* program since its inception in 1997 total $1,006,067,422, including $469,137,734 issued during the current year. Previous to 1997, cash advances were made under the Government of Canada's *Prairie Grain Advance Payments Act*.

Cash advances issued by the Corporation under the *Prairie Grain Advance Payments Act* since 1957 total $11,316,856,057.

The Government of Canada pays interest on advances up to $50,000, and the producer pays interest on any amounts in excess of $50,000.

Notes to the financial statements

5. Inventory of grain

Inventory of grain at July 31 is reported at the values that were ultimately expected to be received as sale proceeds as follows:

(000's)	1999	1998
Wheat	$ 702,649	$ 700,206
Durum	350,848	183,745
Barley	18,838	7,880
Designated barley	33,412	58,640
	$ 1,105,747	$ 950,471

6. Deferred and prepaid expenses

(000's)	1999	1998
Prepaid cost of moving inventory to eastern export position	$ 16,515	$ 11,311
Purchase and lease-renewal options on leased hopper cars	5,137	5,137
Deposits on commodity margin accounts	3,271	3,451
Other	2,629	3,234
Foreign exchange options premiums applicable to subsequent pool accounts	–	7,009
Net results of commodity hedging activities applicable to subsequent pool accounts	(3,220)	(13,952)
	$ 24,332	$ 16,190

7. Capital assets

(000's)	Cost	Accumulated Depreciation	1999 Net Book Value	1998 Net Book Value
Computer systems development	$ 43,077	$ 5,255	$ 37,822	$ 24,141
Hopper cars	86,345	56,124	30,221	33,184
Computer equipment	12,525	8,289	4,236	4,606
Furniture & equipment	4,720	2,673	2,047	2,452
Land, building and improvements	7,288	6,286	1,002	1,313
Automobiles	621	306	315	480
Leasehold improvements	139	117	22	101
	$ 154,715	$ 79,050	$ 75,665	$ 66,277

Two thousand hopper cars were purchased by the Corporation in 1979-80 having an original cost of $90,555,623. Of these 2,000 cars, 93 cars have been wrecked and dismantled leaving 1,907 still in the fleet. The Corporation is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

During the year ended July 31, 1999, the Corporation invested $17,019,691 in computer systems development, including $9,208,166 related to the year 2000 issue. The balance of $7,811,525 includes significant investment in systems that manage financial and inventory information, pay farmers for their grain based on finer protein levels, and allocate railcars by zone rather than by train run.

8. Borrowings

(000's)	Effective Interest Rate (%)	**1999**	**1998**
Commercial paper borrowings			
Canadian Commercial Paper Program		**$ 2,297,476**	$ 1,729,859
United States Commercial Paper Program		**1,860,756**	2,234,072
Euro Commercial Paper Program		**1,972,674**	1,798,043
Euro Medium Term Notes Program		**1,223,784**	1,124,509
Total commercial paper borrowings	4.29 – 5.64	**7,354,690**	6,886,483
Bank lines and other	4.62 – 4.83	**244,075**	83,979
Accrued interest	–	**81,914**	72,841
Total borrowings	4.29 – 5.64	**7,680,679**	7,043,303
Less investments	4.76 – 5.13	**(911,810)**	(327,724)
Net borrowings	**4.29 – 5.64**	**$ 6,768,869**	$ 6,715,579

The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada through an explicit guarantee included in the *Canadian Wheat Board Act*.

Borrowings denominated in currencies other than the Canadian or United States dollar have been fully swapped into Canadian or United States dollars. Of the above amount, $5,055,432,986 (1998 – $5,061,786,036) represents the Canadian equivalent of $3,356,192,648 (1998 – $3,347,963,513) which will be repayable in United States funds.

These borrowings mature as follows:

(000's)	**1999**	1998
Amounts due:		
within 1 year	**$ 7,179,919**	$ 6,090,806
from 1 – 2 years	**376,575**	266,094
from 2 – 3 years	–	377,975
from 3 – 4 years	–	–
from 4 – 5 years	–	–
over 5 years	**124,185**	308,428
	$ 7,680,679	$ 7,043,303

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.

Notes to the financial statements

9. Accounts payable and accrued expenses

(000's)	**1999**	1998
Accounts payable and accrued liabilities	**$ 45,971**	$ 48,928
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	**56,465**	38,941
Deferred sales revenue	**35,002**	33,478
	$ 137,438	$121,347

10. Liability to agents

(000's)	**1999**	1998
For grain purchased from producers	**$ 674,620**	$ 582,871
For deferred cash tickets	**83,903**	147,370
	$ 758,523	$ 730,241

Grain Purchased from Producers

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for 3 776 084 (1998 – 3 211 587) tonnes of grain on hand at country elevator points and in transit at July 31 for which delivery to and settlement by the Corporation is to be completed subsequent to the year end date.

Deferred Cash Tickets

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

11. Liability to producers – outstanding cheques

(000's)	**1999**	1998
Outstanding Producer Cheques at July 31		
Wheat	**$ 91,542**	$ 129,456
Durum	**59,042**	54,992
Barley	**4,437**	57
Designated barley	**16,034**	438
	$ 171,055	$ 184,943

Of the outstanding producer cheques totalling $171,054,572 at July 31, 1999, the balance of $165,004,956 is from the 1998-99 adjustment payment cheques dated July 27, 1999.

Of the outstanding producer cheques totalling $184,943,465 at July 31, 1998, the balance of $172,711,922 is from the 1997-98 adjustment payment cheques dated July 28, 1998.

12. Liability to producers – undistributed earnings

(000's)	**1999**	1998
Earnings distributed as interim payment		
Wheat	**$ 112,598**	$ 114,430
Durum	**44,420**	23,591
Barley	**1,940**	–
Designated barley	**13,452**	9,070
	172,410	147,091
Earnings distributed as final payment and producer car rebate		
Wheat	**99,575**	193,662
Durum	**63,558**	47,708
Barley	**2,912**	2,630
Designated barley	**20,565**	24,989
	186,610	268,989
	$ 359,020	$ 416,080

Of the undistributed earnings to producers totalling $359,019,988 (1998 – $416,079,930) at July 31, 1999, $172,409,023 (1998 – $147,091,701), representing 48% (1998 – 35%) of the outstanding balance, was distributed to producers in an interim payment on October 26, 1999 (1998 – October 20, 1998). The balance of $186,610,965 (1998 – $268,988,229) will be distributed to producers through final payments and producer car rebates on January 4, 2000.

13. Provision for producer payment expenses

The amount of $5,934,196 (1998 – $7,643,324) represents the balance of the reserve for producer payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor in Council.

14. 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 Corporation to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor in Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers. The activity in the Special Account is comprised of:

(000's)	**1999**	1998
Beginning of year	**$ 2,792**	$ 2,662
Transfer from payment accounts	**2,674**	906
Expenditures	**(1,441)**	(768)
Payments to producers against old payment accounts	**(5)**	(8)
End of year	**$ 4,020**	$ 2,792
Ending balance comprised of:		
Unexpended authorizations	**$ 165**	$ 216
Unallocated	**3,855**	2,576
	$ 4,020	$ 2,792

During the year ended July 31, 1999, the balance from payment accounts for 1991 Wheat, 1991 Durum, 1991 Barley, 1985 Designated Barley, 1987 Designated Barley, 1988 Designated Barley, 1989 Designated Barley, 1990 Designated Barley and 1991 Designated Barley were transferred to the Special Account under Order-in-Council P.C. 1999-775.

The program expenditures during the 1998-99 crop year are detailed as follows:

(000's)					**1998-99**
	Unexpended at beginning of year	Authorized	Expended	Expired	Unexpended at end of year
Market development program	**$ 168**	**$ –**	**$ (94)**	**$ –**	**$ 74**
Scholarship program	**39**	**311**	**(318)**	**–**	**32**
Canadian International Grains Institute					
Capital expenditures	**9**	**175**	**(125)**	**–**	**59**
Pilot pasta plant	**–**	**1,750**	**(904)**	**(846)**	**–**
Canadian Malt Barley Research Institute	**–**	**750**	**–**	**(750)**	**–**
	$ 216	**$ 2,986**	**$ (1,441)**	**$ (1,596)**	**$ 165**

Notes to the financial statements

15. Lease commitments

The Corporation 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 pool accounts. Total payments associated with these leases in the year ended July 31, 1999, amounting to $20,598,030 (1998 – $20,362,628) have been recovered by the Corporation. Lease terms are for 20 and 25 years, expiring in 2000 and 2006.

In 1995, the Corporation purchased an option to extend the lease term for 250 of the cars beyond the expiry date of October 2000 for two successive five year periods at a bargain lease rate. Between 1991 and 1995, the Corporation also purchased options to acquire 1,550 of these cars at a cost of $17,897,875 in United States dollars at the end of the lease term in 2006. The cost of these options is recorded in deferred and prepaid expenses.

The Corporation has entered into operating leases for certain premises. Lease terms are for a period of one to five years, expiring between December 1999 and October 2002. The Corporation has the option to renew most of these leases for additional terms of up to two years. Total lease payments expensed in the year ended July 31, 1999 were $621,661 (1998 – $590,350).

16. 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 that 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 that 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 Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

17. Off balance sheet financial instruments

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

The Corporation 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 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:

(000's)			1999			1998
	Notional Amounts	Fair Value	Credit Risk	Notional Amounts	Fair Value	Credit Risk
Interest rate contracts						
Single-currency int. rate swaps	**$1,154,880**	**$ 251**	**$ 8,164**	$1,395,786	$ 15,537	$ 100
Cross-currency int. rate swaps	**124,185**	**(145)**	**3,691**	51,060	(5,160)	15,736
Currency swaps	**260,209**	**2,035**	**2,775**	790,526	(2,877)	1,908
	1,539,274	**2,141**	**14,630**	2,237,372	7,500	17,744
Foreign exchange contracts						
Forwards	**663,477**	**2,462**	**5,878**	911,988	(33,334)	209
Swaps	**124,759**	**3**	**714**	188,594	11	11
Purchased options	–	–	–	901,093	4,389	4,389
Sold options	–	–	–	450,546	(1,231)	–
	788,236	**2,465**	**6,592**	2,452,221	(30,165)	4,609
	$2,327,510	**$4,606**	**$21,222**	$4,689,593	$(22,665)	$22,353

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.

Credit risk is the risk of financial loss occurring as a result of default by a counter-party on its obligations to the Corporation. A positive fair value indicates the Corporation's exposure to counter-party credit risk. The Corporation manages its exposure to credit risk by contracting only with financial institutions having a credit rating that complies with the financial risk management guidelines approved by the Department of Finance. Master netting agreements are used to reduce the credit risk from potential counter-party default. The largest cumulative notional amount contracted with any institution as at July 31, 1999 was $1,024,284,000 (1998 – $876,902,000) and the largest credit risk with any institution as at July 31, 1999 was $7,265,308 (1998 – $14,624,210).

Notes to the financial statements

18. Revenue

Wheat	1998-99		1997-98	
($000's, except tonnes)	Tonnes	Amount	Tonnes	Amount
Disposition of grain				
Shipped prior to July 31	**11 792 939**	**$ 2,409,387**	13 947 589	$ 2,868,954
Shipped subsequent to July 31	**846 128**	**174,330**	931 417	174,013
Weight losses in transit and drying	**716**	**–**	1 039	–
Total disposition of grain	**12 639 783**	**2,583,717**	14 880 045	3,042,967
Add grain sold to subsequent pool account	**2 649 485**	**528,319**	2 703 488	526,193
Gross sales	**15 289 268**	**3,112,036**	17 583 533	3,569,160
Less sales used to value prior pool account	**(2 703 488)**	**(526,193)**	(2 297 689)	(444,691)
	12 585 780	**2,585,843**	15 285 844	3,124,469
Deduct cost of grain purchased from other than producers	**(73 054)**	**(11,820)**	(84 739)	(14,534)
Revenue	**12 512 726**	**$ 2,574,023**	15 201 105	$ 3,109,935

Durum	1998-99		1997-98	
($000's, except tonnes)	Tonnes	Amount	Tonnes	Amount
Disposition of grain				
Shipped prior to July 31	**3 739 357**	**$ 826,174**	3 807 048	$ 1,148,100
Shipped subsequent to July 31	**391 673**	**86,803**	304 187	90,127
Weight losses in transit and drying	**972**	**–**	2 166	–
Total disposition of grain	**4 132 002**	**912,977**	4 113 401	1,238,227
Add grain sold to subsequent pool account	**1 203 801**	**264,045**	426 046	93,618
Gross sales	**5 335 803**	**1,177,022**	4 539 447	1,331,845
Less sales used to value prior pool account	**(426 046)**	**(93,618)**	(580 928)	(155,205)
	4 909 757	**1,083,404**	3 958 519	1,176,640
Deduct cost of grain purchased from other than producers	**(5 118)**	**(1,163)**	(20 634)	(4,986)
Revenue	**4 904 639**	**$ 1,082,241**	3 937 885	$ 1,171,654

Barley	1998-99		1997-98	
($000's, except tonnes)	Tonnes	Amount	Tonnes	Amount
Disposition of grain				
Shipped prior to July 31	**203 539**	**$ 26,139**	728 352	$112,874
Shipped subsequent to July 31	**16 567**	**2,161**	35 222	3,062
Weight losses in transit and drying	**8**	**–**	(173)	–
Total disposition of grain	**220 114**	**28,300**	763 401	115,936
Add grain sold to subsequent pool account	**121 893**	**16,677**	48 646	4,818
Gross sales	**342 007**	**44,977**	812 047	120,754
Less sales used to value prior pool account	**(48 646)**	**(4,818)**	(548 089)	(87,843)
	293 361	**40,159**	263 958	32,911
Deduct cost of grain purchased from other than producers	**(16 261)**	**(1,811)**	(1 998)	(208)
Revenue	**277 100**	**$ 38,348**	261 960	$ 32,703

Notes to the financial statements

Designated Barley	1998-99		1997-98	
($000's, except tonnes)	Tonnes	Amount	Tonnes	Amount
Disposition of grain				
Shipped prior to July 31	**1 780 583**	**$ 309,656**	2 044 716	$ 397,887
Shipped subsequent to July 31	**157 900**	**26,244**	230 072	47,730
Weight losses in transit and drying	**–**	**–**	–	–
Total disposition of grain	**1 938 483**	**335,900**	2 274 788	445,617
Add grain sold to subsequent pool account	**42 741**	**7,168**	59 065	10,910
Gross sales	**1 981 224**	**343,068**	2 333 853	456,527
Less sales used to value prior pool account	**(59 065)**	**(10,910)**	(62 179)	(12,381)
	1 922 159	**332,158**	2 271 674	444,146
Deduct cost of grain purchased from other than producers	**(492)**	**(67)**	(4 251)	(756)
Revenue	**1 921 667**	**$ 332,091**	2 267 423	$ 443,390

Weight losses in transit and drying includes losses that occur during the transport of grain after delivery to the Corporation by agents at terminal or mill position and losses that occur during drying at terminal position.

Disposition of grain represents tonnes that are shipped in a pool account prior to the completion of operations for that pool account or weight losses in transit and drying, and is comprised of the following:

(Tonnes)	Wheat	Durum	Barley	Designated Barley	Total
1998-99					
Domestic	**2 184 479**	**236 557**	**34 076**	**370 188**	**2 825 300**
Export	**10 454 588**	**3 894 473**	**186 030**	**1 568 295**	**16 103 386**
Weight losses	**716**	**972**	**8**	**–**	**1 696**
	12 639 783	**4 132 002**	**220 114**	**1 938 483**	**18 930 382**
1997-98					
Domestic	1 873 107	222 322	113 344	297 275	2 506 048
Export	13 005 899	3 888 913	650 230	1 977 513	19 522 555
Weight losses	1 039	2 166	(173)	–	3 032
	14 880 045	4 113 401	763 401	2 274 788	22 031 635

Notes to the financial statements

19. Administrative and general expenses

Administrative and general expenses are allocated as follows:

For the year ended July 31 (000's)	**1999**	1998
Administrative and general expenses for the crop year	**$ 56,589**	$ 52,100
Less amounts allocated to:		
Preceding pool accounts related to administration of those pool accounts during the current crop year	**(21,746)**	(20,582)
Provision for expenses related to administration of the producer payment accounts during the current crop year	**(295)**	(362)
Balance applicable to current pool accounts	**34,548**	31,156
Add amounts allocated from estimated administration and general expenses for the subsequent crop year related to administration of the current pool accounts during that crop year	**20,656**	21,746
Total allocated to 1998-99 pool accounts	**$ 55,204**	
Total allocated to 1997-98 pool accounts		$ 52,902
Net allocation as follows:		
Wheat	**$ 35,214**	$ 37,105
Durum	**13,802**	9,617
Barley	**781**	644
Designated Barley	**5,407**	5,536
	$ 55,204	$ 52,902

The administrative and general expenses that are charged to the current pool accounts include an allocation of costs that are expected to be incurred in the subsequent crop year. The purpose of this is to ensure that the current pool accounts reflect the costs of the marketing activities that take place after the end of the crop year.

20. Grain industry organizations

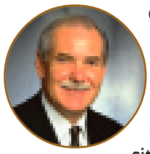
For the year ended July 31 (000's)	**1999**	1998
CWB share of operating costs of:		
Canadian Interntional Grains Institute (40 per cent share)	**$ 1,664**	$ 1,577
Car Allocation Policy Group (33.3 per cent share)	**35**	35
	$ 1,699	$ 1,612
Allocated as follows:		
Wheat	**$ 1,084**	$ 1,131
Durum	**425**	293
Barley	**24**	19
Designated Barley	**166**	169
	$ 1,699	$ 1,612

The Corporation's share of operating costs of grain industry organizations is allocated to the current pool accounts based on relative tonnage.

21. Comparative figures

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

Board of directors



Greg Arason, President and Chief Executive Officer (CEO)

Greg was CEO of Manitoba Pool Elevators (MPE) and past director of several grain and food operations including Prince Rupert Grain Ltd. and Can Amera Foods Ltd. Greg has been involved in the Prairie grain industry for more than 25 years and played a major part in guiding MPE successfully through several years of significant agricultural change. He was educated at the University of Manitoba, and the Banff School of Advanced Management.

Ken Ritter, CWB Chair, Director-elected (District 4)

Ken operates a family farm in the Major-Superb area of West Central Saskatchewan. As well as farming, Ken has practiced law and taught school in Canada and Australia. His achievements include designing and implementing The Saskatchewan Farm Security Act legislation, serving as Commissioner with the National Transportation Agency of Canada, and Chairing the Saskatchewan Surface Rights Arbitration Board.

Betty-Ann Heggie, Director-appointed

Betty-Ann is Senior Vice-President of the Potash Corporation of Saskatchewan. She has held positions of increasing responsibility within the corporation including Vice-President, Corporate Relations and Director of Marketing Services. Betty-Ann graduated from the University of Saskatchewan and is a member of several industry boards.

David Hilton, Director-appointed

David is a former Senior Vice-President, International Banking for the Bank of Nova Scotia. He has extensive experience at the most senior levels of government and business in the fields of international finance, aid and development and trade. David was born and raised in Alberta. He holds a degree in Commerce from the University of Alberta and in Law from Dalhousie University.

Ross Keith, Director-appointed

Ross is President and CEO of the Nicor Group (a property development firm) and a former partner in the MacLean, Keith law firm in Regina. He has degrees from the University of Saskatchewan in Arts, Commerce and Law. Ross is also President of Keith Farms – a third-generation family farming operation in southern Saskatchewan.

James Stanford, Director-appointed

James is President, Chief Executive Officer and a director of Petro-Canada. He joined Petro-Canada in 1978, rising steadily through its ranks to top management, after working for 19 years with Mobil Oil Canada. James sits on the Boards of Directors of Fortis Inc., Moore Corporation Limited and Inco Limited. He graduated from Loyola College in Montreal and the University of Alberta.

Art Macklin, Director-elected (District 1)

Art operates a 1,200-acre grain and cattle farm north-east of Grande Prairie, AB. Art has been active in farm, community and church activities for many years, having served as a director for local co-ops, President of the National Farmers Union, and Chair of the Advisory Committee to the CWB. In 1996, the Canadian Seed Growers Association awarded Art a long service certificate, in recognition of 25 years of successful pedigreed seed production.

James Chatenay, Director-elected (District 2)

James was born and raised in Alberta. After graduating from Olds Agricultural College, he returned to the family farm near Penhold, AB that he continues to operate today. His crop rotation includes wheat, barley, canola and peas. James participated in the first Charolais importation from France in 1965. He also acted as a French-language interpreter in France and Canada, served six years as Director of the Alberta Charolais Association and judged several Charolais shows including the National Show in Australia.

Larry Hill, Director-elected (District 3)

Larry farms 5,200 acres near Swift Current, producing cereals, pulses, oilseeds and alfalfa. He obtained a degree in Agricultural Engineering (1965) and a Farm Business Management Certificate in Agriculture (1998) from the University of Saskatchewan. Previous experience includes working for Saskatchewan Agriculture and serving as a director on credit union and regional college boards. Since 1968, Larry has practiced various forms of conservation farming, such as the use of shelterbelts, direct seeding and an extended crop rotation.

John Clair, Director-elected (District 5)

John operates a 3,000-acre family farm near Radisson, SK, producing wheat, barley, durum, canola and peas. John has spent time as an Advisor to the CWB, Director of the Western Grain Research Foundation, Saskatchewan Wheat Pool delegate, a local school trustee, member of the Saskatchewan task force on transportation and local Co-op Board Director.

Ian McCreary, Director-elected (District 6)

Ian was born and raised on a mixed farm near Bladworth, SK, which he runs today. The farm includes a cow/calf operation and field production of peas, lentils, canola, wheat, durum, barley, flax and forages. Ian has Bachelor's and Master's degrees in Agricultural Economics from the University of Saskatchewan, and worked as a marketing manager and policy analyst with the CWB.

Micheal Halyk, Director-elected (District 7)

Micheal operates a 3000-acre grain, oilseed, pulse, alfalfa, pedigreed seed and livestock operation near Melville, SK. Micheal has been involved in local, community, provincial and national organizations including numerous agriculture policy groups, local credit unions, Saskatchewan Crop Insurance and the Advisory Committee to the CWB.

Terry Hanson, Director-elected (District 8)

Terry operates a family farm at Filmore, SK, producing wheat, barley, oats, oilseeds and pulses. He was Vice-chair of the Agriculture, Municipal Affairs and Highways Committees while serving as a member of the Saskatchewan Legislature. A 12-year veteran of the CWB Advisory Committee, he has been active in the local community as well as in farm policy development at federal and provincial levels.

Bill Nicholson, Director-elected (District 9)

Bill farms 4,000 acres near Shoal Lake, MB where his family produces cereals, oilseeds and pulse crops. Bill has a degree in agricultural engineering and has worked in the farm machinery industry. Bill has served on the Advisory Committee to the CWB, been a Manitoba Pool delegate and represented farmers on the Prairie Agricultural Machinery Institute Council.

Wilfred Harder, Director-elected (District 10)

Wilfred (Butch) has been on the Advisory Committee to the CWB for 12 years, a director with Manitoba Pool/Agricore for 12 years, and a Canadian Co-operative Association Director and Executive Member. He has also held directorships on the Western Co-op Fertilizers and XCAN Boards. Wilfred operates a 3,600-acre farm at Lowe Farm, MB, and a 1,200-acre farm at Headingley, near Winnipeg, MB. He grows grains, oilseeds and alfalfa seed.

Canadian Wheat Board offices

Head Office
Winnipeg, Manitoba
423 Main Street
P.O. Box 816, Stn. M.
Winnipeg, Manitoba
Canada R3C 2P5
Phone (204) 983-0239
Fax (204) 983-3841
Telex 07-57801
Web site http://www.cwb.ca

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

Vancouver, British Columbia
650 Marine Building
355 Burrard Street
Vancouver, British Columbia
Canada V6C 2G8
Phone (604) 666-2992
Fax (604) 666-0293
Telex 04-508862

Tokyo, Japan
3rd Floor, Toranomon No. 11 Mori Bldg.
6-4, Toranomon 2- chome
Minato-ku
Tokyo 105-0001, Japan
Phone 011-81-3-3519-2288
Fax 011-81-3-3519-2287

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