The Canadian Wheat Board

2000-01 Annual Report

The Canadian Wheat Board

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2000-01 Financial Highlights

($ millions)	**2000-01**	1999-2000	1998-99	1997-98	1996-97
Revenue	**4,227.7**	4,482.4	4,026.7	4,757.7	6,185.8
Direct costs	**177.4**	164.3	149.1	170.7	266.0
Administrative expenses	**66.4**	63.8	55.2	52.9	46.4
Grain industry organizations	**1.7**	1.7	1.7	1.6	1.7
Net interest earnings	**(75.2)**	(71.0)	(72.5)	(75.9)	(82.5)
Operating costs	**170.3**	158.8	133.5	149.3	231.6
Earnings for distribution	**4,057.4**	4,323.6	3,893.2	4,608.4	5,954.2

Note – 1997-98 and previous figures have been restated to reflect pooling points as Vancouver/St. Lawrence

Receipts from Producers (000 tonnes)					
Wheat	**13 961**	16 427	12 513	15 201	19 757
Durum	**3 665**	3 976	4 905	3 938	3 883
Barley	**454**	672	277	262	2 440
Designated Barley	**2 273**	2 554	1 922	2 267	2 402
Total	**20 353**	23 629	19 617	21 668	28 482

The combined power of Prairie farmers makes the Canadian Wheat Board (CWB) one of the largest grain marketing organizations in the world. But that's not enough. In a rapidly changing grain industry, there is no time to stand still. There are challenges to be faced in grain transportation and handling, international trade and domestic demands for more marketing options.

The CWB has responded. Not only to external pressure, but to farmer requests for new ways to run the organization and plan for its future. The realities of the agricultural economy demand efficiency – to do our job well with the least cost to farmers.

The 2000-01 crop year has been one of movement, change and challenge. The issues are not easy, but the CWB is moving forward with confidence. Farmers who control the CWB expect nothing less.

Corporate profile

The CWB markets western Canadian wheat and barley to about 70 countries. All sales revenue, less marketing costs, is returned to farmers. The CWB is controlled by a Board of Directors that includes 10 farmer-elected members and five federal government appointees. As a major international grain trader, the third-largest Canadian exporter and a top earner of foreign exchange, the combined power of Prairie farmers through the CWB is considerable. More than 500 employees work at the head office in Winnipeg.

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

Mission: The CWB markets quality product and service in order to maximize returns to western Canadian grain producers.

A message from the Chair of the Board of Directors and the President/CEO

President and CEO Greg Arason (left) with Chair Ken Ritter

If change is better than rest, then the start of the new millennium has been very good indeed for the CWB. Not only have we been working through dramatic changes to our own governance structure and corporate culture, our external environment has also been changing at a rapid pace.

Major transformations are taking place in the world of grain transportation. Over the past year, the CWB successfully brought a strong farmer perspective to negotiations with grain companies and the federal government. We are proud of the agreement reached at the end of the crop year on grain handling and transportation, where we pushed to preserve competition in the interests of farmers' bottom lines. More change lies ahead in response to the Canadian Transportation Panel review of the rail freight system.

Other changes in 2000-01 have posed fresh challenges. A historic merger between Agricore and United Grain Growers could have lasting ramifications for all players in the Canadian grain industry. This merger was finalized in November 2001. The international trade environment has been increasingly volatile as disagreements deepen over agricultural subsidies. American interests launched their ninth trade challenge of the CWB since 1989, hoping for support from a new White House administration – while further subsidies are proposed for U.S. farmers.

On the home front, total CWB wheat and barley exports for the 2000-01 crop year hit 104 per cent of our target of 18.2 million tonnes. Prices strengthened on the world market and should show modest improvement in 2001-02 as global stocks decline. But there will be pain in the year ahead. Last summer, western Canadian farmers faced the worst drought in more than a decade, driving production estimates down by 15 to 20 per cent. The ramifications of September's terrorist attack in the U.S. have introduced more uncertainty to the international grain trade.

Yet it is hard times that bring people together – and that has always been a strong tradition on the Prairies. Improving the connection with farmers has been a top priority over the past year, leading to the creation of a vibrant new department called Farmer Relations. Paying close attention to farmers' needs resulted in new payment and pricing options and greater advocacy on behalf of producers.

We have also worked to improve openness and accountability in all areas, prompting the Board to invite the federal Auditor General to examine CWB operations in detail. We launched a "benchmarking" project that should help farmers evaluate our ongoing marketing performance. And we put great emphasis on long-term planning and strategic direction, in an effort to devote our resources towards clear goals set by our farmer-controlled Board of Directors.

The CWB is moving forward through a challenging time, forging a new role with elected directors and a renewed senior management team. We invite all farmers to climb aboard and help set the course for the future.

Ken Ritter
Chair, Board of Directors

Greg Arason
President and Chief Executive Officer

CWB performance highlights

For the crop year 2000-01, the CWB Board of Directors and senior management identified 11 strategic priorities to guide the activities of the organization.[1] Some key initiatives to achieve these priorities and their results are listed here.

Strategic priorities	Initiatives	Results
Distribute returns to Prairie farmers in a manner consistent with the relative value of their products through mechanisms that strive for fairness and equity.	▸ Fairly compensate farmers for wheat protein value. ▸ Enact new payment and pricing options for farmers (PPOs). See pages 8, 28 and 29. ▸ Provide payments through the pool accounts as early as possible through increasing adjustment payments.	▸ Changed the base grade for CWRS to No. 1 CWRS 12.5% protein. Expanded the range of protein payment increments for Nos. 1 and 2 CWRS and CWAD.[2] ▸ Farmers signed up 982 contracts (184 369 T) for fixed price or basis options[3], a five-fold increase from the initial offering the previous year. ▸ Farmers signed up 2,286 contracts (296 626 T) under a new Guaranteed Delivery Option for barley. ▸ Producers of No. 1 CWRS 13.5% protein received 97% of their total payment by Oct. 24, 2000. This compares to 93% by Oct. 23, 1998 and only 87% by Oct. 21, 1992.
Provide and demonstrate to Prairie farmers the competitive advantage of single-desk selling of wheat and barley.	▸ Commission a special study to develop performance measures of the CWB's core marketing function.	▸ Results expected in 2002.
Be transparent by providing Prairie farmers with information, including market-related information that does not jeopardize the competitive and commercial position of the CWB.	▸ Provide farmers with a Pool Return Outlook (PRO), updated monthly, to estimate market returns. ▸ Devise guidelines for the release of information. ▸ Use technology to provide relevant information. ▸ Assist a team from the federal Office of the Auditor General in its examination of the CWB. ▸ Provide comprehensive financial information in the Annual Report and other CWB publications such as *Grain Matters*.	▸ Initial price forecasts of the 2000-01 PRO were within $10 of actual final payments for all CWB grain except durum. ▸ Enacted a formal Information Policy. ▸ Provided up-to-date information through the CWB Web site (35,478 user sessions in April 2001), regular e-mail updates (3,231 subscribers in April 2001) and Farm Business telephone service (161,156 calls received; 26,690 calls initiated in 2000-01). ▸ Auditor General's findings expected in early 2002 and will be publicized. See page 14.
Demonstrate that the CWB is controlled by Prairie farmers.	▸ Hold Board of Director elections in five of 10 CWB districts.	▸ 30,206 ballots were returned from farmers, a 40.6% response rate. See page 60.

CWB performance highlights

Strategic priorities	Initiatives	Results
Demonstrate accountability to Prairie farmers by seeking out, listening to and responding to their concerns.	▸ Create a new Farmer Relations department. ▸ Meet directly with farmers. See page 8. ▸ Introduce the FarmCall program to solicit farmer views. Conduct regular producer surveys. ▸ Enact new Producer Payment Options based on farmer input from focus meetings, surveys, telephone calls and field interaction. See pages 8, 28 and 29.	▸ Re-focused the role of the CWB's 18 field representatives and the toll-free telephone service for farmers. See page 8. ▸ Held 182 market outlook and marketing choice meetings with farmers. ▸ Held 36 Board of Director accountability meetings with farmers in March 2001. ▸ Held eight "Combine to Customer" and "Customer Connection" meetings. ▸ FarmCall interviewed 1,008 Saskatchewan farmers, while 1,320 Prairie farmers were surveyed by telephone.
Operate in a manner that encourages value-added initiatives on the Prairies.	▸ Assist processors with CWB quality assurance, guaranteed supply, pricing flexibility and technical expertise. See page 9. ▸ Conduct research and provide analysis of value-added projects that benefit farmers.	▸ Developed a new policy for organic producers to streamline Producer Direct Sale transactions and create a special credit program for up-front costs. See page 9. ▸ Hired a market development value-added manager. ▸ Hired an organic sales manager.
Provide equitable opportunity for Prairie farmers to access world grain markets.	▸ Conduct a comprehensive review of Grain Delivery Policy. ▸ Enact new programs to provide marketing choice for farmers (PPOs), including the option of basing a fixed price on the Minneapolis futures market. See above.	▸ Defined key principles and environmental factors affecting the delivery of grain to the CWB. Long-term delivery policy will be shaped with input from farmer focus meetings and other feedback.
Actively represent Prairie farmers' interests on relevant issues to government and industry.	▸ Represent farmers' interests during negotiations with government and the grain industry. ▸ Provide input to Canada's World Trade Organization representatives and respond to an American trade challenge of CWB practices.	▸ Negotiated a transportation agreement with beneficial aspects for farmers. See page 10. ▸ Helped set the agenda as a leader in the debate over genetically-modified wheat. ▸ Successfully advocated for farmer tax credits from CWB contributions to research. ▸ Pushed for recognition of farmers' transport-related costs as part of National Income Stabilization Account.

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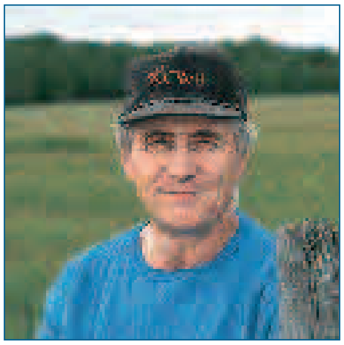
Strategic priorities	Initiatives	Results
Attract, develop and retain markets by delivering quality products and services to customers worldwide.	▸ Overall marketing forecast for exports of wheat, durum and barley was 18.2 million T, including 11.7 million T wheat, 3.5 million T durum, 1 million T feed barley and 2 million T designated barley. ▸ Develop long-term marketing plans for wheat, durum and barley to 2008. ▸ Develop a firm position on GM wheat in response to customer concerns, while working to develop better segregation methods. See page 13. ▸ Lead the establishment of the Canadian Malting Barley Technical Centre, which provides customers with a hands-on demonstration of barley variety benefits. ▸ Participate in agricultural research activities, such as the Automated Quality Testing initiative. See page 12.	▸ Achieved 104% (19 million T) of export forecast, including 110% (12.9 million T) for wheat, 100% (3.5 million T) for durum, 69% (693 000 T) for feed barley and 96% (1.9 million T) for designated barley. ▸ New long-term marketing plans give indications of future market trends, desirable research projects, quality control improvements and evolution of grain classes. ▸ Participated in public events surrounding the GM wheat issue, made presentations to government, began work with Canadian Grain Commission on new segregation technology. ▸ New Canadian Malting Barley Technical Centre officially opened on October 11, 2001.
Provide industry leadership to achieve the most efficient handling and transportation system.	▸ Play a key role in negotiations surrounding the commercialization of grain handling. ▸ Negotiate with OmniTRAX (Churchill) and Mission Terminal (Thunder Bay). ▸ Provide input to review of the Canadian Transportation Act and urge more meaningful competition between rail carriers.	▸ Agreement reached in August 2001 between CWB and grain industry partners. See page 10. ▸ Reached agreements with OmniTRAX and Mission Terminal re. tonnage and performance incentives. ▸ Implemented the Churchill Freight Advantage Rebate to tie freight savings more closely to grain shipments.
Maintain a healthy and safe work environment and provide employees opportunities for personal growth and professional excellence in an equitable manner that respects diversity.	▸ Present results of employee survey and establish committees to respond to the issues raised. See pages 14 and 15. ▸ Work towards developing an in-house pension plan to gain increased control, greater flexibility and reduced costs. See page 15. ▸ Involve staff in the creation of a set of corporate core values. See page 14. ▸ Provide staff training opportunities to ensure staff can best meet farmers' needs.	▸ Reports from committees studying internal communication and employee compensation expected in late 2001. ▸ Board of Directors approved withdrawal from the Public Sector Superannuation in favor of in-house pension plan. ▸ Core values approved in late 2001. ▸ $1.2 million was allocated for training and development in the 2000-01 budget.

[1] Four new focus areas were developed to guide activities beginning in 2001-02: Farmer, Customer, Mandate and Employees/Corporate.
[2] CWRS = Canada Western Red Spring wheat; CWAD = Canada Western Amber Durum
[3] Calculations as of November 8, 2001

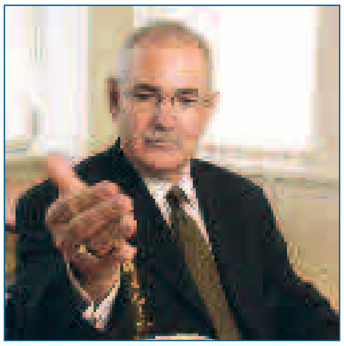
Farmer-run Board of Directors

The CWB Board of Directors consists of 10 farmer-elected members and five federal-government appointees. This new governance structure has been in existence since 1998. It reflects farmers' desire for a direct and accountable way to control the CWB.



Art Macklin (District 1)
Operates a grain and cattle farm near Grand Prairie, Alberta. Active in church and community, he is a past president of the National Farmers Union and served as chair of the former CWB Advisory Committee.

James Chatenay
(District 2)
Operates a family farm near Penhold, Alberta. A graduate of Olds Agricultural College, he served six years as director of the Alberta Charolais Association.



Greg Arason, CWB President and Chief Executive officer
(Appointed)
Involved in the Prairie grain industry for more than 25 years. A former CEO of Manitoba Pool Elevators and past director of several grain and food operations.

Larry Hill
(District 3)
Farms near Swift Current, Saskatchewan. A graduate of agricultural engineering and farm business management at the University of Saskatchewan, he has worked for Saskatchewan Agriculture.

Ken Ritter, CWB Chair
(District 4)
Operates a family farm in west central Saskatchewan. Has practiced law and taught school in Canada and Australia.

Bonnie DuPont (appointed)
Group Vice-President, Corporate Resources, at Calgary's Enbridge Inc. Has expertise in energy transport and grain handling. Held senior roles with Alberta Wheat Pool and Saskatchewan Wheat Pool.

John M. Clair
(District 5)
Senior partner in a family farm producing wheat, canola, peas and barley near Radisson, Saskatchewan. A former CWB advisor, school trustee and Saskatchewan Wheat Pool delegate.

Ian McCreary
(District 6)
Runs a mixed family farm near Bladworth, Saskatchewan. Holds a Masters degree in agricultural economics. Former CWB marketing manager and policy analyst.

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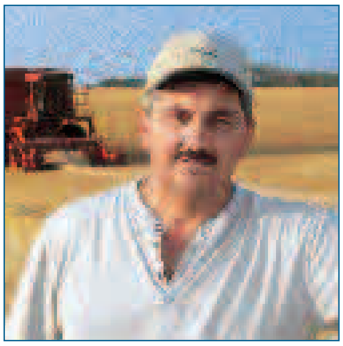
Betty-Ann Heggie
(appointed)
Senior vice-president of the Potash Corporation of Saskatchewan, the world's largest fertilizer company. Has extensive experience with investor relations and international commodity marketing.



Micheal Halyk
(District 7)
Operates a grain, oilseed, pulse, alfalfa, seed and livestock operation near Melville, Saskatchewan. Involved in numerous agricultural policy groups, former CWB Advisory Committee member.

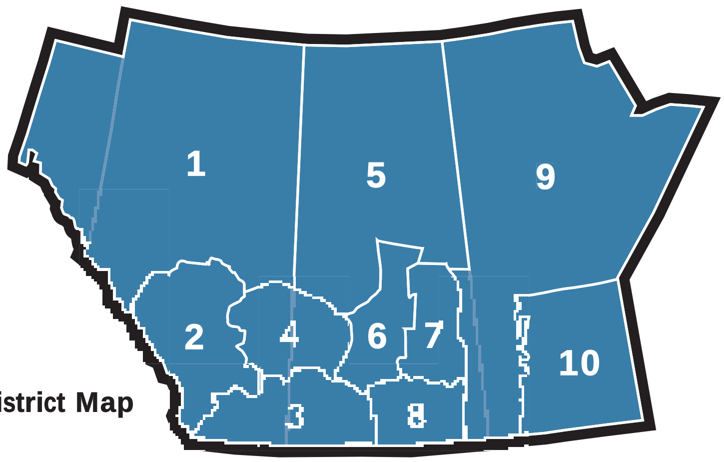
Rod Flaman
(District 8)
Operates a farm near Edenwold, Saskatchewan which has diversified into horticulture of berries and asparagus. A member of the Western Canadian Wheat Growers' Association.

David A. Hilton
(appointed)
A former senior vice-president of international banking for the Bank of Nova Scotia, with expertise in international finance, aid, development and trade. Born and raised in Alberta.

Bill Nicholson (District 9)
Operates a grain farm near Shoal Lake, Manitoba. Served on the former CWB Advisory Committee, was a Manitoba Pool delegate and worked as an engineer in the farm machinery industry.

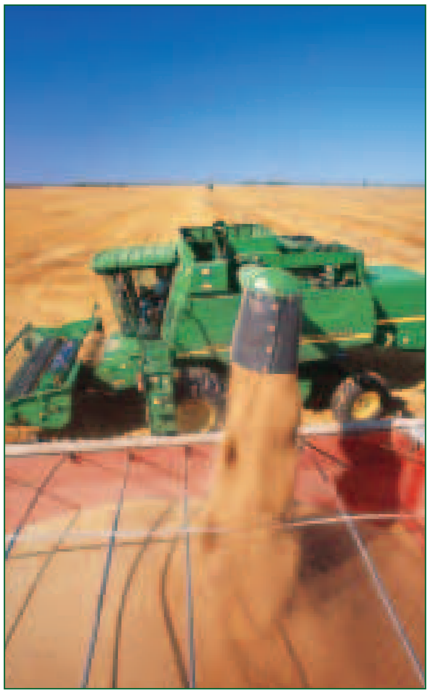
Wilfred (Butch) Harder
(District 10)
Operates farms near Lowe Farm and Headingley, Manitoba. A former CWB Advisory Committee member and director with Manitoba Pool and the Canadian Co-operative Association.

Ross L. Keith (appointed)
President of the Nicor Group property development company and a former partner in the Regina law firm of MacLean-Keith. President of a third-generation family farming operation in southern Saskatchewan.



District Map

From the land



The job of the CWB is to maximize returns to farmers. It's our only job. Whether we're marketing durum in Algeria, negotiating with grain companies in Saskatchewan or discussing trade policy in Ottawa, our goal is always the same.

In 2000-01, two years after the creation of a new farmer-controlled Board of Directors, the CWB established a key new department called Farmer Relations. Its job is to improve the direct business relationship between the CWB and the 85,000 wheat and barley farmers who run it. Farmer Relations will listen to farmers, advocate on their behalf, provide information and assistance, and work together on business-related activities.

It includes 18 Farm Business Representatives (FBRs), who work in the country directly with farmers, and a toll-free Business Centre with 25 telephone representatives who handled 187,000 calls during the past crop year. Work has begun towards an Internet e-business system so farmers can conduct some of their CWB business on-line for greater convenience and reduced costs.

Marketing choices

In response to farmer demands for pricing flexibility, the CWB introduced its first payment option program. These options give farmers the freedom and choice of the cash market without compromising the major competitive advantages of marketing grain under a single desk.

The fixed price and basis contract program enables farmers to lock in prices using their own assessment of the market. In 2000-01, more choices were offered. The new program was expanded to all grades and classes of wheat and barley, a guaranteed delivery contract was offered for feed barley and a new early payment option was introduced for two wheat classes. For more information, please refer to page 28-29.

A farmer voice

The CWB worked hard during 2000-01 to advocate for farmers. In the crucial area of transportation reform, we successfully brought the views of farmers to the negotiating table. We ensured a strong farmer voice was heard on the controversial issue of genetically modified wheat and defended the Canadian grain marketing system against an American trade challenge. We urged the federal government to address crop loss caused by drought and floods and requested changes in tax rules and NISA contributions to assist farmers.

Listening to producers

To ensure farmer concerns are heard and understood, the CWB conducted surveys, assembled focus groups and held hundreds of face-to-face meetings with farmers. A program called FarmCall surveyed the views of 1,008 Saskatchewan farmers in 2001. In addition, a producer telephone survey was conducted which polled 1,320 Prairie farmers.

FBRs held 182 meetings on market outlook and producer pricing options. Four "Combine to Customer" meetings gave 114 farmer participants an opportunity to learn more about the grain industry. And four "Customer Connection" meetings saw farmers meet with end-use customers, while presenting technical information and market outlooks.

Helping add value

The strength of the Canadian milling and processing industry is growing. Last year, Canada's domestic industry was the CWB's top customer for wheat and malting barley. Per capita processing is greater in Canada than the U.S., while Canadian flour shipments to the U.S. have increased more than 800 per cent since 1991. Canada exports more wheat and durum products to the U.S. than it imports. Since 1998, 11 new facilities or expansions have occurred in the wheat and barley processing sectors, outstripping the growth rate of U.S. processing.

All this is happening within the CWB marketing environment, where transparent pricing is based on the North American market – without price incentives or discounts. This helps maximize returns to western Canadian farmers. Canadian processors benefit from CWB quality assurance, guaranteed supply and professional assistance. Last year, the CWB hired a market development value-added manager to help build on this success. An annual "Moving Up Market" conference is arranged by the CWB to help farmers learn specific techniques for adding value to their crops.

Organic marketing

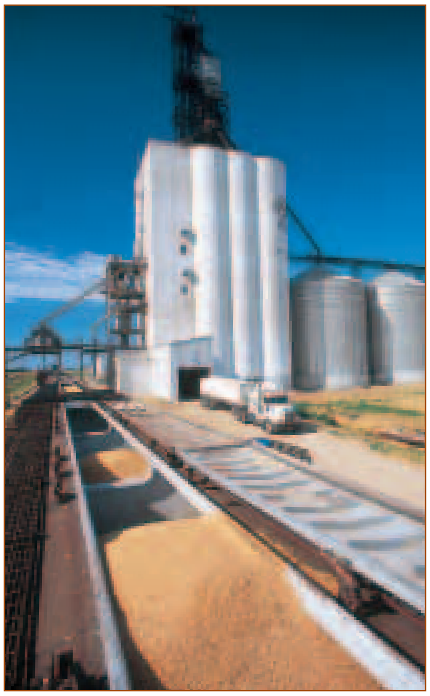
A new policy was developed for organic wheat and barley producers and an organic sales manager was put in place. As of March 1, 2001, organic farmers can call the CWB directly to make a Producer Direct Sale transaction and be eligible for a special credit program to help with up-front costs. Producers also retain the organic premium. This is another way the CWB is attempting to respond to farmer concerns without compromising the competitive advantages of the Prairie farmers' single desk. From the inception of the program in April 2001 to the end of July 2001, 30 organic producers sold 968 tonnes of wheat, durum and barley.

Earlier payments

The CWB is striving to provide payment to farmers as early as possible without exposing the pool accounts to financial risk. There have been significant improvements over the past decade in the proportion of total payment that farmers receive prior to final payment. For example, farmers received 97 per cent of their payment for No.1 Canada Western Red Spring Wheat by October in 1999-2000, compared to 93 per cent in 1997-98 and only 87 per cent in 1991-92. In 2000-01, 94 per cent of payment had been distributed to farmers in the wheat pool by the first week of July.

Earl Geddes runs the CWB's new Farmer Relations department. As a vice-president reporting directly to the CEO, he ensures a grassroots farmer perspective is brought to bear on all major CWB business decisions.

On track



Transportation is the vital link that ties together production and marketing activities at the CWB. With so much of Western Canada's production destined for distant markets, it is a constant challenge to find ways to move farmers' grain in a cost-efficient and timely manner. The 2000-01 crop year, in this sense, provided major opportunities for the CWB to help improve the system for farmers.

In negotiations

Going into negotiations with grain companies over a long-term handling and transportation agreement, the CWB had several key objectives. We wanted to maintain a voice for farmers within the transportation and handling system. We wanted recognition of the fact that transportation logistics cannot be separated from marketing activities. And most importantly, we wanted to develop a framework that would ensure there was meaningful competition for grain at the farm gate.

The CWB is confident these objectives have been achieved in the agreement that was reached at the end of the past crop year. Competition has been enhanced significantly through the implementation of a new rail car awards system that places more power and control in farmers' hands. As well, the new agreement has secured the participation of all grain companies in the tendering process. Finally, the Primary Elevators Handling Agreement that is part of the deal provides a stable business environment that will allow the CWB and grain companies to create greater efficiencies.

There is reason to be optimistic that this agreement will pay dividends to farmers in the future through reduced costs and greater system efficiency. Clear performance measures are now in place that will reward parties for living up to contractual agreements. Conversely, failure to perform by either the companies or the CWB will lead to the assessment of liquidated damages. The agreement, therefore, is really an important first step towards building a system that is commercially based. The CWB will continue to find ways of achieving efficiencies wherever possible.

Rail transportation

One area that will continue to command attention is the issue of rail transportation. The federal Transport Minister released the Canadian Transportation Act Review Panel's report in July of 2001, containing several recommendations on rail movement that the CWB views with concern. Efforts will be undertaken with other partners in the agricultural community to clearly put forth options and alternatives to the Transportation Minister that will better serve farmers' interests.

A transportation monitor was named by Ottawa in late June. The CWB will be working closely with the monitor to ensure that a thorough and factual evaluation of the transportation system's performance is completed. The cap on rail revenue – on which the Canadian Transportation Agency ruled in March 2001 – was supposed to generate savings of close to $6 per tonne for western Canadian farmers. These anticipated savings have failed to materialize. The CWB will continue to work to see that increased efficiencies in the transportation system flow back to farmers.

In particular, the CWB will continue to push for:

- retaining the limit on revenues earned by railways on grain movement;
- adoption of effective running rights legislation to allow carriers to compete for traffic on another railway's lines; and
- adoption of legislation outlining the processes to govern discontinuance of service to existing producer loading sites.

Moving farmers' grain

While advocating on farmers' behalf demanded a lot of attention in the 2000-01 crop year, the job of moving farmers' grain and achieving export targets was still our primary task. At the start of the past crop year, an objective of 18.2 million tonnes was set for the export program. That objective was effectively achieved with exports totaling 104 per cent of the target set at the start of the year.

Other transportation issues during the year included implementation of the Churchill Freight Advantage Rebate to tie freight savings more closely to actual grain shipments moved through Churchill. Also, agreements were reached with OmniTRAX (Churchill) and Mission Terminal (Thunder Bay) that specify the CWB tonnage to be handled, as well as related incentives or liquidated damages to ensure satisfactory performance.

Discussions began in earnest with a farmer group called West Central Road & Rail, which envisions a producer-car loading facility to enhance service and marketing options for farmers of the Saskatoon-Eston area.

From train to port

Total unloads of major Prairie grains at western Canadian port positions (number of rail cars).

	2000-01	1999-2000
Churchill	**7,552**	5,211
Thunder Bay	**76,288**	77,548
Vancouver	**161,108**	157,004
Prince Rupert	**26,658**	38,492
Grand total	**271,606**	278,255

Source: Canadian Grain Commission

Setting sail

At the port of Vancouver

The CWB markets wheat and barley grown by Canada's Prairie farmers to about 70 countries. Getting the best price for this grain is a complex task that demands the talent of skilled marketers and industry analysts. Our Sales and Marketing department includes specialists who speak 12 languages, arrange overseas sales missions and stay in close contact with hundreds of customers and potential buyers. Analysts are busy each day tracking international trends, weather and economic factors to maximize sales opportunities, while policy experts continually work to negotiate favorable trade conditions.

Our top customer last year was in our own backyard, a reflection of the growing strength of the Canadian value-added grain processing industry. In 2000-01, the Canadian flour industry purchased 2.3 million tonnes of western Canadian wheat, up almost 10 per cent from the previous year. Canada also took the largest share of last year's malting barley crop, with purchases of 1.2 million tonnes. Our top durum customer was Algeria, while Saudi Arabia bought the most feed barley. Our largest international wheat customers were Iran, Japan, Mexico and the United States.

The CWB's biggest competitive advantage in the international grain market derives from a strength in numbers. With all Prairie wheat and barley farmers selling through a single desk, the CWB has the power to compete at the same level as the world's largest grain traders.

Forging success

Strong marketing efforts resulted in significant successes during 2000-01. Almost 600 000 tonnes of malting barley was sold to Chinese customers, one of our best years in that market. Two-thirds of these sales were of newer (non-Harrington) varieties, now favored by western Canadian barley growers. The Chinese sales resulted from successful market development efforts in previous years, including a collaborative brewing research project in China at the Wuxi University Brewing school, funded by CWB.

In Egypt, the CWB sold substantial milling wheat tonnage for the first time since the late 1980s, with total shipments during the crop year exceeding 150 000 tonnes. Sales of high-quality durum to Morocco reached record levels, totaling 625 000 tonnes. The Moroccan market remains extremely quality conscious and has become our second-largest durum market. Hard work on a marketing program in the Philippines paid off with a 67 per cent increase in sales to 725 000 tonnes. In South Africa, a cargo of CWB two-row malting barley was sold for the first time in several years. This included the new variety, AC Metcalfe, and continued sales to South Africa are anticipated in coming years. The CWB also renewed and expanded a long-term supply agreement with our largest customer in Mexico.

Ensuring quality

The CWB is a key participant in a major project called Automated Quality Testing, which began work to "fingerprint" Canadian wheat and barley varieties using DNA-based tests. Results from this project are expected to address limitations with the current Kernel Visual Distinguishability system used in Canada to identify different-grain varieties.

The CWB is also an important stakeholder in the new Canadian Malting Barley Technical Centre (CMBTC), which opened in October 2001 in Winnipeg. Its mandate is to provide applied research, education and technical support for Canadian malting barley marketers, processors and their domestic and international customers. The CMBTC features a pilot malting plant and brewery run by expert staff.

Biotechnology issues

Several important CWB customers have expressed strong objections to food products containing genetically modified (GM) material. During the past crop year, this became a highly public issue after Monsanto announced development of GM wheat.

The CWB will not support the commercial introduction of GM wheat until there is a safe system for its segregation from conventional supplies. One of the most important services offered by the CWB to its overseas customers is an assurance of grain quality. As long as customers are unwilling to buy GM wheat, we must ensure proper segregation is in place to protect our excellent reputation for consistent and high-quality wheat.

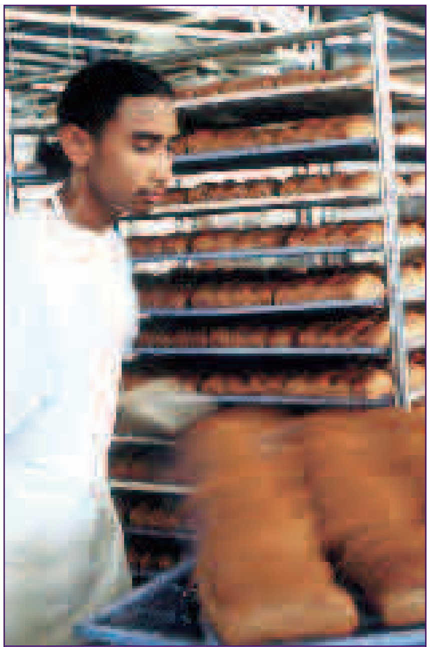
During 2000-01, CWB directors and staff held ongoing meetings with federal politicians and regulators to discuss our concerns about the negative impact GM wheat could have on export sales. The CWB added its voice to a group of 210 stakeholders, calling on Ottawa to halt approval of GM wheat until these concerns have been addressed. In the meantime, the CWB is participating in research of new detection technology to create safe segregation methods.

At the international table

The international trade policy environment has a direct impact on the ability of the CWB to maximize returns to Prairie farmers. The CWB has developed a comprehensive trade strategy which includes providing direction and support to Canada's negotiating teams on World Trade Organization (WTO) issues, export credit and food aid. A top priority is to promote better understanding about the CWB in the European Union, where it is essential to ensure market access. CWB representatives joined Canadian negotiators at the last WTO round in Qatar in November 2001.

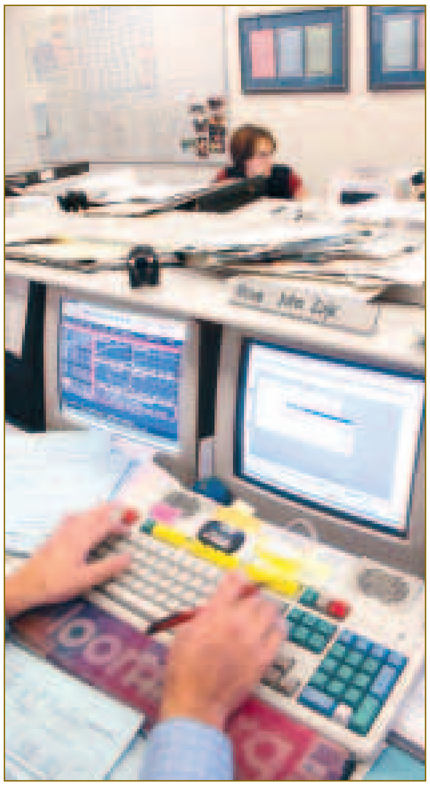
U.S trade challenges

CWB success in the world market has made us the target of repeated trade challenges from American groups who oppose the single-desk structure because of its inherent trade advantages. During the 2000-01 crop year, another U.S. trade challenge was launched – the ninth in the past decade. All eight previous challenges have resulted in decisions upholding the CWB's status as a fair trader. We expect the outcome of the current challenge, from a farmer advocacy group called the North Dakota Wheat Commission, to be no different. A determination is expected in February 2002.



A baking customer in Malaysia

Inside and ahead



A new corporate environment at the CWB means new emphasis on accountability and strategic planning. This was a focus of great activity in our Winnipeg headquarters during 2000-01. A significant accomplishment was the creation of a new framework for strategic and long-term directives under the direct guidance of our farmer-controlled Board of Directors. Much attention has been directed to performance measures, transparency and openness – not only among our senior management, but among all employees of the CWB.

Opening doors

At our invitation, 17 staff from the federal Office of the Auditor General examined all aspects of CWB operations. The results of this special audit are expected early in 2002. Valuable suggestions for improvement are expected and the CWB welcomes the opportunity to learn from these recommendations. The point of this exercise is not only to improve operations, but to demonstrate the CWB's openness and accountability to Prairie farmers.

An eye to the future

An intensive strategic planning effort over the past year has clarified the four foundations to CWB business: farmers, customers, mandate and employees. All future plans will be viewed within the structured context of these key focus areas, with a top priority on strengthening the CWB's connection with farmers. Specific goals and initiatives within these areas will also provide a firm basis for ongoing performance measurement.

CWB values

Along with framing our four strategic focus areas, all CWB staff were consulted in the process of creating a new set of core values for the organization. These values describe the sort of organization we wish to be, guiding the actions of every CWB staff member. In a world of change, it is important that our behavior be aligned to strategic statements, goals and initiatives. The most vibrant organizations today are those that consciously create cultures based on defined values. The final set of core values was approved late in 2001.

The information age

An important internal initiative during the past year was the launch of an Information Technology (IT) Renewal project. Technology is essential for managing the complex exchange of information that is central to the business of the modern CWB. The IT Renewal project is designed to ensure our systems are appropriate and up-to-date, supported by the proper staff skills and directed by the core business needs of the organization.

It is important to ensure that the investment of farmers' money into the necessary computer infrastructure continues to be conducted wisely. A new Vice President of Information Technology was hired in September 2001 to continue leading the department into a "new era".

Our strength is our people

The CWB has a diverse and highly-skilled workforce that is crucial to our success. Over the past two years, special efforts have been made to consult employees on many aspects of our changing work environment. In February 2001, results of an employee survey were presented to staff and an action plan was developed in response.

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The CWB is also working on a broad scope plan for Human Resources that includes succession planning, training and change management. These initiatives are intended to help us move strongly forward to meet current and future corporate goals with confidence.

The CWB decided during the past year to revamp its employee pension plan. The new plan withdraws the CWB from the Public Service Superannuation Act to allow employees more flexibility and to give the CWB direct control over costs and administration of the pension plan.

What employees say

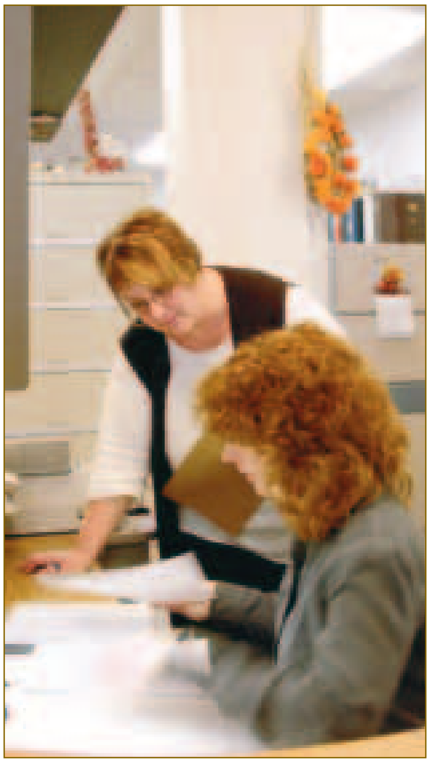
The following are some of the results of an employee survey conducted in September, 2000 to assess the organizational climate at the CWB and identify opportunities for improvement.

Strengths to build on:

- Overall level of satisfaction and commitment remained high, with 78% of respondents describing themselves as satisfied employees, while the majority were proud to work at the CWB. However, this response was 9% lower than in 1998.
- Respondents were generally confident in the direction of the CWB since the change in governance, with only 10% indicating a negative response.
- There were strong positive working relationships at the CWB.
- Respondents accepted that change will continue and 69% felt motivated to assist with change.
- Respondents understood how their work linked to business goals.

Priorities for action:

- A need was identified for greater teamwork among CWB leaders, with an emphasis on managing change.
- Internal communication was identified as an area for improvement.
- The Information Technology Services department was shown to require special attention in engaging employees as participants in review and renewal of their role.
- The workload of executive and management respondents was identified as a concern.
- There were compensation issues raised.



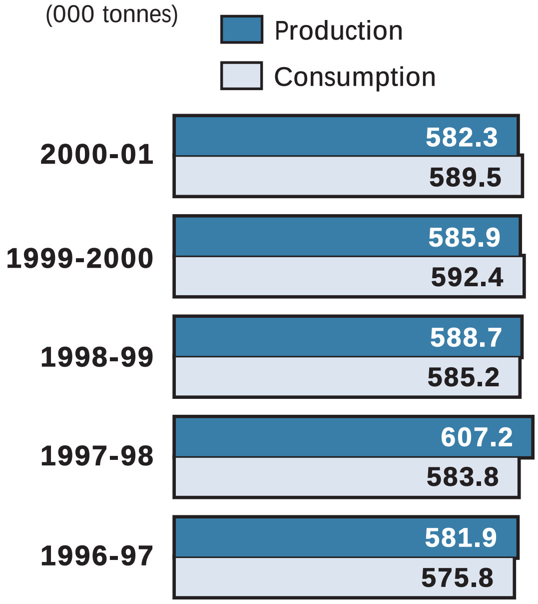
Management Discussion and Analysis

Working for farmer returns: Pool account performance

The 2000-01 crop year presented opportunities and obstacles. Tightening global supplies led to general improvement in wheat prices. Unfortunately, widespread harvest rains reduced the overall quality of a smaller Canadian wheat crop, making it difficult for many farmers to fully realize the price benefits. It also presented significant challenges in marketing the crop.

Global durum prices were stronger in 2000-01 than the previous year despite record Canadian supplies. Efforts were made to increase sales and expand market share to enhance farmer delivery opportunities without damaging global durum prices. This was a challenge that proved difficult in the wake of reduced import demand from other countries and strong competition from other exporters.

Global wheat supply and demand
(000 tonnes)



Source: United States Department of Agriculture

With a larger barley crop, supplies of feed barley increased, along with two-row and six-row malting barley. Feed barley supplies were secured under a new CWB guaranteed delivery program and were sold early in the crop year. Expanding market acceptance of relatively new two-row malting barley varieties proved successful, as did efforts to find new six-row markets to offset weak demand in the traditional markets.

Wheat, durum, feed barley and malting barley pool volumes were smaller than the previous year, which reduced total CWB sales revenue. However, the improvements in global prices partially offset the lower revenue caused by smaller volumes. As a result, the combined total sales revenue from the four pool accounts (wheat, durum, feed barley and designated barley) decreased by six per cent in 2000-01 to $4.2 billion dollars.* Total wheat, durum, feed barley and malting barley exports were 19 million tonnes, 104 per cent of our export forecast of 18.2 million tonnes, set in the fall of 2000.

Operating costs are divided into four components: direct costs; administrative expenses; grain industry organizations; and net interest earnings. An explanation of direct costs is included in the following discussion of each pool account. An explanation of the other three components can be found on pages 26-27. In addition, please refer to pages 45, 47 and 55 of the Financial Results.

*Note: the dates of the crop year differ from the dates of the pool account year. This may account for minor discrepancies between figures listed in the Annual Report narrative and the Financial Results.

The wheat pool

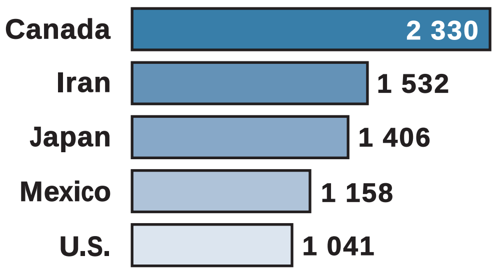
Wheat

	2000-2001	1999-2000
Tonnes	**13 960 639**	16 426 836
Average $ per tonne		
Revenue	**195.97**	183.68
Operating Costs		
Direct costs	**5.98**	4.54
Administrative expenses	**3.26**	2.70
Grain industry organizations	**0.08**	0.07
Net interest earnings	**(4.18)**	(3.27)
	5.14	4.04
Earnings for distribution	**190.83**	179.64

The crop

Early seeding was followed by cooler conditions in May and June. Heavy rainfall and normal temperatures followed in July and prevailed over much of the Prairie region. In southern Alberta, drought persisted throughout most of the growing season. Harvest started early in some parts of Manitoba as well as in southern Alberta. However, below-normal temperatures and high rainfall during most of September delayed harvesting in other regions. Common degrading factors of Canadian Western Red Spring (CWRS) wheat included sprouting, frost, green immature kernels, fusarium damage, mildew and bleached kernels.

Largest volume wheat customers
(000 tonnes) 2000-01



Sprout levels were much higher than normal and resulted in a significant portion of the crop being downgraded. Only 62 per cent of the CWRS wheat was graded No. 1 and No. 2, down from 65 per cent in 1999-2000 and from the five-year average of 71 per cent. Drought conditions in southern Alberta pushed overall average protein levels slightly higher than the previous year to 13.7 per cent – on par with the five-year average.

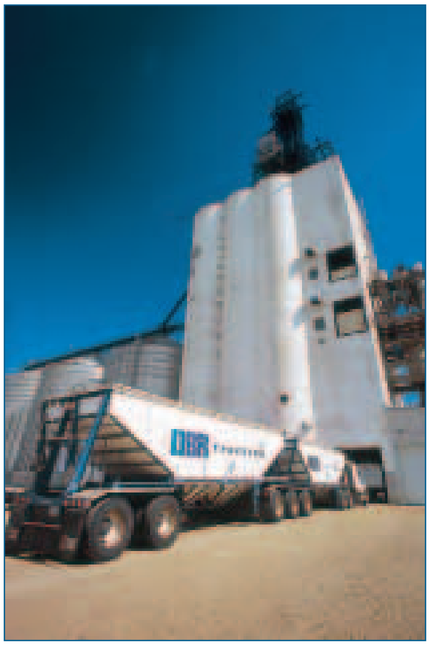
Western Canadian producers decreased their wheat acreage by about two per cent to 20.2 million acres in 2000-01. With reduced yields across southern Alberta and into western parts of Saskatchewan, wheat production fell to 19.5 million tonnes in 2000. This represents a decline of more than seven per cent relative to 1999, and two per cent relative to the five-year average.

The marketing environment

For the first time since 1995-96, global wheat prices started to recover. The prospect of tighter wheat stocks in the U.S. led this partial recovery in prices, supported by shrinking global wheat

The wheat pool

The wheat pool



stocks, quality concerns in Canada and the European Union (EU), and a smaller crop in Australia. U.S. stocks, tightening for the first time since 1995-96, combined with unfavorable U.S. winter wheat planting conditions in the fall of 2000 to push world wheat prices higher. Gains were limited, however, in the face of several factors:

- near-record stocks being carried over from the previous year in major exporting countries;
- the introduction of new export competition from India and Pakistan;
- a near record U.S. corn crop; and
- weaker world import demand.

The strategy

As with every year, marketing choices in 2000-01 were based on the expected relative returns to the pool accounts. There were smaller carry-in stocks of high-grade milling wheat coming into the crop year and a significant portion of the new crop deliveries fell into the lower grades. That meant supplies of high-grade, high-protein wheat were considerably tighter than the previous year. Efforts were focused on identifying and preserving these grades in the system to meet the requirements of high-return markets throughout the crop year.

More competitive freight rates negotiated with the railways for shipments to the U.S. improved returns in this market relative to other offshore destinations. These lower rates, combined with a high degree of consistency in meeting customer specifications through the CWB's "Quality First" program helped expand our customer base in the U.S. and improve returns to farmers. Nearly all business to the U.S. is now directly contracted by the CWB.

These rail freight-rate improvements also improved relative returns from Latin American and Caribbean customers. New alliances and continuing efficiencies among Canadian, U.S. and Mexican railways have made the movement of grain by rail to the U.S. Gulf ports and Mexico more economically viable for the CWB. With these improved returns relative to other destinations, the CWB capitalized on this new opportunity by doubling direct rail shipments to customers in Mexico and to Gulf of Mexico ports.

In the past year, there were large supplies of wheat with low Falling Number (FN), characteristic associated with sprout damage that is undesirable for making bread. This presented a considerable threat to our reputation as a quality supplier – a problem that was not apparent in the new crop harvest sample survey. Given the difficulties inherent in visually distinguishing wheat with low FN in an efficient and economical way, identifying and segregating good quality grain was a real challenge.

To remedy the problem, the CWB worked with the Canadian Grain Commission and other industry players to develop a method for visually screening unloads at port for sprout damage. Requests were also made of the Western Grain Standards Committee to tighten grade specifications for sprouted wheat in the No. 2 and No. 3 grades of CWRS, beginning in the 2001-02 crop year. Once the sprouted grain was isolated, the CWB undertook an aggressive campaign to ensure FN sensitive customers received only sound quality. The sprout-damaged grain was marketed as quickly as possible to other destinations. However, because of the large quantities, this campaign was carried into the 2001-02 crop year.

The deliveries

Delivery opportunities for farmers were evenly distributed throughout the crop year, as importers showed little desire to increase inventory levels beyond short-term requirements. About 40 per cent of the wheat signed up under contract was called into the system by December 31, 2001, which was similar to the previous crop year. Farmers delivered about 14 million tonnes to the pool, a decline of 15 per cent relative to the previous year. All tonnage signed up under the A, B, C and D series contracts was accepted by the CWB.

The results

Canada was the CWB's largest volume wheat market, purchasing just over 2.3 million tonnes – an increase over the 2.2 million tonnes purchased the previous year. Total exports (including products) for the 2000-01 crop year fell about 1.3 million tonnes in 2000-01 to 12.9 million tonnes, due to weaker global demand and a smaller exportable surplus.

Exports amounted to 110 per cent of the export forecast of 11.7 million tonnes, set in the fall of 2000.

Export shipments to Iran fell almost 1.8 million tonnes from the previous year to just over 1.5 million tonnes, but Iran maintained its place as the CWB's largest export market by volume. Iran, Japan, U.S. and Mexico accounted for approximately 40 per cent of the CWB exports in 2000-01, compared to 46 per cent in 1999-2000.

Revenue generated on wheat sales totaled over $2.7 billion, a decrease of $281 million relative to 1999-2000, or a decline of nine per cent. This was due to a smaller pool size and lower overall grade pattern relative to the previous year. However, with the improvement in global wheat prices, revenue averaged $196 per tonne, up seven per cent from the previous year's average, but still lower than the five-year average of $215 per tonne.

Direct costs

Direct costs increased $1.44 to $5.98 per tonne, primarily due to increases in demurrage and freight costs.

An aggressive sales campaign during the fall of 2000, weather delays in the Rockies and issues related to a new railcar allocation program introduced by the railways combined to drive up net demurrage costs to 36 cents per tonne from a net despatch or revenue position of 28 cents for 1999-2000.

Inadequate supplies of higher protein wheat in the western catchment area made it necessary to draw stocks out of the east to meet higher protein sales opportunities shipping from the west coast. As a result, additional freight to terminals increased by $4.5 million in total or 50 cents per tonne.

The increase in net eastern movement costs to a net cost of six cents per tonne related solely to a decrease in the Freight Adjustment Factor (FAF) recovery of $3 million to $42.9 million. The decrease was consistent with the decline in wheat in the eastern and U.S. catchment areas. The cost of moving wheat into eastern export position remained unchanged at $43.6 million in total.

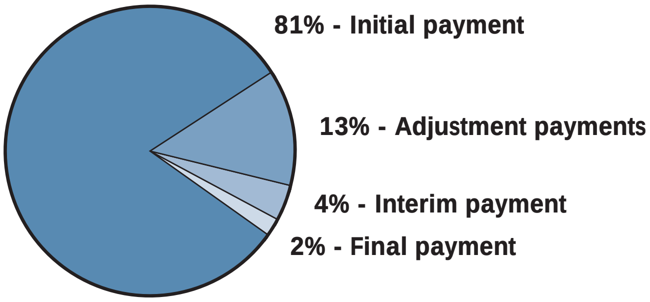
The combined costs of country and terminal inventory carrying charges remained consistent at $3.84 per tonne.

Distribution of earnings

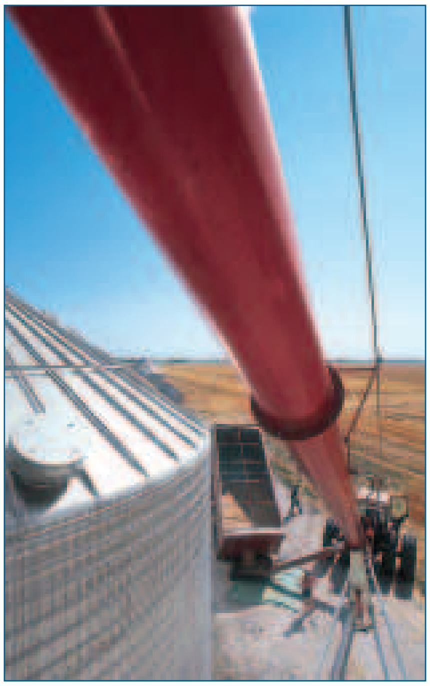
The sales proceeds available for distribution, averaging $190.83, was down slightly from the prior year to 97 per cent of revenue. Of the amounts returned to pool participants, 94 per cent was distributed by the first week of July 2001 in the form of initial and adjustment payments.

Due to the introduction of producer payment options in 2000-01, which constitute a non-pool participating program, a portion of the earnings available for distribution was not returned directly to farmers. Just under $4.2 million, representing the pool return on the specific grades of wheat delivered to the wheat pool under the Fixed Price Contract/Basis Price Contract (FPC/BPC) program, was paid to the producer payment option program. (See page 28).

Earnings distributed to farmers (wheat) 2000-01



The durum pool



Durum

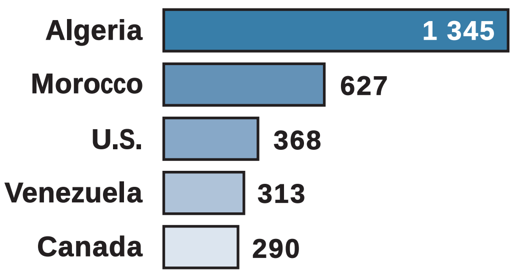
	2000-2001	1999-2000
Tonnes	3 665 343	3 975 734
Average $ per tonne		
Revenue	**264.61**	224.48
Operating Costs		
Direct costs	**22.84**	20.46
Administrative expenses	**3.26**	2.70
Grain industry organizations	**0.08**	0.07
Net interest earnings	**(2.21)**	(1.91)
	23.97	21.32
Earnings for distribution	**240.64**	203.16

The crop

Dry conditions in southern Alberta pushed average protein for all grades of Canada Western Amber Durum (CWAD) to 12.6 per cent. This was significantly higher than the 11.9 per cent average in 1999-2000 and the five-year average of 12.2 per cent. The overall grade pattern of the durum crop was lower than the previous year, with only 52 per cent grading No. 1 and No. 2 CWAD, lower than the five-year average of 66 per cent. Common degrading factors included vitreous kernel content, midge damage, smudge, mildew and fusarium. Harvest rains also resulted in significant quantities of sprout-damaged durum.

Strong durum prices in the previous year prompted a 48-per-cent increase in seeded durum acreage to 6.5 million acres. Although yields declined, production grew to 5.6 million tonnes – an increase of about 1.3 million tonnes over the previous year and almost 900 000 tonnes above the five-year average. When combined with 1.8 million tonnes carried over from the previous year, western Canadian durum supplies were pushed to a record high of 7.4 million tonnes. With world trade estimated at only 6.2 million tonnes, CWB acceptance of contracted sign-up was limited.

Largest volume durum customers
(000 tonnes) 2000-01



The marketing environment

Larger Canadian durum acreage in 2000 and an increase in harvested area in the U.S. pushed North American durum supplies above 1999-2000 levels. The EU also produced more durum. However, harvest rains in North America and Europe limited global availability of high-grade, high-protein milling durum supplies. While drought in North Africa reduced production and strengthened import demand in this region, reduced demand in the U.S. and the EU offset these gains. Despite increased Canadian supplies, strong export competition and weaker world import demand, both mid- and high-grade durum prices (which had fallen in anticipation of a good volume and quality North American crop) more than recovered during the fall of 2000, surpassing those of the previous year.

The strategy

The CWB seeks to strike a balance between capturing all appropriate sales opportunities while obtaining reasonable prices. While customers were generally willing to pay well for top-quality supplies, demand for high- and medium-quality durum was relatively fixed. In 2000-01, global supply vastly outstripped demand. Canadian durum supplies alone exceeded the worldwide durum trade. Had it not been for a disastrous U.S. harvest that produced the lowest quality crop in history, higher-quality durum values and deliveries would have been much more depressed.

The deliveries

Because of large Canadian supplies and relatively fixed demand, durum delivery opportunities for producers were limited. Total farmer deliveries to the pool account decreased almost 310 000 tonnes to 3.7 million tonnes. The CWB accepted about three-quarters of the durum supplies for delivery during the 2000-01 crop year.

The results

With reduced global import demand and stiff competition, overall exports of Canadian durum fell by about 100 000 tonnes from the previous year to approximately 3.5 million tonnes. This represented 100 per cent of the CWB export forecast. Even with a slightly smaller export program, the CWB remained the top exporter of durum in the world with 55-per-cent market share in the global bulk durum trade, compared to 57 per cent the previous year. This was partly due to a slower Algerian import pace late in the crop year. However, Algeria imported more than 1.3 million tonnes of durum in 2000-01, accounting for 39 per cent of total Canadian exports. The CWB maintained about two-thirds of the Algerian market.

Expansion opportunities into major durum markets were limited, considering that Canada already accounted for 85 to 100 per cent of durum imports by Morocco, Venezuela, Chile and Peru. Exports to Italy fell in the wake of stiff competition from the U.S., Turkey and Australia. Exports to Morocco, our second-biggest customer, were up 33 per cent over the previous year to just over 600 000 tonnes. Algeria, the U.S., Venezuela and Morocco accounted for 77 per cent of CWB exports, compared to 73 per cent in 1999-2000. Canada retained its place as the CWB's fifth largest durum customer, taking just under 300 000 tonnes.

Revenue generated on durum sales totaled almost $1 billion, an increase of $77 million relative to 1999-2000, or an increase of nine per cent. This occurred in spite of a smaller pool size and a below-average grade pattern. Revenue averaged $265 per tonne – up 18 per cent from the previous year due to the strength of global durum prices, and above the five-year average of $255 per tonne.

Direct costs

Direct costs increased $2.39 to $22.84 per tonne, primarily due to increases in country carrying charges and freight costs. Large carry-over stocks, increased production and a slower sales pace combined to reduce inventory turnover in the country and increase the average volume of stocks-on-hand throughout the year. This resulted in a 24-per-cent increase in country carrying charges or 87 cents per tonne.

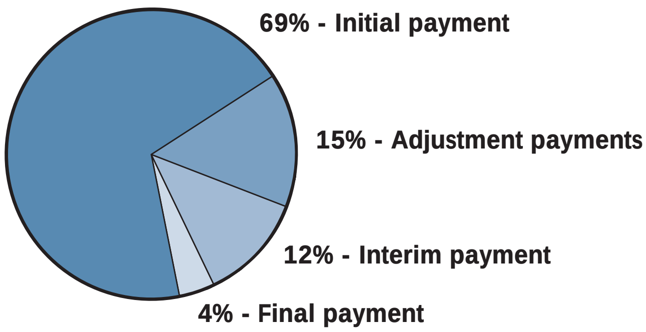
Inadequate supplies of high-quality durum in the east made it necessary to draw stocks out of Alberta and Saskatchewan to meet East Coast sales opportunities. The result was a substantially higher level of cross hauling compared to 1999-2000, resulting in an increase to adverse freight of $2.6 million in total or 75 cents per tonne.

A greater volume of durum moving through the East Coast and a significant decrease in the Thunder Bay FAF recovery rate combined to increase eastern movement costs by 60 cents to $15.16 per tonne. A freight-rate increase on August 1, 2001, compared to a rate decrease at the same time the previous year, resulted in a 23 cent per-tonne variation to a net cost of 10 cents per tonne for freight incurred from freight-rate changes.

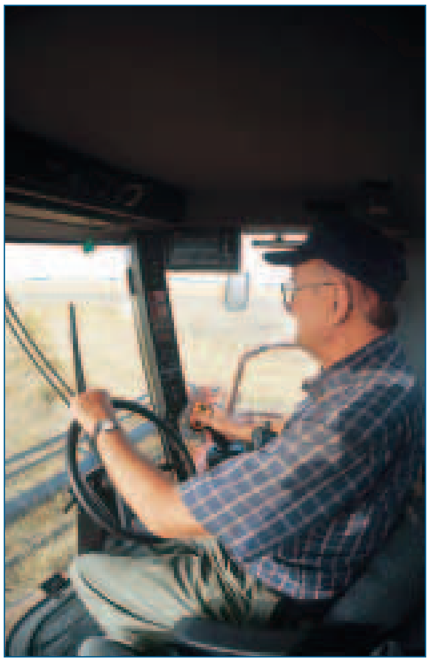
Earnings distributed to producers

The percentage of sales proceeds returned to producers remained consistent with the previous year at 91 per cent of revenue. Of the amount distributed to farmers, 84 per cent had been distributed by the first week of July 2001 in the form of initial and adjustment payments. A significant proportion of durum receipts remained unsold late into the crop year, preventing an earlier distribution of proceeds.

Earnings distributed to farmers (durum) 2000-01



The feed barley pool



Barley

	2000-2001	1999-2000
Tonnes	454 073	671 703
Average $ per tonne		
Revenue	139.13	134.38
Operating Costs		
Direct costs	8.26	4.62
Administrative expenses	3.32	2.70
Grain industry organizations	0.08	0.07
Net interest earnings	(14.11)	(7.90)
	(2.45)	(0.51)
Earnings for distribution	141.58	134.89

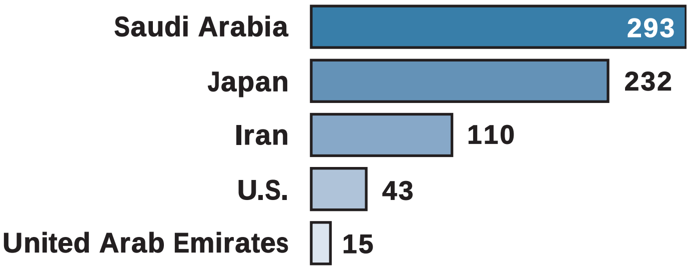
The crop

The area seeded to barley in Western Canada increased 17 per cent in 2000 from the previous year to 11.8 million acres. This increase in area was partially offset by a reduction in yields, particularly in Alberta where dry conditions prevailed throughout most of the growing season. As a result, western Canadian barley production climbed about 0.3 million tonnes higher than the previous year to a total of 12.6 million tonnes. The larger barley crop (approximately 35 per cent of which were feed and hulless varieties) combined with wet harvest conditions in some of the later-seeded areas to produce generally adequate feed barley supplies.

The marketing environment

The potential for feed barley export prices to improve was limited early in the year due to increased barley supplies in Canada, Australia and the U.S. In the EU, however, smaller supplies and increased domestic demand resulted in a sharp reduction in EU export volume, along with EU use of export subsidies. This helped global feed barley prices work their way higher through January before almost completely retreating to levels seen at the beginning of the year. Global barley trade in 2000-01 fell slightly compared to the previous year, as feed barley import demand generally weakened due to increased production in the Middle East.

Largest volume feed barley customers (000 tonnes) 2000-01



The strategy

In order to secure supplies early in the crop year, the CWB announced a new program called the Guaranteed Delivery Contract with Early Payment Option (GDCEPO) program. Faced with a slow EU export program that could have picked up at any time and the prospect of a larger crop in Australia, sales were made early. This was designed to take advantage of relatively firm global

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prices and to move more barley early in the crop year to improve cash flow for producers. Early knowledge of our supply situation, due to a September sign-up deadline for farmers, allowed the CWB to capture stronger offshore values for a number of barley producers in relation to their domestic alternative.

The deliveries

The CWB accepted all feed barley contract tonnage signed up under the GDCEPO as well as 100 per cent of the tonnes signed up under the A, B, C and D series contracts. The feed barley delivered under the GDCEPO was moved prior to December 31, 2000. In total, farmer deliveries to the feed barley pool account decreased 218 000 tonnes over the previous year, to 454 000 tonnes, largely because of strong domestic prices late in the crop year which limited contract sign-up, particularly on the C and D series.

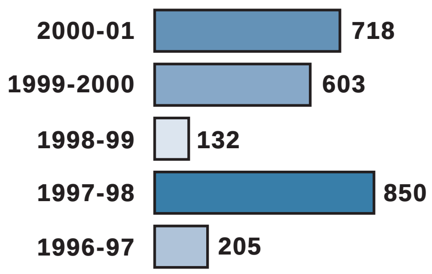
The results

Feed barley exports totaled 693 000 tonnes, up slightly from the previous year, and included both commercial carry-over and farmer deliveries. This total represented only 69 per cent of our forecast set in the fall of 2000. The target shortfall was due, in part, to a strong domestic market. Dry soil conditions, which continued to plague southern Alberta and southwestern Saskatchewan through the spring and summer of 2001, also played a role as producers held back barley supplies.

The CWB's largest-volume feed barley customer was Saudi Arabia, which purchased almost 300 000 tonnes – double the previous year. Japan was the second largest customer for feed barley, purchasing just over 230 000 tonnes. This was down from the 340 000 tonnes shipped the previous year, largely due to limited supplies in the last half of the crop year. Western Canadian feed barley was also exported to Iran, the United Arab Emirates and the U.S.

Revenue generated from feed barley sales totaled $63 million, down $27 million relative to 1999-2000. Improved prices did not make up for a smaller pool size compared to the previous year. Revenue averaged $139 per tonne, up four per cent from the previous year but lower than the five-year average of $153 per tonne.

Total Canadian feed barley exports (000 tonnes)



Direct costs

Direct costs increased $3.64 to $8.26 per tonne, primarily due to a significant increase in net demurrage costs.

A large portion of barley sales were executed during the fall, coinciding with rail shipment problems caused by a new railcar allocation program introduced by the railways. As a consequence, vessels were left waiting at port until adequate volumes arrived at terminal position, resulting in a substantial amount of net demurrage totaling $1.8 million or $3.88 per tonne.

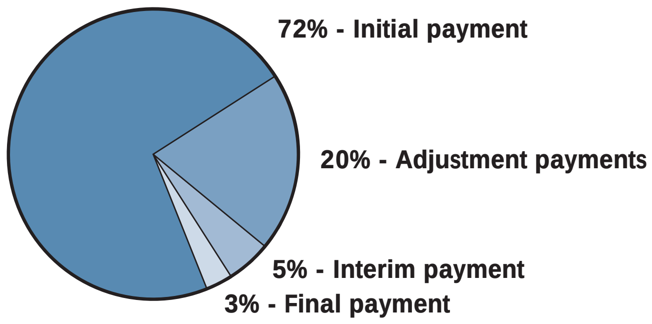
The combined results of inventory carrying charges for both the country and terminal remained consistent, showing a net increase of only five cents per tonne. Adverse freight costs declined to four cents per tonne due to the non-utilization of Prince Rupert for West Coast shipments.

Earnings distributed to producers

The barley pool returned $141.58 per tonne to producers, representing a return greater than 100 per cent of sales value. The majority of net interest earnings in the feed barley pool was earned from credit receivables, which do not fluctuate with pool size. 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 even exceed all other operating costs. For the 2000-01 crop year, net interest revenue exceeded the other operating costs by $2.45 per tonne.

Of the amount distributed to farmers, 92 per cent had been distributed by the first week of July 2001 in the form of initial and adjustment payments.

Earnings distributed to farmers (feed barley) 2000-01



The malting barley pool

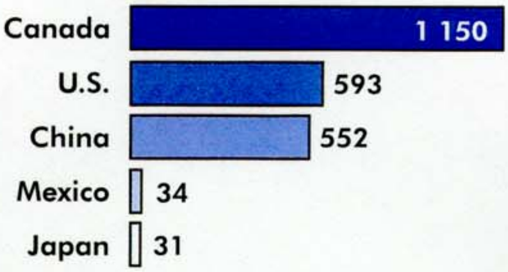
Designated Barley

	2000-2001	1999-2000
Tonnes	2 273 488	2 554 577
Average $ per tonne		
Revenue	**201.75**	188.85
Operating Costs		
Direct costs	**2.81**	2.11
Administrative expenses	**3.26**	2.70
Grain industry organizations	**0.11**	0.07
Net interest earnings	**(1.03)**	(1.72)
	5.15	3.16
Earnings for distribution	**196.60**	185.69

The crop

An estimated 65 per cent of the barley area in Western Canada was seeded to malting barley varieties in 2000. Of this, about two thirds was seeded to two-row malting barley varieties, with the other third seeded to six-row varieties. Despite a slightly larger barley crop, the dryness in southern Alberta limited selectable supplies of two-row, while the presence of fusarium in parts of Manitoba limited the selectable supplies of six-row malting barley. A larger percentage of the crop was downgraded due to staining, placing a larger portion of the selected supplies in the standard select grade.

Largest volume malting barley customers (000 tonnes) 2000-01



The marketing environment

Record malting barley import demand kept two-row malting barley prices fairly firm in 2000-01 despite significant global malting barley supplies. Increased exportable two-row malting barley supplies in the EU were absorbed by stronger demand in Eastern Europe, leaving larger exportable supplies from Canada and Australia to compete for near-record Chinese demand. Although the available U.S. six-row malting supply was limited by fusarium, the demand for Canadian six-row supplies remained fairly flat. U.S. six-row prices drifted sideways or lower as U.S. maltsters drew down stocks. On the other hand, U.S. demand for Canadian two-row malting barley was slightly higher due to a drought-reduced crop in Montana.

The strategy

With most two-row importers buying only enough to meet short-term requirements, sales were spread fairly evenly through the crop year. This was positive for returns as prices gradually improved over the course of the crop

The Canadian Malting Barley Technical Centre

The new Canadian Malting Barley Technical Centre (CMBTC) is designed to expand market share for western Canadian malt and malting barley.

The Canadian Wheat Board has been one of the main supporters of the CMBTC since the concept was first discussed, providing approximately $1 million for capital and start-up investment. The CWB's senior barley program manager, Michael Brophy, is chair of the CMBTC Board of Directors.

The CMBTC was legally incorporated in May 2000, and is located in the same Winnipeg building that houses the Canadian Grain Commission and the Canadian International Grains Institute. It includes a 100-kilogram pilot malting plant and three hectolitre pilot brewery. Domestic and international customers can use the services of the centre's skilled staff and technology. The CMBTC will also support development, commercialization and marketing of new Canadian malting barley varieties.

year. Significant efforts were also made in marketing new varieties such as AC Metcalfe, AC Kendall and CDC Stratus. With slow U.S. six-row demand, other marketing opportunities were pursued in order to increase six-row movement. These refocused efforts resulted in the first-ever sale of six-row malting barley to China.

The deliveries

While two-row deliveries were spread fairly evenly throughout the year, six-row did not move until later. In total, farmers' deliveries to the designated barley pool account decreased by about 281 000 tonnes over the previous year to 2.3 million tonnes.

The results

Total exports of malt (grain equivalent) and malting barley climbed about 50 000 tonnes over the previous year to 1.9 million tonnes. However, with weak U.S. demand for six-row malting barley, the CWB reached only 96 per cent of its export forecast set in the fall of 2000. The CWB's largest volume malting barley customer in 2000-01 was Canada, purchasing almost 1.2 million tonnes for both domestic and export malt sales – unchanged from the previous year. With strong two-row demand in the U.S., total exports to this country edged slightly higher, to just over 593 000 tonnes. The U.S. retained its spot as our largest export customer. China was our second largest export market in 2000-01, taking more than 550 000 tonnes, up 100 000 tonnes from 1999-2000.

Revenue generated on malting barley sales totaled $459 million, down $24 million relative to 1999-2000, or a decrease of five per cent. This was due to improved two-row prices, which largely offset a smaller pool size. Revenue totaled $202 per tonne, up seven per cent from 1999-2000 and slightly lower than the five-year average of $204 per tonne.

Direct costs

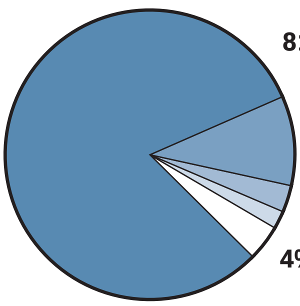
Direct costs increased 70 cents to $2.81 per tonne, primarily due to a 71 cent increase in country carrying charges. Country elevator financing showed a 32 cent per-tonne increase due to the inclusion in 1999-2000 of recovery of an over-payment of carrying charges. Slower inventory turnover in the country due to selection delays and dormancy problems resulted in a 42 cent increase in country storage costs.

During the previous crop year, the CWB had booked a liability for potential terminal storage costs related to a disputed shipment held at a third party facility. Upon settlement of the issue during 2000-01, the proportion of the storage charges accepted by the CWB was less than anticipated, resulting in a recovery and a net income balance of eight cents per tonne.

Earnings distributed to producers

The percentage of earnings returned to producers was down slightly to 97 per cent when compared with the previous year. Of the amount distributed to farmers, 91 per cent had been distributed by the first week of July 2001 in the form of initial and adjustment payments.

Earnings distributed to farmers
(malting barley) 2000-01



Operating costs

The four components of operating costs are direct costs, administrative expenses, grain industry organizations and net interest earnings.

Direct costs

Direct costs have been explained in each pool account discussion. See also pages 38-42 of the Financial Results.

Administrative expenses

Administrative expenses for the 2000-01 crop year were budgeted at $65.95 million, representing a three per cent increase over the prior year's actual expense. Actual expenses for the current year totaled $65.89 million, falling just short of the budgeted amount. See page 45 of the Financial Results.

The increase in administrative expense can be attributed to:

- An increase in human resource costs due to a mandated change to accounting policies for post-employment benefits and an imposed increase in the employer contribution rate for the PSSA pension plan;
- A major financial systems upgrade;
- External consulting requirements surrounding a review of the PSSA plan, transportation issues and internal information technology delivery methods;
- The introduction of a program to solicit accurate farmer views (FarmCall); and
- Expenses related to Director elections.

These increases were offset by savings from a decreased usage of computer contractors and a reduction of depreciation expenses resulting from the deferral of several major projects. In addition, one-time reorganization expenses were incurred in 1999-2000. These were related primarily to implementation of an early retirement program. Also of note, costs associated with the trade challenge launched by the North Dakota Wheat Commission carried over into 2000-01. A determination on this challenge is expected in February 2002.

With the exception of a small amount of pool related costs charged directly to a specific pool, administrative expenses are allocated to the pools based on their respective receipt tonnes. Incremental costs associated with producer payment option programs are charged directly to the related program and are excluded from the amount allocated to the pools. See note 18, page 55.

Grain industry organizations

The CWB has continued to provide support for organizations that benefit, both directly and indirectly, the western Canadian grain farmer. During 2000-01, the CWB contributed $1.57 million to the Canadian International Grains Institute (CIGI) and $85,000 to the Canadian Malting Barley Technical Centre (CMBTC).

CIGI is a non-profit facility dedicated to providing educational programs and technical activities in support of market development and promotion of world markets for Canada's grains, oilseeds and special crops. CIGI operates in affiliation with the CWB, the Canadian Grain Commission and Agriculture & Agri-Food Canada. The CWB's contribution represents 40 per cent of CIGI's eligible operating costs. The CMBTC is a new organization established in 2001 to promote Canadian malting barley with the objective of increasing sales opportunities for its members. The CWB's ongoing support consists primarily of our annual membership fee.

Net interest earnings

Net interest earnings which were more than $75 million in 2000-01, arise primarily from financing credit grain sales. When the CWB sells grain on credit, the CWB must borrow an equal amount to facilitate payments to farmers and conduct ongoing operations. With the CWB's borrowing power, it is able to borrow at a lower rate of interest than the rate extended to the credit customer. As a result, the CWB benefits from this "spread" in interest rates, in the form of excess interest revenue over interest expense.

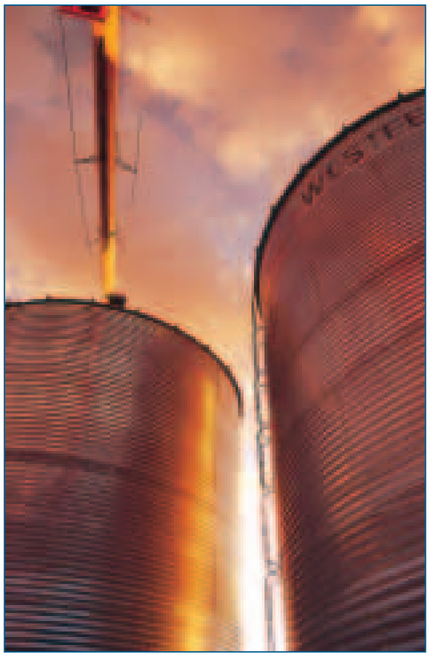
During periods of falling interest rates, as was the case during 2000-01, the interest spread will tend to widen, resulting in increased interest earnings. This is because credit receivables are typically longer in term and can be locked in at comparatively higher rates. In contrast, borrowings typically have shorter terms and are refinanced at the lower rates.

Other interest unrelated to credit sales includes interest earned on the cash balances that build up in the pool accounts during the crop year, interest earned on delayed receipts of sales proceeds on non-credit sales and costs such as financing and bank charges. Declining interest rates and smaller pool sizes are primary reasons for the decrease in net interest for this category.

	2000-2001	1999-2000
Net interest income on:		
Credit sales	**$ 70,502,008**	$ 61,293,145
Pool accounts & other	**4,718,194**	9,679,195
Total Net Interest	**$ 75,220,202**	$ 70,972,340

Net interest earnings go directly into the pool accounts and are paid as part of the distributions to producers.

Greater pricing flexibility: Producer Payment O



During the 2000-01 crop year, a fundamental change occurred in the way the CWB conducts business with farmers who want choice in the way they price and receive payment for their grain.

Responding to farmer concerns, the CWB introduced two producer payment option programs – the Fixed Price Contract/Basis Price Contract (FPC/BPC) and the Guaranteed Delivery Contract with Early Payment Option (GDCEPO). These provide farmers with greater pricing flexibility and ability to manage their cash flow, while still allowing the CWB to retain the principles of single-desk marketing and price pooling.

Research conducted during 1999 indicated farmers wanted flexibility over payment timing and pricing, with two out of three farmers expressing interest in such programs. The arrival of CWB payment options, however, does not signal the abandonment of price pooling. At this time, a majority of farmers still wish to receive payments under the current system.

In any case, the clear message was that any new program must operate separately and independently from the pool accounts. This is, and will continue to be, a significant element in the design of all such programs. Further, a contingency fund has been established to underwrite the programs to ensure that program operating gains or losses will not impact the pool accounts. Program enrolment is expected to fluctuate widely from year to year, depending on factors like crop size, market conditions, prices and farmer confidence.

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

A FPC/BPC pilot program was introduced for the 2000-01 crop year for Canada Western Red Spring (CWRS) wheat only. The program provided farmers the option to lock in a price for a specified number of tonnes prior to the start of the crop year in one of two ways: by choosing a fixed price contract and basing it on the CWB Pool Return Outlook (PRO); or choosing a basis price contract that uses the Minneapolis futures market.

During 2000-01, farmers delivered 21 138 tonnes under the FPC/BPC program and received $4 million, or an average of $190.51 per tonne, under contracted arrangements (see page 43 of the Financial Statements). Once the tonnes are delivered to the CWB for selling purposes, there is no segregation between deliveries made as a pool participant or those made under the FPC/BPC program. Because the farmer has opted out of the pool in this program, all pool returns (initial, adjustment, interim and final payments) that otherwise would have been paid to the farmer under the pool scenario for the specific grades delivered, are instead paid to the program.

During 2000-01, this amounted to just under $4.2 million, or an average of $196.95 per tonne.

It should be noted that the grade mix delivered to the CWB under the FPC/BPC program is different than the overall grade mix delivered to the wheat pool as a whole. Therefore, while all of the tonnes delivered to the wheat pool (including those delivered under FPC/BPC) show an average

Producer Payment Options

return after operating costs of $190.83, the specific tonnes delivered under the program averaged $196.95 (see page 43 of the Financial Statements).

With other program revenues, including hedging gains, liquidated damages and program expenses (including interest and administrative expenses), the program showed a surplus of $127,163. The surplus was transferred to the contingency fund at year end (see Financial Statement Note 14, page 52).

Guaranteed Delivery Contract (GDC) with Early Payment Option (EPO)

For 2000-01, the GDCEPO program was introduced for barley. This provided the farmer with a guaranteed delivery opportunity and the additional option of receiving immediate payment, upon delivery, of 90 per cent of the PRO, less a discount. Because farmers do not opt out of the pool under this program, they are still eligible to receive all future pool payments that exceed the non-discounted value selected above.

Of the 282 000 tonnes delivered under the program during 2000-01, 191 253 tonnes were designated as EPO (see page 43 of the Financial Statements). The EPO discount charged to farmers, for non-delivery risk and the time value of money, averaged $2.08 per tonne for a total of $398,487. With liquidated damages charged for non-delivery and program expenses, including hedging losses and interest, the program showed a surplus of $217,960. The surplus was transferred to the contingency fund at year end (see Financial Statement Note 14).

Program	Sign-in for 2000-01 crop year	Program characteristics
Fixed price contracts	86 contracts from 76 farmers (7397 tonnes)	Full payment provides earlier cash flow. Farmer not eligible for other pool account payments.
Basis price contracts	129 contracts from 115 farmers (22 345 tonnes)	Opportunity to participate in Minneapolis futures market. Rollover option available. Farmer not eligible for other pool account payments.
GDC for feed barley	2,286 contracts from 2,004 farmers (296 626 tonnes)	Farmer can choose between early payment value and regular pool payment method. Farmers remain in the pool account.

Credit sales

Credit sales during the year

In thousands	**2000-2001 Sales**	% of Total Sales	1999-2000 Sales	% of Total Sales
Credit sales				
Credit Grain Sales Program	**$ 222,463**	5.2	$ 371,671	8.3
Agri-food Credit Facility	**159,431**	3.8	145,868	3.2
Other	**139,184**	3.3	185,798	4.1
Total credit sales	**521,078**	12.3	703,337	15.6
Total sales	**$ 4,227,675**	100.0	$ 4,482,438	100.0

Credit programs

To support the sale of western Canadian grain, the Government of Canada provides repayment guarantees. Acting within credit limits and terms approved by the federal government, the CWB works with individual customers and commercial banks on a case-by-case basis to structure credit facilities to meet customer needs. These credit arrangements can be an important factor in many foreign markets. During 2000-01, credit sales totaled $521.1 million, representing 12.3 per cent of total sales, compared to $703.3 million, or 15.6 per cent, of sales in the previous year.

The CWB uses the following programs to offer credit on commercial terms.

Credit Grain Sales Program

The Credit Grain Sales Program (CGSP) 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, 2001, $222.5 million of grain was sold under the CGSP program compared to $371.7 million the previous year.

The balance receivable at July 31, 2001 was $7.1 billion. Of this amount, $6 billion represented receivables for which payments of principal and interest had been rescheduled over periods ranging from five to 25 years under terms agreed to by the Government of Canada. Included in the rescheduled amount was $53.9 million to be paid to the CWB by the government of Canada under debt-reduction arrangements, where the Government had assumed certain amounts that otherwise would have been paid by the debtor government.

Overdue amounts of $828.1 million are due from Iraq, with payments for credit sales still outstanding at July 31, 2001. Iraq is not currently honoring its payment obligations because of United Nations sanctions.

Since the Government of Canada guarantees repayment of 100 per cent of the principal and interest of the CGSP receivables, the CWB makes no allowance for credit losses (see Note 3, page 47 for more information).

Agri-food Credit Facility

The Agri-food Credit Facility (ACF) allows the CWB to sell grain, either directly or through accredited exporters, on credit to commercial (non-government) customers around the world. The Government of Canada, together with the CWB, evaluates each transaction on an individual basis. During the year ended July 31, 2001, $159.4 million of grain was sold under the ACF program, compared to $145.9 million for the previous year.

The balance receivable at July 31, 2001 from sales made under this program to date was $85 million. The Government of Canada guarantees a declining percentage of the receivables under this program based on the repayment period, with the CWB assuming the residual risk that is not guaranteed. The portion of credit risk assumed by the CWB under this program at July 31, 2001 was $1.7 million. This is considered collectable, therefore there was no allowance for credit losses (see Note 3, page 47).

Other

From time to time, Canadian commercial banks participate in providing credit through the CWB under the above programs. In these cases, the CWB receives payment for the bank's portion of the credit transaction. The bank then assumes the risk of non-payment by the customer on their portion of the credit extended, without recourse to the CWB. During the year ended July 31, 2001, credit provided by banks under these arrangements totaled $139.2 million, compared to $185.8 million the previous year.

Summary

The CWB's accounts receivable from credit sales totaled $7,179 million for 2000-01 (see Note 3, page 47). Of this amount, $7,177 million was guaranteed by the Government of Canada and $1.7 million was credit risk assumed by the CWB.

Funding

The Canadian Wheat Board is committed to minimizing borrowing costs and maintaining access to money through exploring new borrowing opportunities, as well as expanding and diversifying its investor base.

Under the Canadian Wheat Board Act, and with the approval of the federal Minister of Finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

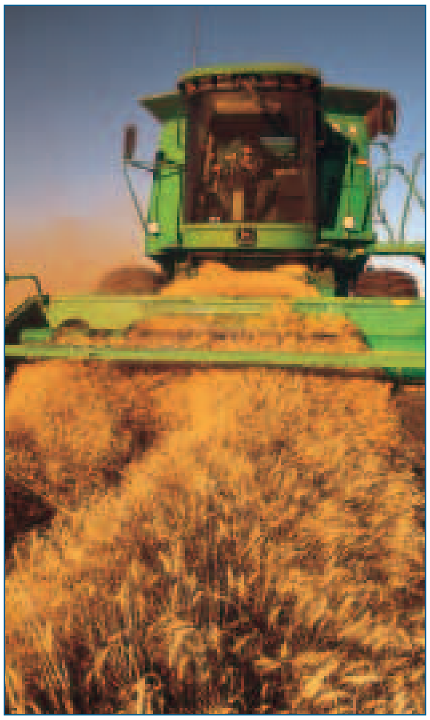
All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the Minister of Finance, resulting in the top credit ratings from Moody's Investor Service (Aa1 and P-1), Standard and Poor's Ratings Group (AAA, A1+ and AA+) and Dominion Bond Rating Service (AAA, R-1H and AAH).

The CWB borrows money to finance grain inventories, accounts receivable from credit sales, administrative and operating expenses and to administer the Government of Canada's advance payment programs. The CWB borrows in a variety of currencies, but eliminates currency risk by converting borrowings into either Canadian or U.S. dollars to match the assets being financed.

The CWB manages multiple debt portfolios totaling $7 billion to $8 billion Canadian. These include:

- Domestic Commercial Paper Program (the "Wheat Board Note" program);
- U.S. Commercial Paper Program;
- Euro Commercial Paper Program; and
- Euro Medium-Term Note Program.

Financial risk management



The CWB seeks to minimize risks related to the financial operations of the corporation. The CWB analyzes, manages, reports and controls exposures to financial risks and ensures 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 the areas of commodity price, foreign exchange and interest rates.

Commodity price risk

Commodity price risk is the risk of reduced revenue for the CWB resulting from adverse changes in commodity prices. Commodity price risk is inherent in the CWB's core business operations. The CWB uses exchange-traded futures and options to assist in pricing grain sales.

One of the CWB's major commodity risk management programs involves managing the price risk associated with customer basis contracts. The CWB manages the risk of an adverse movement in the price of grain between the time the grain is sold and when the customer prices by using regulated commodity exchanges. The CWB may also use futures contracts to price grain when there is insufficient opportunity to do so in the physical market. In addition, the CWB manages all commodity price risks as they relate to various pricing options offered to Prairie farmers.

Foreign exchange risk

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

To manage foreign exchange risk, the CWB hedges foreign currency sales values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. In addition, the CWB manages all foreign exchange risks as they relate to various pricing options offered to Prairie farmers.

Interest rate risk

Interest rate risk is the exposure to negative fluctuations in the CWB's net interest earnings from adverse changes in market interest rates. The CWB's interest rate risk arises from the mismatch in interest rate term and re-pricing dates on the CWB's interest earning assets and interest paying liabilities. The spread between the interest earning assets and interest paying liabilities results in net interest earnings, which are paid to farmers annually. These earnings are clearly noted in the annual financial results.

The CWB manages its interest rate risk to ensure interest earnings for the CWB's producers are maintained.

Credit risk

Credit risk is the risk of potential loss should a counterparty fail to meet its contractual obligations. The CWB is exposed to credit risk on non-guaranteed accounts receivable from credit sales, as well as credit risk on investments and derivative transactions used to manage the CWB's market risks.

nagement

Accounts receivable from credit sales
The CWB sells grain under two government-guaranteed export credit programs: the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). The CWB's accounts receivable from credit sales totaled $7,179 million in 2000-01. Of this amount, $7,177 million was guaranteed by the Government of Canada and $1.7 million was credit risk assumed by the CWB. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see the "Credit sales" section on page 30 and Note 3 on page 47.

Investments
The CWB uses investments for the purpose of cash management, adhering to requirements of the Canadian Wheat Board Act, the CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines. The CWB manages credit risk of investments by transacting only with highly rated counter parties.

Derivative transactions
The CWB signs master agreements in advance of over-the-counter derivative transactions to minimize credit risk, legal risk and settlement risk. The CWB transacts only with highly rated counter parties who meet the requirements of our financial risk management policies. These policies meet or exceed the Minister of Finance's credit policy guidelines.

The CWB manages its credit risk on futures contracts by dealing through exchanges where changes in market position are settled on a daily basis.

Liquidity risk
Liquidity risk is the risk that the CWB will be unable to meet its corporate obligations. In the normal course of operations, the CWB's diversified funding programs provide sufficient liquidity to meet daily cash requirements. The CWB may hold highly rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Sufficient lines of credit are also maintained with financial institutions to provide additional access to funds.

Operational risk
Operational risk is the CWB's risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. The CWB's operational risk management philosophy encourages an environment of effective operational risk discipline.

Operational risk management activities include segregation of duties, cross-training and professional development, disaster recovery planning, use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

Outlook

As the dynamics of the global agriculture environment evolve, the CWB will continue to look for ways to improve returns to growers. While the future is impossible to predict, it is clear there are several areas that will provide us with opportunities and challenges in the years to come.

In the short term, drought conditions through many parts of Alberta and Saskatchewan have hurt yields, resulting in sharply lower production of wheat, durum and barley for the 2001-02 crop year. A significant increase in high-grade, high-protein wheat supplies will mean changes to some of the CWB's traditional customer mix. The improved grade pattern, combined with steady-to-firmer prices, should help offset revenue reductions caused by lower production.

In the durum market, large stocks carried into the 2001-02 crop year were offset by sharply lower production. Smaller durum supplies should prove more positive for off-farm durum movement in the upcoming year. With prices expected to remain fairly strong, pool revenues should follow. A dramatic reduction in barley production has resulted in a very strong domestic feed market, which will limit export availability of feed barley. Although malting barley prices are expected to remain firm, lower production and a strong domestic feed market have limited supplies. With the smaller crop, sales revenue in 2001-02 is expected to be lower.

In the longer term, population growth and rising incomes worldwide will underpin increasing demand for high-quality grain. This will help ensure an outlet for western Canadian wheat, durum and barley in the coming years. Countries in Asia, the Middle East, Africa and Latin America are expected to experience the largest growth in population. Although the growth rate of gross domestic product in many countries is shrinking due to tough economic times, the demand for western Canadian grain is expected to remain strong in the long term.

Agricultural production increases will continue as a result of large levels of domestic support in the EU and the U.S., improving agronomic practices (particularly in developing countries) and the worldwide development of new, better yielding varieties. Minor exporters are becoming increasingly important in the global trade environment as their exportable supplies become more stable. The infrastructure for trade and agriculture continue to improve in countries such as Ukraine, Kazakhstan, Russia, Hungary, India and Pakistan. The CWB will continue to focus efforts on developing product value in existing and new high-return markets.

In the global trade environment, the World Trade Organization (WTO) agreed in November 2001 at Doha, Qatar to enter a new round of agricultural talks - for the first time since the Uruguay Round agreements reached in 1994. This new Doha Round will be critical in addressing domestic support levels, export subsidies, market promotion and market access issues. There is hope for the creation of a more level playing field for producers around the globe. The entry of China into the WTO in December 2001 bodes well for Canadian farmers due to Chinese emphasis on high-quality grain imports. On a contrary note, the influence of protectionist forces within the U.S. may well present ongoing challenges for the CWB.

As customers become more price-sensitive, quality-specific and service-oriented, CWB market development initiatives will play a crucial role. The CWB will continue to work with the rest of the Canadian grain industry in developing new varieties and new methods to maintain the quality and integrity of western Canadian products.

Forward-looking information

Certain forward-looking statements contained in this annual report are subject to risk and uncertainty because they rely on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed, including, but not limited to: weather; changes in government policy and regulations; world agricultural commodity prices and markets; changes in competitive forces; and global political/economic conditions, including grain subsidy actions of the U.S. and the EU.

Financial results

Management's responsibility for financial reporting

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 Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2000-01 pool accounts, producer payment options and the financial status of the Corporation at July 31, 2001.

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
November 23, 2001

Auditor's Report

Deloitte & Touche

To the Board of Directors of the Canadian Wheat Board:

We have audited the financial statements of the Canadian Wheat Board which consist of the balance sheet as at July 31, 2001 and the combined statement of operations and statement of distribution for the 2000-01 pool accounts, the statements of operations and the statements of distribution for the 2000-01 pool accounts for wheat, amber durum wheat and barley for the period August 1, 2000 to completion of operations on August 31, 2001 and for designated barley for the period August 1, 2000 to completion of operations on September 30, 2001, the statement of operations for wheat and barley producer payment options for the period August 1, 2000 to August 31, 2001, the statement of cash flow for the year ended July 31, 2001, and the statement of administrative expenses for the year ended July 31, 2001. 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 Canadian 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, 2001 and the results of its operations and cash flow for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

Winnipeg, Manitoba
November 23, 2001

Balance Sheet

Assets

As of July 31 (000's)	2001	2000
Accounts Receivable		
Credit programs (Note 3)	**$ 7,179,353**	$ 7,206,991
Non-credit sales	**25,872**	6,545
Advance payment programs (Note 4)	**447,048**	258,393
Other	**30,538**	58,459
	7,682,811	7,530,388
Inventory of Grain (Note 5)	**995,804**	1,182,227
Deferred and Prepaid Expenses (Note 6)	**21,209**	7,958
Capital Assets (Note 7)	**60,261**	68,349
Total Assets	**$ 8,760,085**	$ 8,788,922

Liabilities

Borrowings (Note 8)	**$ 7,644,976**	$ 7,264,209
Accounts Payable and Accrued Expenses (Note 9)	**138,887**	132,975
Liability to Agents (Note 10)	**594,219**	858,511
Liability to Producers – Outstanding Cheques	**32,132**	222,605
Liability to Producers – Undistributed Earnings (Note 11)	**341,476**	301,325
Provision for Producer Payment Expenses (Note 12)	**4,769**	5,960
Special Account (Note 13)	**3,281**	3,337
Contingency Fund (Note 14)	**345**	-
Total Liabilities	**$ 8,760,085**	$ 8,788,922

Combined Pool Accounts

Statement of Pool Operations *

Crop year (000's)	2000-2001	1999-2000
Receipts (tonnes)	*20 353 543*	*23 628 850*
Revenue (Note 17)	$ 4,227,674	$ 4,482,438
Operating Costs		
Direct costs		
Country elevator carrying charges		
- Financing	22,917	24,241
- Storage	43,074	43,125
Terminal storage	19,266	26,839
Net Demurrage (Despatch)	6,085	(5,811)
Additional freight		
- To terminals	25,023	18,097
- Movement to eastern export position	56,346	55,673
- Freight rate changes	995	(1,563)
Drying	318	395
CWB hopper cars	3,360	3,348
Total direct costs	177,384	164,344
Administrative expenses (Note 18)	66,435	63,771
Grain industry organizations	1,652	1,701
Net interest earnings	(75,220)	(70,972)
Total Operating Costs	170,251	158,844
Earnings for Distribution	$ 4,057,423	$ 4,323,594

* Excludes operation of producer payment option programs

Statement of Distribution

	2000-2001	1999-2000
Pool Accounts		
Receipts (tonnes)	*20 332 405*	*23 628 850*
Initial payments on delivery	$ 3,175,762	$ 3,519,525
Adjustment payments	520,447	490,402
Interim payment	233,949	148,757
Final payment	107,376	152,469
Producer contract storage payments	15,574	12,342
Rebate on producer cars	152	99
Earnings Distributed to Pool Participants	4,053,260	4,323,594
Non-Pool Producer Payment Option Programs		
Receipts (tonnes)	*21 138*	*-*
Pool returns paid to payment programs	$ 4,163	-
Total Distribution	$ 4,057,423	$ 4,323,594

Wheat Pool

Crop year (000's)	2000-01		1999-2000	
	Total	**Per Tonne**	Total	Per Tonne
Statement of Pool Operations *				
Receipts (tonnes)	***13 960 639***		*16 426 836*	
Revenue (Note 17)	**$ 2,735,936**	**$ 195.97**	$ 3,017,261	$ 183.68
Operating Costs				
Direct costs				
Country elevator carrying charges				
- Financing	**14,903**	**1.06**	16,568	1.01
- Storage	**26,679**	**1.91**	29,194	1.78
Terminal storage	**11,973**	**0.86**	17,257	1.05
Net Demurrage (Despatch)	**5,041**	**0.36**	(4,561)	(0.28)
Additional freight				
- To terminals	**20,951**	**1.50**	16,422	1.00
- Movement to eastern export position	**776**	**0.06**	(2,231)	(0.14)
- Freight rate changes	**613**	**0.04**	(774)	(0.05)
Drying	**278**	**0.02**	319	0.02
CWB hopper cars	**2,305**	**0.17**	2,328	0.14
Total direct costs	**83,519**	**5.98**	74,522	4.54
Administrative expenses (Note 18)	**45,545**	**3.26**	44,328	2.70
Grain industry organizations	**1,075**	**0.08**	1,183	0.07
Net interest earnings	**(58,340)**	**(4.18)**	(53,687)	(3.27)
Total Operating Costs	**71,799**	**5.14**	66,346	4.04
Earnings for Distribution	**$ 2,664,137**	**$ 190.83**	$ 2,950,915	$ 179.64

* Excludes operation of producer payment option programs

Statement of Distribution	2000-01 Total	2000-01 Per Tonne	1999-2000 Total	1999-2000 Per Tonne
Pool Account				
Receipts (tonnes)	***13 939 501***		*16 426 836*	
Initial payments on delivery	**$ 2,156,832**	**$ 154.73**	$ 2,452,411	$ 149.29
Adjustment payments	**330,590**	**23.72**	339,965	20.70
Interim payment	**116,065**	**8.32**	65,453	3.98
Final payment	**56,385**	**4.04**	93,007	5.66
Rebate on producer cars	**102**	**0.01**	79	0.01
Earnings Distributed to Pool Participants	**2,659,974**	**190.82**	2,950,915	179.64
Non-Pool Producer Payment Option Programs				
Receipts (tonnes)	***21 138***		*-*	
Pool returns paid to payment programs	**$ 4,163**	**$ 196.95**	-	-
Total Distribution	**$ 2,664,137**	**$ 190.83**	$ 2,950,915	$ 179.64

Durum Pool

Crop year (000's)	2000-01 Total	2000-01 Per Tonne	1999-2000 Total	1999-2000 Per Tonne
Statement of Pool Operations				
Receipts (tonnes)	***3 665 343***		*3 975 734*	
Revenue (Note 17)	**$ 969,891**	**$ 264.61**	$ 892,476	$ 224.48
Operating Costs				
Direct costs				
Country elevator carrying charges				
- Financing	**5,611**	**1.53**	5,595	1.41
- Storage	**10,832**	**2.96**	8,768	2.21
Terminal storage	**7,270**	**1.98**	8,761	2.20
Net Demurrage (Despatch)	**(605)**	**(0.17)**	(1,212)	(0.30)
Additional freight				
- To terminals	**4,056**	**1.11**	1,420	0.36
- Movement to eastern export position	**55,570**	**15.16**	57,904	14.56
- Freight rate changes	**381**	**0.10**	(510)	(0.13)
Drying	**13**	**0.00**	48	0.01
CWB hopper cars	**605**	**0.17**	563	0.14
Total direct costs	**83,733**	**22.84**	81,337	20.46
Administrative expenses (Note 18)	**11,962**	**3.26**	10,734	2.70
Grain industry organizations	**282**	**0.08**	286	0.07
Net interest earnings	**(8,124)**	**(2.21)**	(7,595)	(1.91)
Total Operating Costs	**87,853**	**23.97**	84,762	21.32
Earnings for Distribution	**$ 882,038**	**$ 240.64**	$ 807,714	$ 203.16

Statement of Distribution	2000-01 Total	2000-01 Per Tonne	1999-2000 Total	1999-2000 Per Tonne
Pool Account				
Receipts (tonnes)	***3 665 343***		*3 975 734*	
Initial payments on delivery	**$ 609,383**	**$ 166.26**	$ 619,492	$ 155.82
Adjustment payments	**133,753**	**36.49**	80,732	20.31
Interim payment	**100,481**	**27.41**	61,933	15.58
Final payment	**38,376**	**10.47**	45,542	11.45
Rebate on producer cars	**45**	**0.01**	15	0.00
Total Distribution	**$ 882,038**	**$ 240.64**	$ 807,714	$ 203.16

Barley Pool

Crop year (000's)	2000-01		1999-2000	
	Total	**Per Tonne**	Total	Per Tonne

Statement of Pool Operations

	2000-01 Total	2000-01 Per Tonne	1999-2000 Total	1999-2000 Per Tonne
Receipts (tonnes)	***454 073***		*671 703*	
Revenue (Note 17)	**$ 63,175**	**$ 139.13**	$ 90,262	$ 134.38
Operating Costs				
Direct costs				
Country elevator carrying charges				
- Financing	**276**	**0.60**	441	0.66
- Storage	**1,466**	**3.23**	1,639	2.44
Terminal storage	**213**	**0.47**	781	1.16
Net Demurrage (Despatch)	**1,762**	**3.88**	(9)	(0.01)
Additional freight				
- To terminals	**16**	**0.04**	255	0.38
- Freight rate changes	**(84)**	**(0.19)**	(127)	(0.19)
Drying	**27**	**0.06**	28	0.04
CWB hopper cars	**75**	**0.17**	95	0.14
Total direct costs	**3,751**	**8.26**	3,103	4.62
Administrative expenses (Note 18)	**1,511**	**3.32**	1,816	2.70
Grain industry organizations	**35**	**0.08**	48	0.07
Net interest earnings	**(6,409)**	**(14.11)**	(5,308)	(7.90)
Total Operating Costs	**(1,112)**	**(2.45)**	(341)	(0.51)
Earnings for Distribution	**$ 64,287**	**$ 141.58**	$ 90,603	$ 134.89

Statement of Distribution

	2000-01 Total	2000-01 Per Tonne	1999-2000 Total	1999-2000 Per Tonne
Pool Account				
Receipts (tonnes)	***454 073***		*671 703*	
Initial payments on delivery	**$ 46,153**	**$ 101.64**	$ 69,773	$ 103.88
Adjustment payments	**12,736**	**28.05**	12,496	18.60
Interim payment	**3,190**	**7.03**	4,702	7.00
Final payment	**2,203**	**4.85**	3,627	5.40
Rebate on producer cars	**5**	**0.01**	5	0.01
Total Distribution	**$ 64,287**	**$ 141.58**	$ 90,603	$ 134.89

Designated Barley Pool

Crop year (000's)	2000-01		1999-2000	
	Total	**Per Tonne**	Total	Per Tonne

Statement of Pool Operations

Receipts (tonnes)	***2 273 488***		*2 554 577*	
Revenue (Note 17)	**$ 458,672**	**$ 201.75**	$ 482,439	$ 188.85
Operating Costs				
Direct costs				
Country elevator carrying charges				
- Financing	**2,126**	**0.93**	1,637	0.64
- Storage	**4,097**	**1.80**	3,524	1.38
Terminal storage	**(190)**	**(0.08)**	40	0.02
Net Demurrage (Despatch)	**(113)**	**(0.05)**	(29)	(0.01)
Additional Freight - Freight rate changes	**85**	**0.04**	(152)	(0.06)
CWB hopper cars	**375**	**0.17**	362	0.14
Total direct costs	**6,380**	**2.81**	5,382	2.11
Administrative expenses (Note 18)	**7,417**	**3.26**	6,893	2.70
Grain industry organizations	**260**	**0.11**	184	0.07
Net interest earnings	**(2,346)**	**(1.03)**	(4,382)	(1.72)
Total Operating Costs	**11,711**	**5.15**	8,077	3.16
Earnings for Distribution	**$ 446,961**	**$ 196.60**	$ 474,362	$ 185.69

Statement of Distribution

Pool Account				
Receipts (tonnes)	***2 273 488***		*2 554 577*	
Initial payments on delivery	**$ 363,394**	**$ 159.84**	$ 377,849	$ 147.91
Adjustment payments	**43,368**	**19.08**	57,209	22.39
Interim payment	**14,213**	**6.25**	16,669	6.53
Final payment	**10,412**	**4.58**	10,293	4.03
Producer contract storage payments	**15,574**	**6.85**	12,342	4.83
Total Distribution	**$ 446,961**	**$ 196.60**	$ 474,362	$ 185.69

Statement of Payment Option Program Operations

Wheat Program

(000's)	Fixed Price Contract/Basis Price Contract Total	Per Tonne
Receipts (tonnes)	*21 138*	
Revenue		
Pool returns paid to the program	$ 4,163	$ 196.95
Net hedging activity	213	10.08
Liquidated damages	36	1.70
Total Revenue	4,412	208.73
Expense		
Contracted amounts paid to producers	4,027	190.51
Net interest	42	1.98
Administrative expense	216	10.22
	4,285	202.71
Net Surplus on Program Operations (Note 14)	$ 127	$ 6.02

Barley Program

(000's)	Early Payment Option Total	Per Tonne
Receipts (tonnes)	*191 253*	
Revenue		
Program discount	$ 398	$ 2.08
Liquidated damages	12	0.06
	410	2.14
Expense		
Net hedging activity	136	0.71
Net interest	56	0.29
	192	1.00
Net Surplus on Program Operations (Note 14)	$ 218	$ 1.14

Statement of Cash Flow

For the year ended July 31 (000's)	2001	2000
Increases (Decreases) of cash during the year		
Cash Flow from Operating Activities		
Received from sale of grain	$ 4,227,675	$ 4,504,817
Pool operating costs	(170,251)	(181,224)
Producer payment option programs operations	209	-
Add non-cash items		
Depreciation on CWB hopper cars	2,836	2,870
Depreciation on other capital assets	7,776	8,875
Cash flow from operating activities before changes in working capital	4,068,245	4,335,338
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	(180,062)	(205,935)
Inventory of grain	186,423	(76,480)
Deferred and prepaid expenses	(13,251)	16,374
Accounts payable and accrued expenses	5,913	1,811
Liability to agents	(264,292)	99,988
Liability to producers for outstanding cheques	(190,473)	51,280
Provision for producer payment expenses	(1,191)	26
Special account	(56)	(683)
	3,611,256	4,221,719
Cash Flow from Financing Activities		
Increase in borrowings	380,767	495,340
	380,767	495,340
Cash Flow from Investing and Other Activities		
Accounts receivable - credit programs	27,638	(331,342)
Purchase of capital assets	(2,840)	(4,950)
Proceeds from sale of capital assets	315	521
	25,113	(335,771)
Cash Distributions		
Prior year undistributed earnings	(301,325)	(359,020)
Current year distributions prior to July 31	(3,711,784)	(4,022,268)
Non-pool producer payment option payments	(4,027)	-
	(4,017,136)	(4,381,288)
Net Increase in Cash and Cash Equivalents	-	-
Net Cash Position at Beginning of Year	-	-
Net Cash Position at End of Year	$ -	$ -

Statement of Administrative Expenses

For the year ended July 31 (000's)	**2001**	2000
CWB Costs		
Board of Directors	**$ 1,185**	$ 1,178
Computer contractors	**3,081**	4,120
Computer maintenance and services	**6,187**	4,376
Communications	**1,056**	719
CWB publications	**775**	771
Farmer permits, contracts & payments	**741**	601
Facilities	**1,741**	1,669
Office services	**2,621**	2,575
Human resources	**32,898**	30,580
Training	**654**	457
Recruitment	**300**	321
Other	**691**	642
Professional fees and outside services	**2,730**	1,547
Taxes	**343**	400
Travel	**1,510**	1,496
	56,513	51,452
Depreciation	**7,776**	8,875
	64,289	60,327
Special Expenses		
Trade actions	**1,091**	733
Director elections	**583**	70
Reorganization Costs	**(75)**	2,583
	1,599	3,386
Total Administrative Expenses (Note 18)	**$ 65,888**	$ 63,713

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 Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing, in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation is headed by a Board of Directors, comprised of 10 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

Results of Operations

The financial statements at July 31 include the final operating results for all pool accounts and programs 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 and programs, 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 St. Lawrence position.

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 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, 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.

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 Spring Credit Advance Program.

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

Capital Assets and Depreciation

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

Asset Class	Term (years)
Computer equipment	1 to 5
Computer systems development	2 to 10
Automobiles	3
Building and office improvements	3
Office furniture and equipment	10
Hopper cars	30
Building	40
Leasehold improvements	Term of lease

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 foreign exchange contract 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 contracts. Forward exchange contracts are translated into Canadian dollars at the rates provided therein. 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.

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.

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.

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.

Employee Future Benefits

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

Pension Plan - Employees participate in the Public Service Superannuation Act pension plan, which is a multi-employer defined benefit 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 obligation of the Corporation.

Other Post-Employment Benefits - During fiscal 2001, the Corporation prospectively adopted the accounting recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, Employee Future Benefits. The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. Post-employment benefits include health care, life insurance, long service allowance, unused sick leave accumulated prior to 1988, and unused vacation accumulated prior to 1996.
- The transitional obligation as at July 31, 2000 is $13,685,546 and is being amortized over the Average Remaining Service Period (ARSP) which is 15 years.

3. Accounts Receivable from Credit Sales Programs

			2001	2000
(000's)	Credit Grain Sales Program	Agri-food Credit Facility	Total	Total
Due from Foreign Customers				
Current	**$ 228,370**	**$ 84,960**	**$ 313,330**	$ 466,384
Overdue	**828,140**	**-**	**828,140**	756,350
Subject to Paris Club rescheduling	**12,558**	**-**	**12,558**	233,511
Rescheduled	**5,971,401**	**-**	**5,971,401**	5,692,906
	7,040,469	**84,960**	**7,125,429**	7,149,151
Due from Government of Canada	**53,924**	**-**	**53,924**	57,840
	$ 7,094,393	**$ 84,960**	**$ 7,179,353**	$ 7,206,991
Credit Risk				
Guaranteed by Government of Canada	**$ 7,094,393**	**$ 83,261**	**$ 7,177,654**	$ 7,205,664
Assumed by the Corporation	**-**	**1,699**	**1,699**	1,327
	$ 7,094,393	**$ 84,960**	**$ 7,179,353**	$ 7,206,991

Accounts receivable balances are classified under the following 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 $7,040,468,948 principal and accrued interest due from foreign customers at July 31, 2001, $5,340,072,635 represents the Canadian equivalent of $3,484,549,844 repayable in United States funds. Of the $7,085,830,625 principal and accrued interest due from customers at July 31, 2000, $5,317,386,143 represents the Canadian equivalent of $3,575,915,362 repayable in United States funds.

Overdue accounts receivable at July 31, 2001 represent amounts due from Iraq 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 repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country. 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 twenty-five years.

Also under terms agreed to by the Government of Canada at the Paris Club, the Corporation will be entering into an agreement with Pakistan to reschedule certain receivables totaling $12,558,225 at July 31, 2001 beyond their original maturity dates.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Ethiopia, 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 $53,924,194 was due from the Government of Canada as at July 31, 2001 under these debt reduction agreements. Of this amount, $27,305,652 represents the Canadian equivalent of $17,817,717 that will be repayable in United States funds.

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

Agri-food Credit Facility

Accounts receivable under this facility arise from sales to customers in China, Indonesia, Mexico, South Korea and Peru. The July 31, 2001 balance of $84,960,338 principal and accrued interest due under the Agri-food Credit Facility (ACF) represents the Canadian equivalent of $55,439,046 repayable in United States funds. The July 31, 2000 balance of $63,320,529 principal and accrued interest represents the Canadian equivalent of $42,582,736 repayable in United States funds.

There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. Management considers this balance collectable in its entirety therefore there is no allowance for credit losses.

Fair Value

All accounts receivable resulting from sales made under credit programs as at July 31, 2001 have contractual interest rate repricing dates under 365 days. As a result of the short terms to repricing dates of these financial instruments, carrying values approximate the fair value.

Maturities

These accounts receivable mature as follows:

(000's)	**2001**	2000
Amounts due:		
Within 1 year	**$ 667,208**	$ 749,573
From 1 - 2 years	**338,840**	224,113
From 2 - 3 years	**440,136**	331,051
From 3 - 4 years	**526,091**	429,436
From 4 - 5 years	**597,622**	513,415
Over 5 years	**3,769,568**	4,203,053
Overdue	**839,888**	756,350
	$ 7,179,353	$ 7,206,991

4. Accounts Receivable from Advance Payment Programs

(000's)	Agricultural Marketing Programs Act	Prairie Grain Advance Payments Act	Spring Credit Advance Program	**2001** Total	2000 Total
Due from Producers					
Principal balances outstanding	**$ 108,090**	**$ -**	**$ 336,527**	**$ 444,617**	$ 257,034
	108,090	**-**	**336,527**	**444,617**	257,034
Due from (to) Government of Canada					
Recovery of interest costs on producers' interest free portion of advances	**2,517**	**-**	**2,563**	**5,080**	3,083
Amounts collected from producers and grain companies subsequent to reimbursement by Government of Canada	**(1,370)**	**(134)**	**-**	**(1,504)**	(366)
Interest on defaulted accounts collected from producers on behalf of Government of Canada	**(1,045)**	**(39)**	**(61)**	**(1,145)**	(1,358)
	102	**(173)**	**2,502**	**2,431**	(1,359)
	$ 108,192	**$ (173)**	**$ 339,029**	**$ 447,048**	$ 258,393

The Corporation administers the cash advance programs for wheat, durum and barley farmers in Western Canada on behalf of the Government of Canada. The Government guarantees the repayment of advances made to farmers therefore the corporation is not exposed to credit risk. The Corporation recovers its costs of administering the programs from the Government.

The Government of Canada introduced the *Agricultural Marketing Programs Act* in 1997 to provide farmers with cash flow by advancing money for grain stored on the farm. This program replaced a previous Government of Canada program under the *Prairie Grain Advance Payments Act*. 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.

The Government of Canada introduced the Spring Credit Advance Program in the spring of 2000 to assist farmers with spring seeding costs. The program enables producers to receive up to $20,000 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall of 2000 under the *Agricultural Marketing Programs Act*.

Cash advances issued during the year by the Corporation under these programs totalled $956,334,864, including $611,736,223 issued under the *Agricultural Marketing Programs Act* and $344,598,641 issued under the Spring Credit Advance Program.

5. Inventory of Grain

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

(000's)	2001	2000
Wheat	**$ 507,421**	$ 691,068
Durum	**421,549**	369,403
Barley	**2,690**	31,206
Designated Barley	**64,144**	90,550
	$ 995,804	$ 1,182,227

6. Deferred and Prepaid Expenses

(000's)	2001	2000
Prepaid cost of moving inventory to eastern export position	**$ 14,733**	$ 12,320
Purchase and lease-renewal options on leased hopper cars	**4,860**	5,137
Deposits on commodity margin accounts	**3,516**	3,692
Other	**1,097**	2,946
Net results of commodity hedging activities applicable to subsequent pool accounts	**(2,997)**	(16,137)
	$ 21,209	$ 7,958

7. Capital Assets

(000's)	2001 Cost	2001 Accum. Deprec.	2001 Net Book Value	2000 Cost	2000 Accum. Deprec.	2000 Net Book Value
Computer systems development	**$ 45,537**	**$ 14,380**	**$ 31,157**	$ 45,025	$ 9,390	$ 35,635
Hopper cars	**84,715**	**60,712**	**24,003**	85,258	58,260	26,998
Computer equipment	**14,253**	**11,743**	**2,510**	12,816	10,017	2,799
Furniture & equipment	**4,815**	**3,278**	**1,537**	4,737	2,972	1,765
Land, building and improvements	**7,648**	**7,054**	**594**	7,563	6,752	811
Automobiles	**556**	**138**	**418**	509	168	341
Leasehold improvements	**195**	**153**	**42**	139	139	-
	$ 157,719	**$ 97,458**	**$ 60,261**	$ 156,047	$ 87,698	$ 68,349

Two thousand hopper cars were purchased by the Corporation in 1979-80 having an original cost of $90,555,620. Of these 2,000 cars, 129 cars have been wrecked and dismantled, leaving 1,871 still in the fleet. The Corporation is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

8. Borrowings

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

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, United States and Euro markets and bank loans with maturities less than one year. All foreign exchange risk is eliminated through the use of derivatives. The Corporation uses currency swaps and forward contracts in the same notional amounts for each of the respective currencies and respective terms.

Medium-term borrowings are notes issued in the Euro Medium Term Note market with an original term to maturity exceeding one day, but less than 10 years. The majority of medium-term notes are structured securities where interest and/or principal are linked to fluctuations in currency rates and other market references. Some notes may also be called prior to maturity by the Corporation. The Corporation uses swap contracts to eliminate currency risk and minimize interest rate risk associated with medium-term borrowings. These contracts ensure that the CWB will receive proceeds from the swap to meet all principal and interest payments of the note, ultimately creating a floating rate obligation similar to the CWB's short-term borrowings.

(000's)	Effective Interest Rate (%)	**2001**	2000
Short-term borrowings	3.03 - 6.79	**$ 7,691,161**	$ 6,655,900
Medium-term borrowings	3.51 - 5.10	**229,315**	576,291
Accrued interest	-	**56,283**	93,836
Total borrowings	3.03 - 6.79	**7,976,759**	7,326,027
Less investments	3.90 - 4.30	**(331,783)**	(61,818)
Net borrowings	3.03 - 6.79	**$ 7,644,976**	$ 7,264,209

Of the net borrowings at July 31, $5,634,260,258 represents the Canadian equivalent of $3,676,515,666 that will be repayable in United States funds. Of the net borrowings at July 31, 2000, $5,503,964,457 represents the Canadian equivalent of $3,701,388,337 repayable in United States funds.

These borrowings mature as follows:

(000's)	**2001**	2000
Amounts due:		
within 1 year	**$ 7,762,320**	$ 7,121,486
from 1 - 4 years	**-**	-
from 4 - 5 years	**37,537**	-
over 5 years	**176,902**	204,541
	$ 7,976,759	$ 7,326,027

All borrowings have contractual interest rate repricing dates under 365 days. As a result of the short term to maturity of these financial instruments, carrying values approximate the fair value.

9. Accounts Payable & Accrued Expenses

(000's)	**2001**	2000
Accounts payable and accrued liabilities	**$ 39,012**	$ 32,799
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	**74,175**	70,466
Deferred sales revenue	**25,700**	29,710
	$ 138,887	$ 132,975

10. Liability to Agents

(000's)	2001	2000
Grain purchased from producers	**$ 526,666**	$ 789,428
Deferred cash tickets	**67,553**	69,083
	$ 594,219	$ 858,511

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 2 892 020 (2000 - 4 665 537) 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 Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

11. Liability to Producers - Undistributed Earnings

Of the undistributed earnings to producers totaling $341,476,449 at July 31, 2001 (2000 - $301,325,339), $233,948,582 (2000 - $148,756,397) was distributed to producers in an interim payment on November 7, 2001. The balance of $107,527,867 (2000 - $152,568,942) will be distributed to producers through final payments and producer car rebates.

12. Provision for Producer Payment Expenses

The amount of $4,768,940 (2000 - $5,960,386) 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.

13. Special Account - Net Balance Of Undistributed Payment Accounts

In accordance with the provision of Section 39 of the *Canadian Wheat Board Act*, the Governor in Council may authorize the 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)	2001	2000
Beginning of year	**$ 3,337**	$ 4,020
Transfer from payment accounts	**2,037**	902
Expenditures	**(2,080)**	(1,573)
Payments to producers against old payment accounts	**(13)**	(12)
End of year	**$ 3,281**	$ 3,337
Ending balance comprised of:		
Unexpended authorizations	**1,927**	1,731
Not designated for expenditure	**1,354**	1,606
	$ 3,281	$ 3,337

During the year ended July 31, 2001, the balance from payment accounts for 1993 Wheat, 1993 Durum, 1992 Designated Barley and 1993 Designated Barley were transferred to the Special Account under Order-in-Council P.C. 2001-822.

The program expenditures during the 2000-01 crop year are detailed as follows:

(000's)	Unexpended at beg. of yr	Authorized	Expended	Expired	Unexpended at end of yr
Market development program	$ 265	$ -	$ (131)	$ -	$ 134
Scholarship program	24	376	(360)	-	40
Canadian International Grains Institute					
Capital expenditures	112	125	(94)	-	143
Test Baking Facility	-	400	23	-	423
Agribusiness Chair - University of Manitoba	-	375	(75)	-	300
Automated Quality Testing	1,330	-	(580)	-	750
Canadian Malting Barley Technical Centre	-	1,000	(863)	-	137
	$ 1,731	$ 2,276	$ (2,080)	$ -	$ 1,927

14. Contingency Fund - Producer Payment Options

The Corporation has implemented delivery contract options and payment alternatives to producers. The Fixed Price Contract/Basis Price Contract (FPC/BPC) provides producers with the opportunity to lock in a fixed price or basis for all or a portion of their grain prior to the beginning of the crop year. Full payment for the grain is received immediately after delivery and the producer is not eligible for other payments from the pool account. The Guaranteed Delivery Contract (GDC) with Early Payment Option (EPO) provides the producer with a greater portion of their expected final pool price at time of delivery, while still eligible for other payments from the pool account.

The surplus or deficit arising from the operation of these programs is transferred to a contingency fund so that net operating results will not impact the pool accounts. The contingency fund balance at July 31, 2001 is detailed as follows:

(000's)	Wheat FPC/BPC	Barley GDCEPO	2001 Total
Opening balance, beginning of year	$ -	$ -	$ -
Surplus from program operations	127	218	345
Closing balance, end of year	$ 127	$ 218	$ 345

15. Lease Commitments

The Corporation leases 1,750 hopper cars (2000 - 2,000 cars) for the Government of Canada. All lease costs to the end of the original lease periods are recoverable from the government and are not charged to the pool accounts. Total payments associated with these leases in the year ended July 31, 2001, amounting to $17,686,168 (2000 - $20,953,717) have been recovered by the Corporation. Lease terms are for 25 years, expiring in 2006.

In 1995, the Corporation purchased an option to extend the lease agreement on 250 of the above noted hopper cars for a five-year term at a bargain lease rate. Effective October 1, 2000, the Corporation exercised this right. The lease payments under this lease extension are not recoverable from the Government of Canada and will be paid directly by the pool accounts. The cost of the option is being amortized over the term of the five-year extension, beginning October 2000.

Between 1991 and 1995, the Corporation purchased options to acquire 1,550 of the original 2000 cars at the end of the lease term in 2006. Of the 1,550 cars covered by the option, 66 have been wrecked and dismantled, leaving 1,484 cars, which may be purchased at a total cost of $17,530,384 in United States dollars. The cost of these options is recorded in deferred and prepaid expenses.

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to six years, expiring between September 2001 and February 2005. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2001 were $1,128,252 (2000 - $1,080,791).

Lease costs on premises and office equipment are charged to administrative expenses. Commitments under operating leases are as follows:

	Hopper Cars (US$)	Premises & Office Equipment (Cdn$)
2002	$ 456	$ 749
2003	456	342
2004	456	108
2005	456	32
2006	76	-
After 2006	-	-

16. 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 foreign exchange swap contracts.

The Corporation also transacts foreign exchange forwards and swaps 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:

	2001			2000		
(000's)	Notional Amounts	Fair Value	Credit Risk	Notional Amounts	Fair Value	Credit Risk
Interest rate contracts						
Single-currency int. rate swaps	**$ 253,016**	**$ (1,610)**	**$ 112**	$ 753,314	$ (7,206)	$ 461
Cross-currency int. rate swaps	**206,328**	**(1,945)**	**10,342**	204,541	(11,472)	5,595
	459,344	**(3,555)**	**10,454**	957,855	(18,678)	6,056
Foreign exchange contracts						
Forwards	**721,443**	**855**	**2,259**	546,278	(4,263)	120
Swaps	**1,256,408**	**3,839**	**6,827**	85,634	(3,356)	-
	1,977,851	**4,694**	**9,086**	631,912	(7,619)	120
	$ 2,437,195	**$ 1,139**	**$ 19,540**	$ 1,589,767	$ 26,297	$ 6,176

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. 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 counterparty on its obligations to the Corporation. A positive fair value indicates the Corporation's exposure to counterparty 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 counterparty default. The largest notional amount contracted with any institution as at July 31, 2001 was $425,210,046 (2000 - $464,632,481) and the largest credit risk with any institution as at July 31, 2001 was $773,394 (2000 - $3,239,206).

17. Revenue

(000's, except tonnes)	2000-01 Tonnes	2000-01 Amount	1999-00 Tonnes	1999-00 Amount
Wheat				
Disposition of grain				
Shipped prior to July 31	**13,579,509**	**$ 2,640,882**	15,360,608	$ 2,887,478
Shipped subsequent to July 31	**1,234,027**	**234,529**	1,536,091	285,434
Weight losses in transit and drying	**777**	**-**	764	-
Total disposition of grain	**14,814,313**	**2,875,411**	16,897,463	3,172,912
Add grain sold to subsequent pool account	**1,430,773**	**272,892**	2,241,631	405,634
Gross sales	**16,245,086**	**3,148,303**	19,139,094	3,578,546
Less sales used to value prior pool account	**(2,241,631)**	**(405,634)**	(2,649,485)	(528,319)
	14,003,455	**2,742,669**	16,489,609	3,050,227
Deduct cost of grain purchased from other than producers	**(42,816)**	**(6,733)**	(62,773)	(10,587)
Revenue	**13,960,639**	**$ 2,735,936**	16,426,836	$ 3,039,640
Durum				
Disposition of grain				
Shipped prior to July 31	**3,391,948**	**$ 844,489**	3,516,885	$ 791,720
Shipped subsequent to July 31	**272,771**	**71,816**	355,049	76,251
Weight losses in transit and drying	**1,186**	**-**	1,362	-
Total disposition of grain	**3,665,905**	**916,305**	3,873,296	867,971
Add grain sold to subsequent pool account	**1,350,461**	**349,733**	1,332,145	293,152
Gross sales	**5,016,366**	**1,266,038**	5,205,441	1,161,123
Less sales used to value prior pool account	**(1,332,145)**	**(293,152)**	(1,203,801)	(264,045)
	3,684,221	**972,886**	4,001,640	897,078
Deduct cost of grain purchased from other than producers	**(18,878)**	**(2,995)**	(25,906)	(4,602)
Revenue	**3,665,343**	**$ 969,891**	3,975,734	$ 892,476
Barley				
Disposition of grain				
Shipped prior to July 31	**608,157**	**$ 83,680**	560,992	$ 75,749
Shipped subsequent to July 31	**6,623**	**1,004**	65,334	8,406
Weight losses in transit and drying	**168**	**-**	-	-
Total disposition of grain	**614,948**	**84,684**	626,326	84,155
Add grain sold to subsequent pool account	**10,728**	**1,686**	167,357	22,800
Gross sales	**625,676**	**86,370**	793,683	106,955
Less sales used to value prior pool account	**(167,357)**	**(22,800)**	(121,893)	(16,677)
	458,319	**63,570**	671,790	90,278
Deduct cost of grain purchased from other than producers	**(4,246)**	**(395)**	(87)	(16)
Revenue	**454,073**	**$ 63,175**	671,703	$ 90,262
Designated Barley				
Disposition of grain				
Shipped prior to July 31	**2,195,671**	**$ 439,843**	2,139,092	$ 399,190
Shipped subsequent to July 31	**224,869**	**45,843**	222,312	45,697
Weight losses in transit and drying	**-**	**-**	-	-
Total disposition of grain	**2,420,540**	**485,686**	2,361,404	444,887
Add grain sold to subsequent pool account	**93,390**	**18,301**	236,896	44,853
Gross sales	**2,513,930**	**503,987**	2,598,300	489,740
Less sales used to value prior pool account	**(236,896)**	**(44,853)**	(42,741)	(7,168)
	2,277,034	**459,134**	2,555,559	482,572
Deduct cost of grain purchased from other than producers	**(3,546)**	**(462)**	(982)	(133)
Revenue	**2,273,488**	**$ 458,672**	2,554,577	$ 482,439

18. Administrative Expenses

(000's)	2001	2000
Administrative expenses for fiscal year ended July 31	**$ 65,888**	$ 63,713
Current fiscal year's expense related to administration of the prior year's pool accounts	**(21,219)**	(20,656)
Subsequent fiscal year's expense related to administration of the current year's pool accounts (estimated)	**22,256**	21,219
Provision for expenses related to administration of the producer payment accounts	**(317)**	(314)
Prior fiscal year's expense related to administration of the current year's payment option programs	**191**	-
Current fiscal year's expense related to administration of the payment option programs	**(216)**	-
Current fiscal year's expenses related to administration of the subsequent year's payment option programs	**(148)**	(191)
Allocated to current pool accounts	**$ 66,435**	$ 63,771
Allocated as follows:		
Wheat	**$ 45,545**	$ 44,328
Durum	**11,962**	10,733
Barley	**1,511**	1,816
Designated Barley	**7,417**	6,894
	$ 66,435	$ 63,771

The administrative expenses reported in the financial statements are the expenses incurred during the fiscal year ended July 31. Administrative expenses, except for that portion of such expenses attributable to distributing final payments to producers and incremental costs related to payment option programs, are allocated to each pool account on the basis of relative tonnage. The expenses allocated to the current pool accounts include an allocation of the estimated expenses associated with marketing the current crop beyond July 31. The administration expenses charged to the producer payment option programs include amounts deferred from the prior fiscal year that related to the administration of the current year's programs. The purpose is to ensure that the current pool and program accounts reflect the total cost of marketing and administrative activities that take place before, during and after the fiscal period August 1 to July 31.

19. Employee Future Benefits

Employee future benefits relate to the defined benefit plan and the other post-employment benefits.

Pension Plan

The Corporation expensed $3,353,298 (2000 - $2,268,810) as its contribution to the pension plan.

Other Post-Employment Benefits

The following tables present information related to post-employment benefit plans provided by the Corporation including amounts recorded on the Balance Sheet and the components of the cost of net benefits for the period.

The accrued benefit obligation, and resulting plan deficit, at July 31, 2001, as determined by actuarial valuation, is $17,012,422.

The accrued benefit liability included on the Corporation's Balance Sheet is:

	2001
(000's)	Total
Accrued benefit obligation, beginning of year	**$ 3,952**
Current service cost	**582**
Interest cost	**1,140**
Benefits paid	**(2,331)**
Amortization of transitional obligation	**912**
Accrued benefits obligation, at measurement date	**$ 4,255**

The Corporation's expense with respect to other post-employment benefits is:

(000's)	200l
Current service cost	**$ 582**
Interest cost	**1,140**
Amortization of transitional obligation	**912**
Total post-employment benefit expense included in the Statement of Administrative Expenses	**$ 2,634**

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

	2001 Total
Discount rate	**6.8%**
Rate of compensation increase	**4.0%**

For measurement purposes, benefits provided are assumed to increase at a rate of 10% for 2001 grading down by 1% per year to an ultimate level of 3% per annum.

20. Comparative Figures

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

Glossary of financial terms

Cross-currency interest rate swap	a contractual agreement for specified parties to exchange principal, 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 financial 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 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 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.

Senior management

The Executive Team

(Left to Right)
Gordon Menzie, Executive VP Finance and Treasurer;

Greg Arason, President and CEO;

Earl Geddes, VP Farmer Relations;

Margaret Redmond, Executive VP Corporate Affairs;

Brian Oleson, Senior Economist;

Adrian Measner, Executive VP Marketing;

Laurel Repski, VP Human Resources.

Senior Management

(Left to Right)
Ward Weisensel, VP Transportation and Country Operations;

Brian White, VP Commodity Analysis and Risk Management (as of September 2001);

Graham Paul, VP Information Technology Services (as of September 2001);

Jim McLandress, General Counsel (as of August 2001);

Deborah Harri, Corporate Secretary (as of August 2001);

Bill Spafford, VP Sales and Market Development;

Brita Chell, VP Accounting (as of August 2001);

Larry Nentwig, VP Finance.

The Senior Management Team works in partnership with the Board of Directors to provide leadership and vision for the CWB, based on the cornerstone of obtaining the best returns for farmers. Senior management is comprised of the Executive Team, the Vice-Presidents, General Counsel, Corporate Secretary and the Director of Internal Audit.

There have been a number of changes since the beginning of the 2000-01 crop year, including four retirements and one resignation within senior management. A critical review of these positions resulted in the consolidation of Transportation and Country Operations. Margaret Redmond was appointed as the new Executive Vice-President of Corporate Affairs in July 2001.

Senior Management Compensation

	2000-2001 Actual	1999-2000 Actual
Senior Management Compensation		
Salaries	**$ 2,106,702**	$ 2,670,314
Benefits	**1,004,460**	875,068
Total	**$ 3,111,162**	$ 3,545,382

Senior management is compensated in accordance with policies approved by the Board of Directors.

In accordance with the CWB Information Policy and the desire to be open and accountable to farmers, the following table sets forth compensation earned by the President and Chief Executive Officer, as well as the four other highest-paid senior officers for the year ended July 31, 2001.

Summary Compensation Table, 2000-01

	Annual Compensation	
Name and Principal Position	Salary	All Other Compensation[1]
Greg S. Arason President & Chief Executive Officer	$ 250,115	$ -
Adrian C. Measner Executive Vice-President, Marketing	210,097	-
William W. Spafford Vice-President, Sales and Marketing	173,330	-
Gordon P. Menzie Executive Vice-President, Finance and Treasurer	160,496	-
Margaret D. Redmond [2] General Counsel and Corporate Secretary	136,820	-

Notes:

[1] The CWB has no additional compensation plans beyond base salary. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10% of total annual salary.

[2] Margaret D. Redmond was newly appointed to Executive Vice-President, Corporate Affairs on July 30, 2001

Corporate Governance

Farmer control of the CWB is most apparent in the structure of the Board of Directors, the majority of whom are directly elected by western Canadian wheat and barley growers. Directors play a crucial role because they set the strategic direction of the CWB and oversee its business. In 2000-01, great progress was made by the Board to move the CWB forward by creating a new framework for strategic and long-term planning.

Governance has been an extremely important issue for the Board, as it strives to follow best practices while reflecting the unique CWB structure that combines elected and appointed directors under a shared governance model.

Farmers electing farmers.

The past crop year saw the first round of director elections since 10 farmers were originally voted onto the CWB Board of Directors in 1998, following a democratic transformation of the CWB governance structure. The fall 2000 elections were held in five of 10 districts, resulting in a change for southeastern Saskatchewan where new director Rod Flaman was elected.

Farmer elections are the centrepiece of the new governance structure giving farmers direct, visible control over the CWB. The elections give farmers the opportunity to put a producer who most closely represents their views at the Board table. In the 2000 fall election, mail-in ballots were received from 40.6 per cent of eligible voters.

The CWB Act requires that elections be held in half of the 10 districts every two years, meaning directors serve four-year terms. The 2000 election was held in Districts 2, 4, 6, 8 and 10. Elections will be held in Districts 1, 3, 5, 7 and 9 in the fall of 2002.

Adding business expertise

In addition to the 10 elected directors, the Board includes four appointed directors with three-year terms, who are chosen by the federal government for their specific business expertise. A new director, Bonnie DuPont of Enbridge Inc. in Calgary, was appointed at the end of the past crop year to replace former director James Stanford. The federal government, with input from CWB directors, also appoints a President and CEO, who sits on the Board.

Leading the CWB

The Board oversees the conduct of CWB business. This includes establishing strategic direction, reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The Board ensures management puts appropriate systems in place to manage risk, maintain integrity of financial controls and oversee information services. In 2000-01, the Board approved a process for senior management succession planning.

Building the future

A top strategic objective for 2000-01 was to strengthen the CWB connection with farmers. The Board identified this as a priority during a comprehensive strategic planning process, along with the three other foundations of CWB business: our customers, our long-term mandate and our employees. Along with identifying these four strategic focus areas, great strides were made in refining the strategic planning cycle, including development of a new framework for long-term planning and initiating work on a set of corporate values.

Striving for excellence in governance

As a relatively new structure, special efforts are being made to continuously improve the effectiveness of the Board of Directors. The unique governance structure of the CWB poses different challenges than those faced by boards of most commercial corporations. During the past year, efforts have included:

- A governance study which recommended improvements to the interface between the Board, its committees and senior CWB management, with particular attention to defined roles and responsibilities.
- Amendments to the Code of Conduct, approval of an election period code of conduct and a political donations policy, and creation of a process to formally declare conflict of interest
- Development of an orientation plan for new directors.
- Work towards creating a director development process and developing guidelines for director qualifications.
- Continuation of the annual evaluation of the Board, its committees and the CEO.

Committee structure

The CWB Board of Directors structure includes four standing committees and several ad hoc committees, with terms of reference reviewed annually:

Audit and finance

Ensures CWB accounting and financial reporting systems provide accurate and timely information, including effective internal controls. Facilitates the conduct of an annual audit, reviews annual financial statements and accounting practices, and reviews financial risk policies, plans and proposals.

Members: David Hilton (chair), John Clair, Larry Hill, James Chatenay

2000-01 accomplishments:

- Recommended approval of a plan for managing amendments to the business plan and budget.
- Met independently with external auditors who review CWB financial results.
- Reviewed the business and corporate plans and recommended approval (together with the Risk Management and Strategic Issues committee).
- Reviewed the annual budget and recommended approval.
- Reviewed plans for the special audit undertaken by the Office of the Auditor General.
- Recommended earlier distribution of final payment to farmers for 2000-01.

Governance and management resources

Provides a focus on governance to enhance Board and CWB effectiveness. Assists the Board in fulfilling its obligations related to human resource and compensation matters.

Members: Art Macklin (co-chair), Betty-Ann Heggie (co-chair), Ken Ritter

2000-01 accomplishments:

- Established a plan for continuity and development of senior management.
- Recommended an action plan following a CWB employee survey taken to gauge satisfaction levels.
- Maintained and updated a Board Governance Manual containing all policies related to Board conduct.
- Reviewed an external study on CWB governance issues.
- Reviewed and updated the Director Compensation Policy and initiated an audit.
- Began policy work towards changing the CWB pension plan.
- Initiated plans for director development programs.
- Ensured an annual evaluation of the Board, its committees and the CEO was undertaken.

Risk management and strategic issues

Ensures that areas of corporate risk, strategic issues and policy are identified. Recommends priorities, time frames and processes to address these issues. Coordinates the Board's input to the CWB strategic planning process.

Members: Ian McCreary (chair), Greg Arason, Rod Flaman, Bill Nicholson

2000-01 accomplishments:

- Recommended approval of a CWB policy on organic grain marketing.
- Reviewed the annual business plan, corporate plan and budget, and recommended approval (together with the Audit and Finance committee).
- Reviewed farmer pricing options and made recommendations for program expansion.
- Reviewed the CWB grain delivery policy.
- Recommended that the CWB play a lead role in the development of a position on genetically-modified grain.
- Developed a strategy for the introduction of e-business at the CWB.

Farmer relations

Assists the Board in developing strategies and policies for relations with farmers, as well as communications with industry, government, customers, employees and the general public. Reviews major new advertising projects and major accountability vehicles such as the annual report. Recommends attendance at grain industry events.

Members: Mike Halyk (chair), Wilfred Harder, Ross Keith

2000-01 accomplishments:

- Recommended approval of a new CWB Information Policy.
- Recommended approval of organizational restructuring to create the Farmer Relations area of the CWB.
- Recommended approval of a new regional office system for Farm Business Representatives.

Ad hoc committees

Transportation (McCreary-chair, Arason, Halyk, Keith, Macklin, Ritter): Provided strategic direction to help achieve a new commercialized transportation environment. Ensured the needs and wishes of farmers were given top consideration during negotiations with other transportation partners.

Trade (Hill-chair, Hilton, Keith, Macklin, McCreary, Nicholson, Flaman): Recommended strategies and actions on trade-related issues that could affect the ability of the CWB to fulfill its mandate.

Benchmarking (Clair-chair, Hill, Hilton, McCreary, Nicholson): Assisted in developing appropriate benchmarks for ongoing performance measurement of the CWB's core grain marketing function.

Search committee (Ritter-chair, Arason, Halyk, Hilton, McCreary, Heggie, Macklin): Assisted in recruitment of a senior executive.

Compensation table

Board of Directors

		Remuneration			Attendance		
Director	District	Retainer	Per diems	Total	Board meetings	Committee meetings	Industry meetings
Macklin, Art	1	$ 20,833	$ 42,800	$ 63,633	12	60	33
Chatenay, James	2	20,000	32,750	52,750	12	12	16
Hill, Larry	3	24,000	43,708	67,708	12	26	40
Ritter, Ken (chair)	4	61,667	43,800	105,467	12	45	66
Clair, John	5	24,000	33,450	57,450	12	26	21
McCreary, Ian	6	28,000	37,900	65,900	12	64	42
Halyk, Micheal	7	24,000	42,359	66,359	12	50	47
Hanson, Terry [1]	8	8,333	16,800	25,133	7	34	11
Flaman, Rod [2]	8	11,667	24,250	35,917	5	8	22
Nicholson, Bill	9	20,000	30,000	50,000	12	28	26
Harder, Wilfred	10	20,000	27,833	47,833	12	12	21
Arason, Greg (CEO)	A	NA	NA	NA	12	NA	NA
Heggie, Betty-Ann	A	20,833	9,000	29,833	9	16	2
Hilton, David	A	24,000	32,000	56,000	11	34	14
Keith, Ross	A	20,000	24,750	44,750	11	43	9
Stanford, James [3]	A	18,000	9,750	27,750	6	9	7
TOTAL		$ 345,333	$ 451,150	$ 796,483			

A = Appointed Director
[1] August to December 2000
[2] January to July 2001
[3] August 2000 to March 2001

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors and $100,000 for the board chair. This limit does not apply to the retainer for committee chairmanship, the communication allowance or any other item that the Board specifically excludes. The table above includes some remuneration that was incurred in the previous crop year, but submitted during 2000-01.

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CWB

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