A Message from the Chair of the board of directors and the President and CEO

2002-03 was a tough crop year.

This statement is as true for farmers across Western Canada as it is for the CWB.

In 2002, yields in many areas were decimated by drought and grasshoppers. When general rains finally came to the Prairies in early August, they came at the worst possible time, delaying harvesting operations, sometimes until the spring. Meanwhile, on international markets, countries which until recently were still purchasing large quantities of grain, namely those of the former Soviet Union, were grabbing a significant share of the world grain trade by selling product at values far below North American prices. Compounding this was the European Union's decision to match these values through the use of export subsidies, and the rapid and unprecedented devaluation of the American dollar compared to our own currency. Trade action was taken in the U.S. against imports of Canadian spring wheat and durum. And to top it all off – as if this was not enough – the BSE crisis broke in late spring, sending cattle and feed grain markets into a turmoil from which they have yet to emerge.

The result: a crop which overall was about 40 per cent less than average with a much poorer grade pattern than what we usually have in Western Canada; a late harvest and uncertainty about what we had to sell until late in the year; and markets which were unable to maintain the strength they demonstrated in early fall.

The combination of these factors had a devastating effect on many farmers' income. It bears witness to the resilience and strength of Prairie agriculture that, even in areas where they harvested close to nothing, farmers found ways to stay in business and keep their operations afloat.

The CWB's annual report this year begins with the account of how farm families from throughout Western Canada coped with the adversity that they faced in 2002-03. While each of their stories is unique, certain common themes emerge. One is that farmers find opportunities to turn adversity – whether it is a poor growing season or Prairie-wide consolidation of grain handling facilities – into growth opportunities. This is a message that we all need to take to heart and one that the CWB has incorporated as we move forward.

Highlights of the 2002-03 crop year include:

- Over 98 per cent of what farmers offered for sale through the CWB was accepted;
- Pool returns were at historically high levels;
- The needs of our most discriminating and highest paying customers were met in spite of production shortfalls and a poor grade pattern;
- A new transportation and grain-handling agreement with the grain companies was put in place;
- We cut our costs;
- We developed more payment options for farmers;
- We encouraged the production of hard white wheat through our market development program;
- We fought the imposition of tariffs by the U.S. and succeeded in having those on durum removed early in 2003-04;

- We worked with many farm organizations to ensure that unconfined release of Roundup Ready wheat would not occur until a list of well-defined conditions were met; and
- In conjunction with a number of farm organizations, we lobbied the federal government to make the rail transportation system more competitive.

These are significant accomplishments in a year like 2002-03. They demonstrate the extent to which farmers and the CWB are committed to the grain industry in Western Canada. We should be proud of what we have done together and of the foundation that we have laid for the future of the grain sector.

At the same time, the extraordinary circumstances that we faced in 2002-03 led to a deficit in the wheat pool. This means that there were no final payments for farmers in the wheat pool account and that the Government of Canada will cover the deficit by virtue of its guarantee of CWB payments. The events that led to this shortfall are detailed in the Management Discussion and Analysis section. After a rigorous review of these events, the board of directors is satisfied with the decisions that were made by the CWB in 2002-03. By the same token, measures, including improvements to how we gather information on farmers' delivery intentions, have been undertaken so that we are better able to cope with this type of adversity in the future.

In summary, 2002-03 demonstrates again the extraordinary resilience and energy of Western Canada and its grain farmers. It was a tough year that took its toll. We faced up to it as best we could and the grain sector in Western Canada will be around to face future challenges and to capitalize on future opportunities. We applaud Prairie farmers for their courage and innovation and we look forward to serving their marketing needs in the future.

Ken Ritter
Chair, board of directors

Adrian C. Measner
President and Chief Executive Officer

Farm *faces*

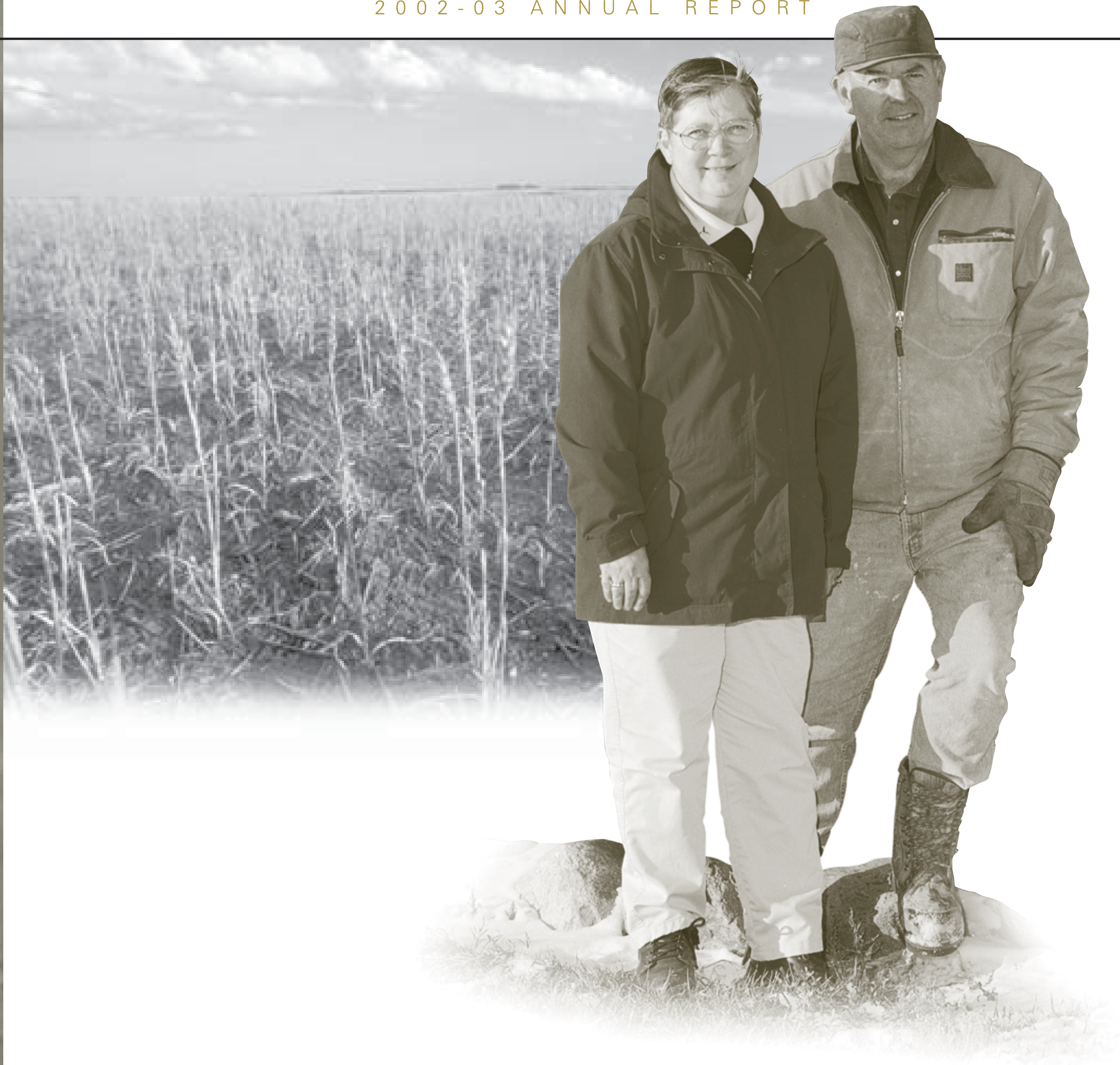
Facing up to adversity

Opportunities sur*facing*…

Farming is never easy. But there are some years where farmers' mettle is tested even more than usual. The 2002-03 crop year was one of those years. It was extraordinary in many ways, and especially in how so many unfortunate circumstances happened all at once: drought; a late and wet harvest; a sudden rise in the value of the Canadian dollar; and the discovery of one case of bovine spongiform encephalopathy (BSE). Each of these took money out of the pockets of western Canadian farmers and made it harder for them to make a living, let alone get ahead.

Each farm family has a story to tell about 2002-03. Here are five gathered from among the almost 85,000 permit book holders for whom the CWB marketed grain. While there would be many more to tell, these five represent the range of adversity that was faced as Prairie farmers struggled with lack of precipitation and a harvest that seemed to drag out endlessly. Most importantly, they tell of how Prairie farmers have put the challenges of 2002-03 behind them and how they are working to secure their future in agriculture, either by moving up the value chain, cutting costs or collaborating with their neighbours to provide themselves with new opportunities.

As the marketing agent for western Canadian wheat, durum and barley, the CWB is proud to serve the needs of men and women like these who earn their living from the land. We want to pay tribute to their ingenuity, their resourcefulness and their commitment. We also want to emulate how they have sought out meaningful ways to adapt to the changing agricultural environment and how they have successfully taken advantage of emerging opportunities. They have faced up to adversity and seized new opportunities – the CWB is committed to doing the same.



NORMA & DON ROSS

MANNVILLE, ALBERTA

A breed apart

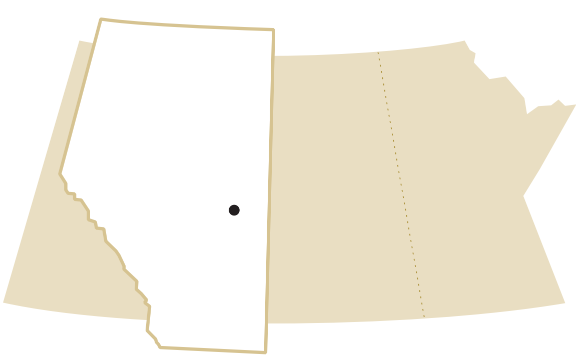
Throughout the drought of 2002, the region between Saskatoon and Edmonton was often referred to as being "the hardest hit." Don and Norma Ross, who farm with their family north of Mannville, Alberta, will confirm that this was the case. Their farm received a grand total of three and one-half inches of precipitation over the course of the 2002 growing season, most of it in one-tenth increments that evaporated before they could do any good. The wheat yielded seven bushels per acre, the barley six, the peas eight and the canola yielded nothing at all. In an area where average wheat yields are 40 bushels per acre and barley typically produces up to 70, the 2002 crop was a complete disaster.

Pastures did not fare any better. There was not enough grass for Don's 100 cow-calf pairs. He baled whatever hay he could salvage from low spots but when all was said and done, it was clear that he needed more feed for his cattle. Thirty-two pairs were dispensed to pastures in northern Alberta. Hay from the same area was purchased and trucked to Mannville. Don put his name in the draw for donations of hay from Ontario but was not selected. He regrets that farmers were not asked to pay at least market value for the eastern hay. He thinks $50 per tonne would have been a fair price and would have helped to bring a lot more hay out west. As it was, many people were forced to scramble to find feed elsewhere or even sell their herds.

It is pointless to ask Don what positives a farmer can find in a year where revenue is decimated and costs skyrocket because you are hauling cattle and feed all over the countryside to keep your operation going. Add in the BSE crisis and the subsequent closing of the border to exports of Canadian cattle and you have a recipe that has the potential to sour anyone on farming. Yet, Don maintains that there is no better way of life. He talks about the satisfaction of growing crops and raising livestock. And he talks about the freedom to make his own choices and to do what he thinks is right for his operation.

There are things that can and should be done to help farmers, especially when they are hit with disaster. Don points to the BSE crisis as one example. "We could turn this thing to our advantage," he says. "Let's test every animal. Let's become the place that produces the safest food anywhere in the world and let's market ourselves that way." This would benefit everyone: the consumer, the trucker, the packing plant, the government and the farmer. It makes sense then, as far as Don is concerned, that everyone should contribute to establishing the highest possible food safety standards. And it makes sense, as a result, that government should pay for the cost of testing animals that are slaughtered. What's more, this type of support takes nothing away from the freedom and independence that farmers like Don cherish so much.

Seeing opportunities in the midst of setbacks – this is second nature to farmers. It has to be. Between the weather, the markets, the Canadian dollar and ever-rising input costs, there is always some dark cloud on the horizon. That's why Don says that farmers are a breed apart. In the face of adversity, they find reason to believe that better days are bound to come, sooner or later.



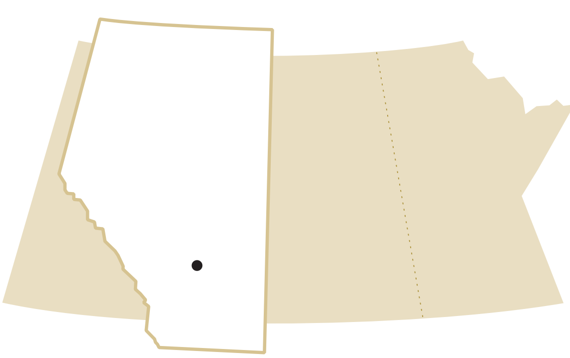
One voice more easily heard

As head of the Alberta Soft Wheat Producers' Commission, Lynn Jacobson believes in the importance of working together to achieve stability and prosperity. He leads a producer group where farmers cooperate to maintain supply of a particular crop in balance with the domestic market. There are no quotas or production contracts among producers of soft white wheat. But when the international price for soft white wheat dropped substantially several years ago, there was a realization that, unless production was scaled back, the economic benefits of growing and selling soft white wheat would disappear.

Soft white wheat is grown in a fairly concentrated area in southeast Alberta. It is somewhat less tolerant to drought than other types of wheat and is therefore grown for the most part under irrigation. Approximately 34,000 acres of soft white spring wheat were grown in 2002, down from 200,000 acres 10 years ago. In 2002, Lynn and his wife Elaine grew 300 acres of soft white wheat (AC Reed) on their own farm north of Enchant along with 600 acres of Mackenzie, a CWRS variety. Although they have access to irrigation on most of the acreage they farm, it was not needed much in 2002. Unlike the majority of areas throughout Western Canada, they were actually too wet. With the exception of July that was hot and dry, the growing and harvesting periods were marred with excessive amounts of rain. Low areas drowned. Their entire edible bean crop – about 130 acres worth – was lost. The harvest, which took four months to complete, actually lasted longer than the crop took to grow. The wheat crop suffered extensive damage as a result.

A year like 2002 – with poor yields, poor quality, declining markets, a rising dollar and the discovery of BSE in a Prairie cow – only reinforces Lynn's conviction that "sometimes, you have to get down from the tractor and talk to government". Through his involvement with the Commission, he has met extensively with government officials. He believes that there are things that government must do to create an environment where farmers can succeed. Having a sensible, responsive risk management program for farmers is one of them. He also believes that governments need to do more to attract businesses to rural areas. And he thinks that there is a need for greater public investment in agriculture, especially in light of the shortage of young farmers able and willing to ensure the renewal of agriculture in Western Canada.

Lynn thinks that farmers could accomplish some very real progress by taking a page from the Commission's book. The farmers who grow soft white wheat have put aside narrow self-interest in favour of cooperation and the well-being of their industry as a whole. He believes that, if the farmers of Western Canada can learn to put aside their differences and speak with one, coherent, consistent voice, there is a real opportunity – especially given the federal government's commitment to deal with western alienation – to make things better for themselves.



LYNN & ELAINE JACOBSON

ENCHANT, ALBERTA

MARK ANDERSON

SHAUNAVON, SASKATCHEWAN

Margin matters

Shaunavon, Saskatchewan is not known for its abundant rainfall. Situated in the middle of the Palliser Triangle, a region once designated as too dry to sustain annual crop production, its farmers are used to dealing with drought. They have adapted their crop rotations and cropping practices to their climate and usually harvest some of the highest quality wheat and durum in Western Canada because of the dry conditions. It is somewhat surprising then to discover, when you speak to Mark Anderson, that in a year like 2002 when much of the rest of his province was parched, his crops were benefiting from weekly rains of one inch or more. Mark farms about 3,000 acres near Shaunavon and until the excessive rains hit in August, the 2002 crop year was looking very good. He was actually thinking, he says, that it might be a year where he hit everything right, where the crop would be good and the prices, because of production problems elsewhere, would be reasonable.

He was not prepared for what happened next. "We're used to dealing with drought here but what do you do when it is too wet?" Mark asks. Heavy rains began in August. As they continued throughout the following months, quality and prices fell right along with them. All his grain came off the field in tough condition. Yields were generally decent but quality was far less than normal. There was blight and black point and even some fairly high levels of fusarium, especially in the durum, something that Mark had not seen to this extent before. It was November before Mark finally put the combine away for good.

What could have been a year of real progress for Mark turned out to be another case of tight margins and "just getting by". The problem, he says, is that "the input people seem to have their magic figure for margins." As soon as gross revenue shows any sign of increasing, input costs respond accordingly, forcing farmers to produce more and more just to stay afloat. "We've been told to get lean and mean," summarizes Mark. "Well, the lean and mean farmers are in danger of turning anorexic!"

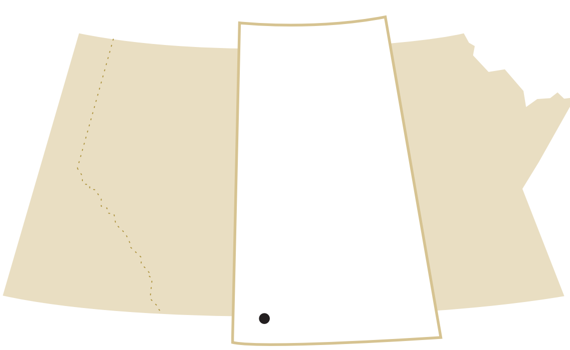
Instead of producing more, farmers like Mark are turning their attention to shoring up their margins.

First of all, they have diversified. Mark comments how, 15 years ago, all you would see if you drove through southwest Saskatchewan was wheat and durum. Now there are fields of peas, chickpeas, lentils, canola and mustard. In rotation with cereals, these crops offer the possibility of reducing fertilizer costs and reducing price risk.

Twenty-one local farmer-investors have also set up a producer car loading facility that allows them to reduce their handling costs and improve the grades they get for their grain. In 2002-03, Mark shipped everything he sold by producer car through this facility. In the case of his durum crop, it was cleaned before shipping. This enabled him to get a No.3 CWAD grade for his durum instead of the No.5 CWAD that he believes it would have graded had he simply delivered it to the elevator.

Their next project may well be saving their rail line. There is some concern in Mark's community over the fact that the short-line railway operating between Shaunavon and Assiniboia has given notice that it is selling the line. The producer car group, together with other farmers all the way along the line, is trying to put together the necessary capital to keep the line going. This is key to maintaining as many local businesses as possible. With margins as tight as they are, farmers cannot afford to drive halfway across the province to obtain the goods and services they need to run their businesses.

With this can-do attitude, farmers are finding opportunities in the wake of the consolidations and abandonments that have occurred throughout Western Canada. "When others pull out of our community," Mark says, "farmers step up and try to make a go of it."



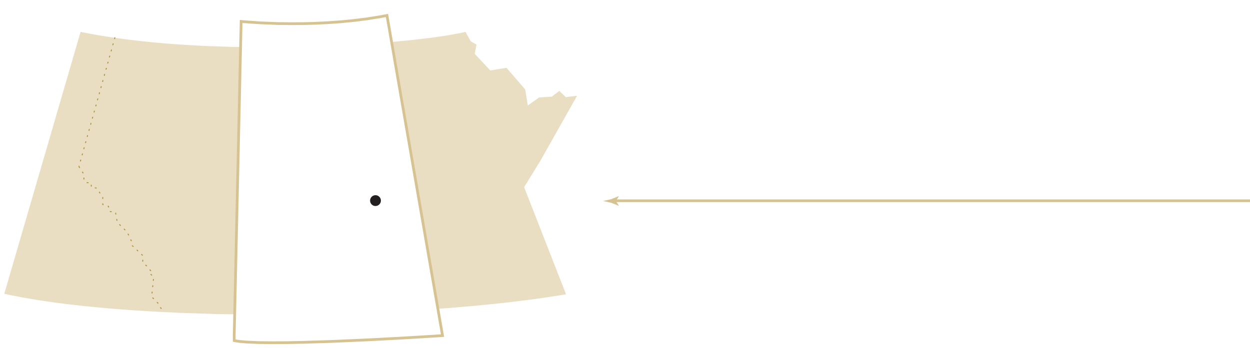
Filling the void

Farmers file steadily in and out of the producer car loading facility that Francis Rodier manages in Arborfield, Saskatchewan. Before it was sold to 50 farmers from the Arborfield area, it belonged to Agricore United, one of four different grain companies that were operating facilities in Arborfield at one point in time. Now, the producer car loading facility is the only game in town. The next closest facility is 15 miles away.

Francis expects to load 130 producer cars at this location over the course of the 2003-04 crop year. This is in stark contrast to 2002-03 where only four cars were loaded. The 2002 crop in the Arborfield area was very poor. It was extremely dry with most people only harvesting enough grain to replenish their supply of seed for the following year. Yields on the 2,120 acres that Francis and his brother farm were far below average. Their wheat ran four to seven bushels per acre where they would typically get 45 to 50 and their barley yielded only 15 bushels per acre. The 450 acres that they have planted to alfalfa seed gave them just under 90 pounds per acre compared to the 325 pounds that they usually harvest. Francis points out that in his community, the farmers who did the best in 2002 are those who did not actually harvest a crop for grain. They allowed the regrowth that occurred when rain finally came to their area in August to be taken off as green feed by the local dehydration plant – on whose board Francis also sits – and made into pellets for the feed market, both domestic and export.

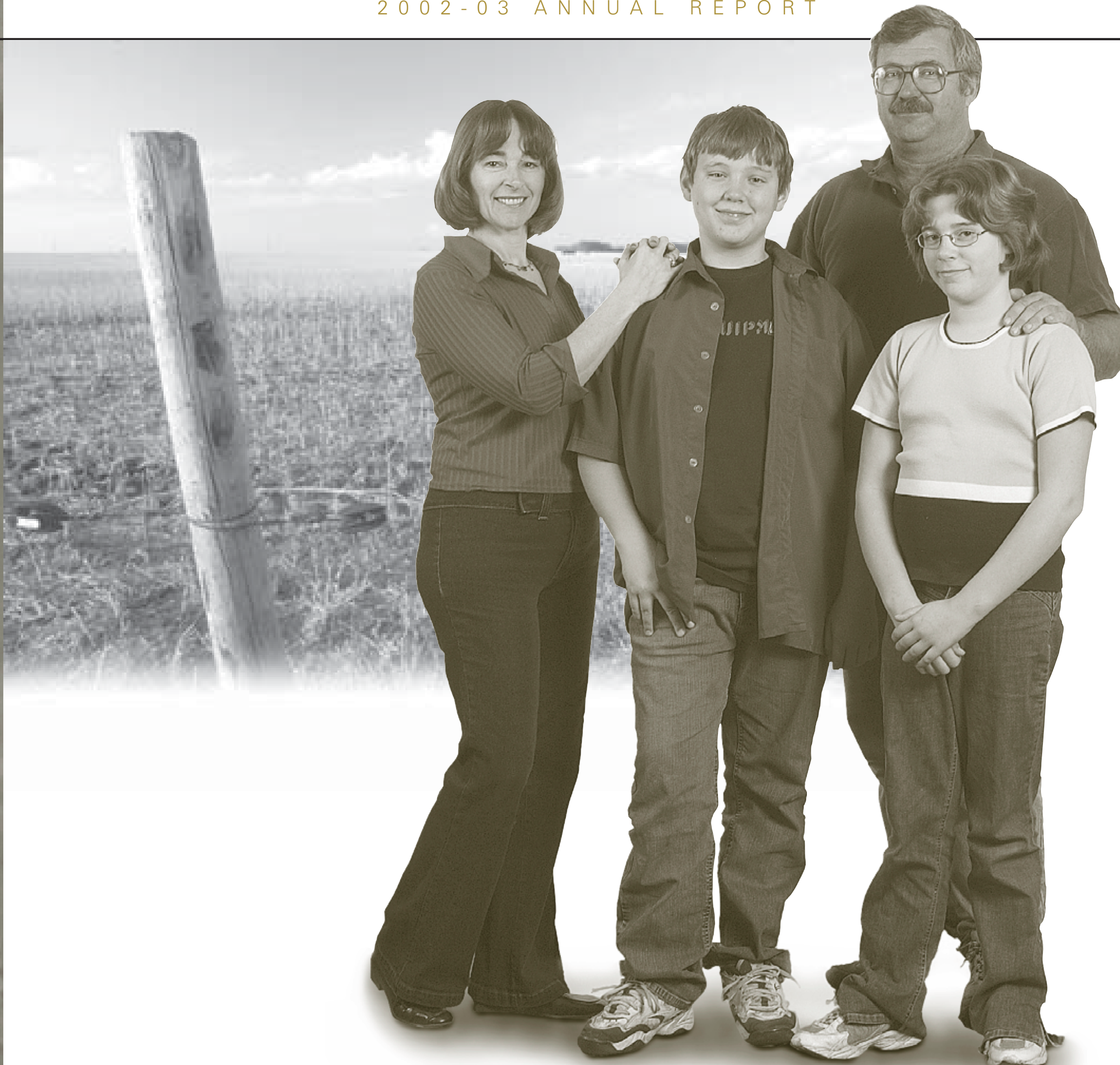
Farmers in Arborfield adapt and innovate – that is the message you cannot help but take away from Francis and the other farmers delivering grain to the facility that they own and run themselves. In addition to diversifying into enterprises as different as leafcutter bees and Saskatoon berries, as Francis has done, they have stepped in to fill the void when various grain and agricultural input companies have walked away from their town. The producer car loading facility is one example. It enables farmers to save an estimated $6.70 per tonne on the grain they ship through the facility. Then there are the grade improvements and the extra protein premiums they pocket because they are loading their own cars.

Their ability to work together for the good of their community has been such a positive experience that they are looking at taking on new challenges. They are considering taking on a fertilizer blending facility, for example, or even banding together to increase their purchasing power when it comes to farm inputs. Is this just a return to the spirit of cooperation that, in the past, led Prairie pioneers to establish pools and cooperatives? It is partly that, Francis answers, but he quickly adds that this model is different. It is a corporate model and the farmers who come together in Arborfield to sell their grain and dehydrate hay are business people who believe that by working and investing together, they stand a better chance of making a profit. Farming is a tough way to earn a living in Arborfield, as it is throughout the Prairies. Working together is just good business when times are tough.



FRANCIS & PAT RODIER

ARBORFIELD, SASKATCHEWAN



LISA, KARL, GARY & ELISE NEUMANN

WALDERSEE, MANITOBA

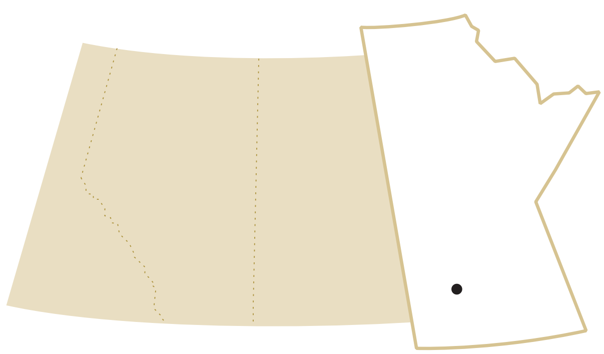
Reality 101

The 2002 crop in the Parkland region of Manitoba looked pretty good. Gary and Lisa Neumann farm close to the small town of Waldersee, about 30 kilometers from the western shore of Lake Manitoba. With prices rallying in late summer, they were looking forward to an unusual crop, a crop where good yields and good prices actually come together. Although they had struggled to receive enough moisture throughout the growing season, their 800 acres of wheat, barley, oats and canola were set to deliver above average yields. Then the humid, misty weather set in. Two weeks later, the yields were still there – 45 bushels per acre in AC Cora wheat – but the quality had been severely affected. All the cereals had suffered sprout damage. There was mildew and discolouration, too. The result: a crop that could have achieved milling values had to be delivered into the feed market.

The reality of grain farming on the Canadian Prairies is that yields, quality and good prices do not often coincide. This is a lesson that Gary and Lisa have learned over what will soon be a 20-year farming career. It is a lesson that has them wondering whether or not the farm will generate enough income to pay for their children's education and for their own future when their farming careers come to an end. It also has them wondering if the small grain farmer has a future. These concerns are driven home by the disappearance of delivery points. Gary and Lisa say that they used to have 12 elevators in an area that is now serviced by two high through-puts and one wooden facility. Those through-put elevators are over 60 miles away. Where those facilities were often owned by cooperatives which tended to treat all farmers equally, they point out, large farms now appear to get first shot at delivering and better grades.

But Gary and Lisa are quite intent on fighting back. Their strategy is simple: if you do not want to compete on volume, move up the food supply chain and get more of the consumers' dollar. There are any number of possibilities that farmers can pursue, from home-processing of grain products to market gardening to farm tours. Gary and Lisa have chosen bison. Two years ago, they purchased their first animals. Now, they are on the verge of having bison meat to sell. Their intention is to sell their product directly to the public and to find local businesses that are willing to retail the meat. It is value-added processing on a family-farm scale, the type that Prairie farmers have been doing for years. And, for Gary and Lisa, it has put the fun back into farming.

Would they encourage their children to farm? "We won't discourage them", Gary says. But farming is tough. When Gary and Lisa look over the fence at where they are, compared to where they could be if they were not farming, it is sometimes difficult to know if they made the right choice. It is certainly not a choice that they would force on someone else, especially their children.



Corporate Governance

CWB performance highlights

The CWB's performance is measured in terms of its achievements in four distinct areas: services to farmers; customer services; supporting the CWB mandate; and strengthening corporate performance.

FARMER

INITIATIVES:

Enhance payment options

- Contracted 183 181 tonnes of grain under CWB Producer Payment Options.
- Extended the Fixed Price Contract to all wheat, durum and feed barley.
- Extended the Early Payment Option to all wheat and feed barley.

Enhance delivery policy

- Reduced the number of delivery contract series from four to three.
- Increased the minimum delivery provision to 45 tonnes and replaced the initial acreage-based delivery calls with contract delivery opportunities.

Improve farmer contact

- Held 40 Corporate Accountability Meetings across the Prairies to provide opportunities for farmer interaction with their elected directors.
- Increased interaction between CWB staff and directors and farm organizations.

Utilize e-business to improve farmer services

- Offered e-contracting so that farmers could submit, change or view delivery contracts on-line.
- Undertook the development of additional on-line services such as e-advances to be launched in 2004.

Provide new transportation and marketing services

- Administered 372 producer cars.
- Established 13 new service agents to provide administrative and contracting services to farmers.

Benchmark CWB operations

- Set performance targets (benchmarks) for terminal and country storage, vessel despatch, adverse freight and the application of grades to sales contracts.

Review presentation of CWB financial statements

- Implemented new presentation of financial statements for the 2002-03 annual report.

CUSTOMER

INITIATIVES:

Enhance/maintain quality control

- Implemented an IT system for Market Development Contract Programs (MDCP), resulting in significantly improved ability to effectively manage contracts, quality testing results and logistics. This positioned the CWB to implement more sophisticated future quality control system requirements.
- Developed a detailed set of conditions for the release of genetically-modified wheat in Canada supported by a broad farmer/industry stakeholder group. In response to the stakeholder group's work, the Canadian government will conduct consultations in 2003-04 to consider the possibility of regulatory change, including the addition of a cost-benefit analysis to the regulatory process.

Encourage an increase in supply of malting barley to meet projected trade

- Surveyed farmers on how the production of malting barley could be increased.
- Scheduled a series of malting barley meetings for the fall of 2003.

MANDATE

INITIATIVES:

Create stronger interface with federal, provincial and local stakeholders

- Held approximately 50 meetings with elected officials and staff at federal and provincial levels of government. CWB officials advocated for reduced subsidies in competing countries, competition in grain transportation and improvements to the approval process for genetically-modified crops.

Strengthen CWB position in international trade agreements

- Ensured that CWB views and positions continued to be carried forward by Government of Canada trade negotiators at the World Trade Organization and in other bilateral and multilateral forums.

CORPORATE

INITIATIVES:

Develop and implement HR planning

- Implemented the first phase of a succession planning model to identify employee leadership talent for executive positions.
- Implemented a management development program to develop and enhance leadership capabilities throughout the organization.
- Developed a new pension plan that is competitive, flexible and cost-effective.

Fully utilize IT technology to facilitate efficiency, effectiveness and change

- Approved a long-term information technology strategic plan.
- Achieved significant progress towards a cost-effective and flexible technical environment.

Farmer-controlled board of directors

The CWB board of directors consists of 10 farmer-elected members and five federal government appointees. This governance structure has been in existence since 1998. It places control of the CWB firmly in farmers' hands and ensures that the CWB is accountable to farmers for everything it does.

Pictured l. to r., (front row): Larry Hill, Wilfred (Butch) Harder (seated), Ken Ritter, Allen Oberg (seated), V. Lynne Pearson, Bill Nicholson; (middle row): Art Macklin, Rod Flaman, Adrian Measner, Bonnie DuPont, James Chatenay; (back row): Ross L. Keith, Dwayne Anderson, Ian McCreary, Edward Zinger

ART MACKLIN (District 1):
Art operates a 1,200-acre grain and cattle farm north-east of Grande 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):
Jim operates a family farm near Penhold, Alberta. He is a graduate of Olds Agricultural College and served six years as director of the Alberta Charolais Association.

ADRIAN MEASNER, CWB President and Chief Executive Officer (Appointed):
Raised on a farm near Holdfast, Saskatchewan, Adrian was educated at the University of Saskatchewan. He has 29 years of experience in the grain industry, having held a variety of positions at the CWB. He was also previously involved in a small grain farm north of Winnipeg, Manitoba.

LARRY HILL (District 3):
Larry farms 5,200 acres near Swift Current, Saskatchewan. A graduate of both Agricultural Engineering and Farm Business Management at the University of Saskatchewan, he has worked for Saskatchewan Agriculture.

KEN RITTER, CWB Chair (District 4):
Ken operates a family farm near Kindersley, Saskatchewan. In addition to farming, he has practiced law and taught school in both Canada and Australia. He has been the chair of the CWB's board of directors since its inception and has served on both the National Transportation Agency and the Saskatchewan Surface Rights Arbitration Board.

BONNIE DUPONT (Appointed):
A senior vice-president at Calgary's Enbridge Inc., Bonnie has expertise in energy transportation and grain handling and has held senior positions with Alberta Wheat Pool and Saskatchewan Wheat Pool. She holds a Bachelor of Social Work from the University of Regina with majors in Program Administration and Evaluation Psychology, and a Master's in Human Resources Management from the University of Calgary.

ALLEN OBERG (District 5):
Allen and his brother, John, run a grain and cattle operation near Forestburg, Alberta. He has worked for Alberta Wheat Pool and served on its board of directors for 11 years. He has also served on the federal minister's Advisory Committee on Cooperatives.

IAN McCREARY (District 6):
Ian was born and raised on the mixed farm near Bladworth, Saskatchewan that he operates today. He holds a Master's degree in Agricultural Economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian's international experience also includes managing a pilot project on food aid and food markets with the Canadian Foodgrains Bank.

EDWARD ZINGER (Appointed):
Ed worked for the Bank of Montreal in Western Canada and Toronto for more than 39 years. He has extensive experience in corporate, government and investment banking and is a Fellow of the Institute of Canadian Bankers. He is also a graduate of the Senior Executive Program of the Banff School of Advanced Management.

DWAYNE ANDERSON (District 7):
Dwayne and his wife, Sheila, operate a 2,600-acre farm in the Fosston/Rose Valley area of Saskatchewan. He served 10 years as President and CEO of North East Terminal Ltd., a farmer-owned inland grain terminal and crop input business, and was also founding chair of the Inland Terminal Association of Canada.

ROD FLAMAN (District 8):
Rod farms with his wife, Jeanne, just south of the Qu'Appelle Valley near Edenwold, Saskatchewan. They produce a variety of field and horticultural crops, including certified organic grain. Educated at the University of Saskatchewan, Rod has served as a director of Terminal 22 at Balcarres, Saskatchewan and the Saskatchewan Fruit Growers Association.

BILL NICHOLSON (District 9):
Bill and his family operate a 4,300-acre grain farm near Shoal Lake, Manitoba. He has a degree in Agricultural Engineering and has worked in the farm machinery industry. In addition to serving on the former Advisory Committee to the CWB, Bill has been a Manitoba Pool delegate, represented farmers on the Prairie Agricultural Machinery Institute Council and is president of the local credit union board.

WILFRED (BUTCH) HARDER (District 10):
Wilfred (Butch) operates a 3,900-acre farm near Lowe Farm and a 1,200-acre farm at Headingley, Manitoba. He also served on the former CWB Advisory Committee and as a director with Manitoba Pool Elevators and the Canadian Co-operative Association. Wilfred is also a past director of XCAN Grain and Western Co-op Fertilizer.

ROSS L. KEITH (Appointed):
Ross is president of the Nicor Group property development company and is a former partner in the Regina law firm of MacLean-Keith. He has degrees from the University of Regina in Arts, Commerce and Law. Ross is the president of a third-generation family farming operation in southern Saskatchewan.

V. LYNNE PEARSON (Appointed):
Lynne is the Dean of the College of Commerce at the University of Saskatchewan and secretary/treasurer of the Canadian Federation of Business School Deans. She has held senior positions with several public and private sector organizations and has served on numerous boards. Lynne has a Bachelor's and Master's in Arts and a Bachelor's degree in Journalism.

COMPOSITION

The board of directors is comprised of 10 elected and five appointed directors. The elected directors represent 10 electoral districts across Western Canada. *The Canadian Wheat Board Act* requires elections to be held in half of the 10 districts every two years, resulting in directors serving four-year terms. In the 2002 round of elections, farmers cast ballots in districts 1, 3, 5, 7 and 9. Incumbents Art Macklin (district 1), Larry Hill (district 3) and Bill Nicholson (district 9) were re-elected. Allen Oberg was elected in district 5. John Clair, who had represented district 5 since the inception of the board of directors in 1998, did not seek another term. The farmers of district 7, who were formerly represented by Micheal Halyk, elected Dwayne Anderson in December 2002. The 2004 elections will see elections in districts 2, 4, 6, 8 and 10.

The appointed directors include the President and Chief Executive Officer (CEO) who leads the senior management team. Adrian Measner replaced Greg Arason as President and CEO and joined the board of directors in January 2003. The other appointed directors are named for three-year terms and bring a variety of business expertise to the table. In July 2003, appointed director Lynne Pearson was named to the board to fill a vacancy.

MANDATE

The board of directors is responsible for establishing strategic direction and reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The board also ensures management has appropriate systems in place to manage risk, maintain integrity of financial controls and oversee information services.

RESULTS

The board of directors achieved the following results in the 2002-03 crop year:

- CEO search – The board of directors led the search for a President and CEO prior to Greg Arason's retirement in December 2002. The board recommended Adrian Measner as Mr. Arason's successor and he was appointed by the federal government for a three-year term.
- Governance – Processes for improved governance were adopted, including changes to the structure of board and committee meetings, more emphasis on the board's strategic role and creation of a development program for directors.
- Long-Term Plan – The board of directors approved the Long-Term Plan. This is a key element of its strategic planning process over the next five years.
- Employee pension redesign – The board of directors oversaw the implementation of the new employee pension plan.
- Trade challenges – The board of directors ensured processes were in place to respond to trade challenges and World Trade Organization (WTO) negotiations, including countervailing duty and anti-dumping actions launched by the United States. A trade challenge against the CWB was also brought by the U.S. to the WTO.
- Corporate performance measures – In response to the 2002 report by the Auditor General, the board oversaw a process for establishing performance measures. Some measures are already being implemented.
- Producer Payment Options – The board of directors approved payment options and pricing enhancements for implementation in 2002-03 and 2003-04.
- New tendering agreement – The board of directors reviewed and approved a new tendering and car awards policy to address the transportation of grain sold by farmers through the CWB.
- Budget reductions – In response to severely decreased crop volumes, the board approved corporate budget reductions.
- Genetically-modified wheat – The board of directors provided direction on the CWB's strategy to prevent the premature release of genetically-modified wheat.
- Director orientation – A comprehensive orientation was provided to the two newly elected directors.

Committee structure for 2002-03

The board of directors has four standing committees. In 2002-03, there were also three ad hoc committees, including Trade, Benchmarking, and CEO Search. The CEO Search Committee and the Benchmarking Committee were disbanded in November 2002 and February 2003, respectively.

AUDIT, FINANCE AND RISK COMMITTEE

Mandate – This committee's primary responsibilities include the review of financial reporting, accounting systems, risk management and internal controls. It facilitates the conduct of an annual audit, assesses performance measures, reviews annual financial statements and accounting practices, and reviews financial and business risk policies, plans and proposals.

Members – Larry Hill (chair, beginning January 2003), John Clair (until December 2002), James Chatenay, Bonnie DuPont (beginning March 2003), Ian McCreary (beginning March 2003), Allen Oberg (beginning March 2003), Edward Zinger

2002-03 accomplishments

- Recommended approval of the financial statements and notes for the fiscal year ended July 31, 2002.
- Reviewed and recommended approval of the 2003-04 corporate budget and borrowing plan.
- Oversaw the implementation of new hedge accounting guidelines.
- Completed a review of the committee's terms of reference.
- Recommended approval of amendments to the financial risk management policies.
- Recommended continued use of Deloitte & Touche as external auditors.
- Oversaw an external audit of the Pool Return Outlook process to ensure adherence to relevant policies.
- Reviewed high-level performance measures and provided input.
- Reviewed financial risk management activities.
- Initiated a process to assess and improve the financial literacy of committee members.
- Provided input on issues concerning the results of the pool accounts.

GOVERNANCE AND MANAGEMENT RESOURCES COMMITTEE

Mandate – This committee focuses on governance to enhance board and organizational effectiveness. It assists the board in fulfilling its obligations related to human resource and compensation matters.

Members – Bonnie DuPont (chair), Dwayne Anderson (beginning March 2003), James Chatenay (beginning March 2003), Wilfred Harder (beginning March 2003), Art Macklin (until February 2003), William Nicholson (beginning March 2003), Ken Ritter (until February 2003), Edward Zinger (beginning March 2003)

2002-03 accomplishments

- Oversaw the implementation of comprehensive governance enhancements in response to the 2002 report by the Auditor General.
- Oversaw a review of the 2002 director elections.
- Reviewed the reporting relationship to the board of the Corporate Secretary and the Internal Auditor to ensure their independence.
- Recommended approval of amendments to the committee's terms of reference.
- Provided input and recommended approval of a director development and education program.
- Oversaw the implementation of the new CWB employee pension plan and approval of the terms of reference for the Senior Management Pension Committee.
- Provided direction on the succession planning process for the President and CEO and executive positions.
- Oversaw a review of the CWB's core values.

STRATEGIC ISSUES COMMITTEE

Mandate – This committee ensures that strategic and policy issues are identified and that priorities, time frames and processes to address these issues are recommended to the board. It coordinates the board's input to the CWB's strategic planning process.

Members – Bill Nicholson (chair, beginning March 2003), Ian McCreary (chair, until February 2003), Greg Arason (until December 2002), Dwayne Anderson (beginning March 2003), Rod Flaman, Wilfred Harder (beginning March 2003) Ross Keith (beginning March 2003), Art Macklin (beginning March 2003)

2002-03 accomplishments

- Oversaw the board's strategic planning process.
- Reviewed the 2003-04 business plan initiatives.
- Reviewed and recommended approval of payment options and pricing enhancements to be implemented in 2002-03 and 2003-04.
- Oversaw the CWB's recommendations to the federal government on the transportation blueprint.
- Recommended approval of a proposal to grain handlers on tendering.
- Provided strategic direction on farmer-related issues such as how to deal with genetically-modified wheat.
- Recommended approval of a number of research initiatives in the area of market development.

FARMER RELATIONS COMMITTEE

Mandate – This committee reviews and recommends to the board strategic plans for farmer relations, communications and government relations.

Members – Ian McCreary (chair, beginning March 2003) Micheal Halyk (chair, until December 2002), Wilfred Harder (until February 2003), Ross Keith, Rod Flaman (beginning March 2003), Larry Hill (beginning March 2003), Art Macklin (beginning March 2003), Allen Oberg (beginning March 2003)

2002-03 accomplishments

- Reviewed and recommended approval of communications and farmer relations strategies.
- Gave direction on corporate accountability meetings and reviewed results of the meetings.
- Recommended approval of guidelines for director representation at industry events.
- Reviewed and gave direction on the annual report.
- Commenced a review of the committee's terms of reference.

AD HOC COMMITTEES

Trade *(Larry Hill – chair, Rod Flaman, Ross Keith, Art Macklin, Ian McCreary, Bill Nicholson):* This committee recommends strategies on trade-related issues that could affect the CWB's ability to fulfill its mandate.

Benchmarking *(John Clair – chair, until December 2002, Larry Hill – chair, January-February 2003, James Chatenay, Bonnie DuPont, Ian McCreary, Bill Nicholson):* This committee assisted in developing appropriate benchmarks for performance measurement of the core grain marketing function. Ongoing duties of this committee were transferred to the Audit, Finance and Risk Committee in February 2003 when the Benchmarking Committee was disbanded.

CEO Search *(Ken Ritter – chair, Bonnie DuPont, Larry Hill, Ross Keith, Art Macklin, Ian McCreary):* This committee assisted the board in the recruitment and selection of a new President and CEO. The committee was disbanded in November 2002.

Compensation table

BOARD OF DIRECTORS

		Remuneration			Attendance		
Director	District	Retainer	Per diems	Total	Board Meetings	Committee Meetings	Industry Meetings
Macklin, Art	1	20,000.00	29,150.00	49,150.00	14	25	24
Chatenay, James	2	20,000.00	21,250.00	41,250.00	13	16	16
Hill, Larry	3	27,999.99	31,600.00	59,599.99	14	31	38
Ritter, Ken (Chair)	4	60,000.00	40,000.00	100,000.00	14	38	55
Clair, John[1]	5	10,000.00	11,250.00	21,250.00	6	7	7
Oberg, Allen[2]	5	11,666.67	23,333.33	35,000.00	8	12	16
McCreary, Ian	6	24,000.00	27,550.00	51,550.00	14	34	31
Halyk, Micheal[3]	7	10,000.00	7,000.00	17,000.00	6	4	4
Anderson, Dwayne[4]	7	11,666.67	17,000.00	28,666.67	7	9	19
Flaman, Rod	8	20,000.00	23,900.00	43,900.00	14	23	41
Nicholson, Bill	9	21,666.67	21,800.00	43,466.67	13	23	25
Harder, Wilfred	10	20,500.00	24,625.00	45,125.00	14	14	24
Arason, Greg[5] (CEO)	A	NA	NA	NA	5	NA	NA
Measner, Adrian[6] (CEO)	A	NA	NA	NA	8	NA	NA
DuPont, Bonnie	A	24,000.00	15,000.00	39,000.00	14	18	3
Keith, Ross	A	20,000.00	17,250.00	37,250.00	11	20	6
Zinger, Edward	A	20,000.00	23,000.00	43,000.00	14	17	7
Pearson, Lynne[7]	A	1,666.67	250.00	1,916.67	1	Ø	Ø
TOTAL		**323,166.67**	**333,958.33**	**657,125.00**			

A = Appointed
[1] August to December 2002
[2] January to July 2003
[3] August to December 2002
[4] January to July 2003
[5] August to December 2002
[6] January to July 2003
[7] July 2003

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. Directors do not participate in any corporate pension plan. The table above includes remuneration earned in the previous crop year, but paid during 2002-03.

Senior management

THE EXECUTIVE TEAM

Pictured l. to r.,
Earl Geddes, VP, Farmer Relations; **Laurel Repski,** VP, Human Resources, **Ward Weisensel,** Executive VP, Marketing (as of June 2003); **Adrian Measner,** President and CEO (as of January 2003); **Gord Menzie,** Executive VP, Finance; **Margaret Redmond,** Executive VP, Corporate Affairs

SENIOR MANAGEMENT

Pictured l. to r., (front row): **Deanna Allen** (seated), VP, Communications & Public Relations; **Susan Wiklund,** Acting VP, Country Operations (as of June 2003); **Graham Paul,** VP, Information Technology Services; **Deborah Harri** (seated), Corporate Secretary; (middle row): **Brian White,** VP, Commodity Analysis and Risk Management; **Victor Jarjour,** VP, Strategic Planning & Policy; **Brita Chell,** VP, Accounting; **Jim McLandress,** General Counsel; (back row): **Larry Nentwig,** VP, Finance; **Barry Horan,** Director, Corporate Audit Services; **Wendi Thiessen,** Treasurer (as of September 2002); **Bill Spafford,** VP, Sales and Market Development

Missing from photo:
Dennis Portman, Acting VP, Transportation (as of June 2003)

The Senior Management team works in partnership with the board of directors to establish and implement the CWB's vision and mission. It draws upon the leadership in the core and support areas of the business to provide direction and support to the CWB as it strives to meet its strategic objectives.

Senior management is comprised of the Executive Team, the Vice-Presidents, General Counsel, Corporate Secretary and the Director of Corporate Audit Services.

Changes to the team during the 2002-03 crop year included the replacement of the President and CEO who retired, and the subsequent replacement of the Executive Vice-President of Marketing. In support of succession planning, the position of Treasurer was established.

SENIOR MANAGEMENT COMPENSATION

	2002-2003 Actual	**2001-2002** Actual
Salaries	$ 2,372,811	$ 2,546,263
Benefits	1,256,934	1,217,273
Total	**$3,629,745**	$ 3,763,536

Senior management is compensated in accordance with policies approved by the board of directors. Corporately, there were significant efforts to reduce the human resources budget including a freeze on annual salary increases across the organization. In addition, the senior management team took a five per cent reduction in salary from October 28, 2002 to the end of the crop year for total savings of $84,309.

In keeping with the CWB Information Policy and a 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, 2003.

SUMMARY COMPENSATION TABLE, 2002-03

	Annual Compensation	
Name and Principal Position	Salary[1]	All Other Compensation[2]
Adrian C. Measner[3] President & Chief Executive Officer	$ 250,084	–
Ward Weisensel[4] Executive Vice-President, Marketing	187,563	–
Gordon P. Menzie Executive Vice-President, Finance	179,714	–
William W. Spafford Vice-President, Sales and Marketing	172,474	–
Margaret D. Redmond Executive Vice-President, Corporate Affairs	163,516	–

Notes:

1 Annual salaries reflect a five per cent reduction from October 28, 2002 to July 31, 2003.

2 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 per cent of total annual salary.

3 Adrian Measner was appointed to his position on January 2, 2003.

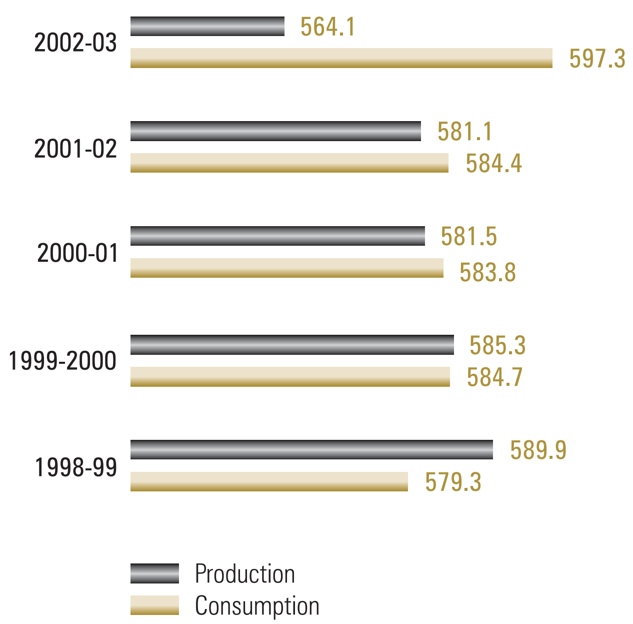
4 Ward Weisensel was appointed to his position on June 16, 2003.

Management Discussion & Analysis

Introduction

The CWB markets four crops on behalf of western Canadian farmers, namely wheat, durum, feed barley and designated barley. The revenue generated from the sale of these four grains as well as other revenue generated by CWB operations is pooled by crop throughout the year and is paid out – less expenses – to farmers based on their deliveries to the CWB. Discussion and analysis of management's performance in the 2002-03 crop year begins with an examination of crop conditions as a whole both in Western Canada and throughout the world. Each of the four pools is then considered individually. A discussion of the wheat pool deficit, the CWB's indirect income and expense, Producer Payment Options, credit sales, funding and financial risk management activities and outlook for the coming crop year round out the narrative section of the Management Discussion and Analysis. The Financial statements and accompanying notes follow.

GLOBAL WHEAT SUPPLY AND DEMAND
(million tonnes)



General crop conditions

Overall, crop volumes in 2002-03 were only 50 to 60 per cent of a normal or average crop. Total production of the six major grains (wheat, barley, oats, canola, flax and rye) was 28.4 million tonnes in 2002-03, compared to a five-year average of 42.2 million per year. Drought throughout many regions of Western Canada, and particularly in central areas of both Saskatchewan and Alberta, had a devastating impact on yields. Faced with the prospect of harvesting a very sparse crop and because of concerns related to grasshoppers and feed shortages, many farmers in the worst affected areas decided to either harvest their crops as forage or use them to pasture their livestock. Durum, however, was an exception to the rule. Because durum production is concentrated in the southern areas of the Prairies where moisture was more adequate, total production of durum was close to average.

The quality of the crop was also adversely affected by the weather. General rains finally came to the Prairies in early August, just as farmers were getting ready for harvest. In many ways, the harvest rains were just as devastating as the drought, downgrading the crop that was available and stretching out the harvest, in some cases into May of the following spring.

Crops in some of the other major exporting nations were also affected by severe droughts. Australia in particular was affected along with significant portions of the United States. These production losses were only partly offset by increased volumes in the European Union where 103.3 million tonnes of wheat were produced compared to an average of 97.9 million. As a result, wheat production in the major exporting nations fell from a five-year average of 223.0 million tonnes to just 184.7 million tonnes in 2002-03. On the other hand, wheat production in countries that were, until now, considered minor exporters rose dramatically. In the nations of the former Soviet Union, including Ukraine, Russia and Kazakhstan, wheat production jumped to 99.2 million tonnes from a five-year average of 72.2 million. This enabled these countries to play a much more significant role than expected in the international grain trade in 2002-03.

In total, global wheat production fell again in 2002-03 to 564.1 million tonnes. This is the fifth year in a row that production has fallen and represents the third year in a row where production has been less than the amount of wheat consumed on an annual basis throughout the world (597.3 million tonnes in 2002-03). As a result, world stocks of wheat are estimated to have fallen to 164.2 million tonnes which is almost 40 million tonnes less than ending stock levels in 2000.

The CWB set an export target of 8.7 million tonnes of wheat, durum and barley at the start of the 2002-03 crop year. This was just slightly over half of the export target set the previous year and reflected the dramatically reduced volumes that were produced in 2002. This export target was almost met with 8.6 million tonnes actually being sold. The total value of CWB sales, including both export and domestic, was $3.3 billion, down from the $4.4 billion that was sold the previous year. Again, this reflects lower crop volumes as well as the poorer grade pattern that was harvested in 2002.

Change in Presentation of Statement of Pool Operations

The CWB has made changes to its operating statement presentation in order to make the statements more transparent, relevant and understandable. The changes made, which are consistent with recommendations of the recent Auditor General's report, include reducing the amount of netting of revenues and related expenses and redefining disclosed categories.

Previously, the *Revenue* line represented sales value equivalent to the proceeds that would have been available at the Vancouver, Churchill or St. Lawrence position. To bring revenue to this basis, items such as ocean freight revenue and expense, terminal handling, stevedoring, fobbing costs, and U.S. rail freight were included. Under the new presentation, *Revenue* represents grain sales at contract prices, gains or losses on foreign exchange and commodity hedging activities, as well as other direct operating income such as despatch and tendering income.

Under *Direct costs,* the freight-related categories have been combined into a single category called *Freight* as it was deemed that separation into the previous categories did not provide much additional information. Freight also includes any ocean and rail freight costs previously included in the *Revenue* line.

Given the significance and close relationship of terminal, fobbing and stevedoring costs, these were combined and included in a new category called *Terminal Handling*. As described above, these costs were previously included under *Revenue* with the exception of fobbing related to grain movement east of Thunder Bay, which was previously recorded under *Movement to eastern export position*.

Country and terminal storage have been combined because it was felt that the integral relationship between the two made separation inappropriate.

The *Net Demurrage (Despatch), Drying* and *CWB hopper car* categories have been grouped with other categories due to their relative low dollar value. Demurrage and hopper car expense is now included in *Other direct expense,* drying is in *Terminal Handling* and despatch is in *Revenue*.

Two additional categories, referred to as *Inventory adjustments and Other grain purchases*, have been created. *Inventory adjustments* captures the dollar impact of changes in grade and protein of grain as its moves through the grain handling and transportation system. *Other grain purchases* captures the net result of inventory overages acquired at initial price from grain companies and inventory shortages sold at export price to grain companies.

An *Other direct expense* category was created which captures expenses such as sales commissions, fees for sample testing and other analytical services, CWB hopper car costs, demurrage, and sales contract cancellation charges.

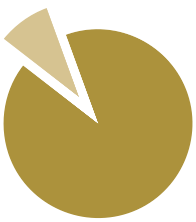
Finally, an *Other income* category has been added which primarily includes the recovery of cash ticket deductions, where the grain company did not incur the related charges, and the Freight Adjustment Factor recovery.

All prior year balances have been reclassified to conform to this new presentation format.

The wheat pool

	2002-03	2001-02
Receipts (tonnes)	**8 696 221**	**13 330 652**
Revenue	**$ 238.79**	$ 225.33
Direct costs	**24.02**	19.73
Net revenue from operations	**214.77**	205.60
Other income	**11.26**	9.47
Net interest earnings	**4.54**	5.23
Administrative expenses	**(4.03)**	(2.68)
Grain industry organizations	**(0.13)**	(0.08)
Earnings for distribution	**$ 226.41**	$ 217.54

EARNINGS DISTRIBUTED TO FARMERS
Wheat – 2002-03



91% Initial payment

9% Adjustment payments

Distributions through initial and adjustment payments in the 2002-03 wheat pool exceeded earnings for distribution by $9.86 per tonne, resulting in a deficit in the wheat pool of $85.4 million. A detailed explanation of why a deficit occurred is provided on pages 35 and 36. Several of the extraordinary circumstances that led to the deficit are also described below.

THE CROP

The 2002-03 wheat crop was the smallest in Western Canada since 1970. Over 80 per cent of the Prairies experienced drought conditions. Some regions were drier than they had been since the 1880's. Combined with severe grasshopper infestations in some areas, this led to a total wheat crop of only 10.7 million tonnes, down from 15.7 million tonnes in 2001-02. Farmers grew 19.2 million acres of wheat in 2002-03, down about 7.5 per cent from the previous year.

The grade pattern was severely affected by wet weather that arrived just as farmers were getting ready to harvest their crops. Although the moisture brought welcome relief from the drought, especially in areas that had experienced two consecutive years of dry conditions, it could not have come at a worse time. The wet conditions not only resulted in poorer grades but also in long delays in the harvest with some farmers combining their crops well into winter and even early spring. Only 37 per cent of the wheat crop graded No. 1 or No. 2, compared to 90 per cent in 2001-02. Degrading factors included sprouting, bleaching, mildew and fusarium. By mid-October, only 75 per cent of the crop had been harvested.

THE MARKETING ENVIRONMENT

Prices for high quality wheat rose sharply in the late summer and early fall as production shortfalls in Canada, the U.S. and Australia became apparent. At the same time, farmers in nations which had traditionally been considered minor exporters were harvesting a very large crop. This led to a record spread between North American values for high quality wheat and lower quality grain from other origins. As a result, many buyers in the international market decided to switch to blends that included more lower quality wheat. The decline in prices was also compounded by the European Union's decision to resume the use of export subsidies in an effort to compete with low-cost wheat from origins like Russia and the Ukraine. Early in 2003, the value of the American dollar compared to many other currencies, including the Canadian dollar, began to fall rapidly, further cutting into the value of our exports. The combination of these factors caused an extraordinary drop in the nearby futures markets for wheat and other commodities. Minneapolis nearby wheat futures in Canadian dollar terms fell by over $135 per tonne from their peak in early October 2002 to June 2003.

THE STRATEGY

The CWB sells grain throughout the crop year. It does so not only because of the requirement to match sales with customers' buying patterns but also because of the need to appropriately manage the pricing risk that farmers face on their grain. It would be imprudent to price farmers' grain all at once when there is the possibility that grain prices will continue to move upward. Prices in the fall of 1995, for example, were at similar levels to those that were seen in October 2002. They then proceeded to increase, reaching spot values of close to $7.00 US per bushel in the late spring of 1996.

Because grain markets are as unpredictable as the weather, the CWB has put in place a prudent system of risk management. A key component of this system is a staged approach to marketing the crop. This system ensures that pool returns, regardless of what happens to the markets, reflect to some extent the benefits of rising prices that may occur later.

With the Producer Payment Options that the CWB introduced in 2000-01 – specifically the Basis Payment Contract – farmers can now spot price on their own if the pooled approach to risk management does not match their business needs.

Furthermore, the CWB, much as farmers do themselves, must know quite accurately what it has to market before making extensive commitments to buyers. In a year of reduced crops and delayed harvests like in 2002-03, this meant taking a cautious approach to selling and pricing the crop in the fall period.

The poor grade pattern and low yields meant the CWB had to undertake considerable effort to ensure supplies for its most reliable and best paying customers.

THE DELIVERIES

Delivery opportunities for wheat varied depending on grade and class. All of the wheat committed to Series A and B contracts was accepted. By October 2002, 50 per cent of the Canada Western Red Spring (CWRS) that was committed to Series A contracts had been called into the system. The portion of committed tonnage called into the system by December 31, 2002 for the other classes of wheat ranged from 25 per cent calls in the case of Canada Prairie Spring Red and White as well as Canada Western Extra Strong to 50 per cent for Canada Western Soft White Spring and 75 per cent for Canada Western Red Winter wheat.

Series C acceptance was limited to 100 per cent of No. 1 and No. 2 CWRS because of concerns about the value of the other grades and classes of wheat at the time (early June) and how these market values would impact wheat pool returns.

In all, 98 per cent of the wheat offered by farmers on Series A, B and C delivery contracts was accepted.

THE RESULTS

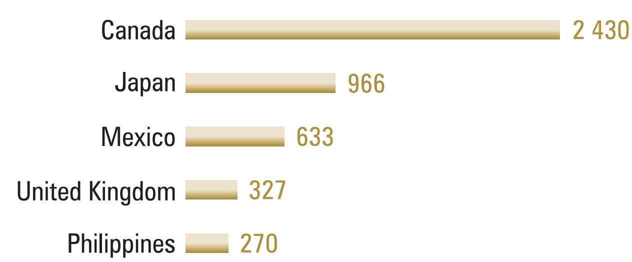
Generally, the CWB's marketing strategy in 2002-03 entailed protection of supply for higher return customers. Many lower return customers experienced either severe cutbacks in supply or were unable to buy Canadian wheat. This enabled us to capture higher premiums from quality conscious markets.

The major customer for wheat sold through the CWB was again our own domestic market. In 2002-03, approximately 2.43 million tonnes were processed domestically compared to 2.33 million tonnes the previous two crop years.

Japan bought close to a million tonnes of Canadian wheat. Mexico moved into third place among customers for Prairie wheat with purchases of 633 000 tonnes. The United Kingdom was fourth and the Philippines was fifth: both purchased approximately 300 000 tonnes. Our sales into the U.S. market, which had purchased over one million tonnes in the previous year, dropped sharply in response to a number of factors, including a decreased supply of the high quality wheat which is typically sold to American customers.

LARGEST VOLUME WHEAT CUSTOMERS

(000 tonnes) 2002-03



The wheat pool realized total revenue of just over $2 billion on a pool substantially reduced in quality and quantity by adverse growing conditions. The effect on prices of tight world supplies offset the lower grade wheat crop to provide a per tonne revenue that was $13.46 or six per cent greater than the prior year. On a grade basis, the returns on No.1 and No. 2 CWRS were up 13 per cent compared to 2001-02 to $230.63 and $223.03 per tonne, respectively.

DIRECT COSTS

Direct costs increased $4.29 per tonne to $24.02 primarily due to higher per-tonne freight, inventory storage and financing, and other direct expenses.

Although seaway freight costs were down in total, as comparatively fewer stocks moved out of the east, an increase in the proportion of eastern sales to the total pool size resulted in an increased per tonne cost.

A moderate decline in overall inventory storage costs, in a year when pool receipts were down substantially, reflects the fact that, regardless of pool size, a certain level of grain must be maintained within the system to efficiently meet sales commitments. The result is that, even though the total storage costs are relatively constant, the per tonne rate appears inflated due to the decline in overall pool receipts.

Financing costs showed a modest increase, mainly due to a year-over-year increase in the initial payment of wheat upon which financing is based.

Other direct expenses increased due to sales contract cancellation costs incurred during 2002-03. As crop conditions deteriorated throughout the summer of 2002, there were increasing concerns that the CWB would not have sufficient supplies of higher grade stocks to meet the requirements of its highest value, longtime customers. Inability to service these customers would have had significant, harmful and irreparable long-term impacts on these valuable relationships. To ensure the needs of these customers were met, a decision was made to exit certain sales contracts and incur these contract cancellation costs.

OTHER INCOME

Other income has increased $1.79 per tonne to $11.26 due to a per tonne increase in the freight adjustment factor (FAF) recovery. The FAF recovery applies primarily to producer deliveries in the eastern catchment areas. For the most part, these areas were not affected by the drought conditions seen in the west. As a result, even though the total amount of FAF recovery collected saw a marginal decrease, the per tonne rate increased due to the overall decline in the wheat pool size.

DISTRIBUTION OF EARNINGS

Compared to last year, the average sales proceeds increased four per cent or $8.87 per tonne to $226.41 in 2002-03. Distributions through initial and adjustment payments totaled $236.27, resulting in a pool deficit. The federal government covers the shortfall in the wheat pool by virtue of its guarantee of initial and adjustment payments. A review of the events that led to a deficit in the 2002-03 wheat pool is provided on pages 35 and 36.

Producer Payment Options, like the Fixed Price (FPC) and Basis Payment (BPC) contracts, are designed to operate independently of the pool and therefore do not impact the pool's net results. Just over $8.6 million of sales returns were paid from the wheat pool to the Producer Payment Option program representing the return on the specific grades and classes of wheat delivered under the FPC and BPC. The payment option program in turn paid farmers at the respective contracted price under the program.

The durum pool

	2002-03	2001-02
Receipts (tonnes)	**3 803 596**	**3 246 369**
Revenue	**$ 278.89**	$ 287.50
Direct costs	**26.16**	32.64
Net revenue from operations	**252.73**	254.86
Other income	**1.89**	5.58
Net interest earnings	**2.24**	3.68
Administrative expenses	**(4.03)**	(2.68)
Grain industry organizations	**(0.13)**	(0.08)
Earnings for distribution	**$ 252.70**	$ 261.36

THE CROP

While the durum-growing areas of Western Canada were also touched by drought, they were less severely affected than other parts of the Prairies. Regions south of the Trans-Canada Highway in Alberta and Saskatchewan received close to normal levels of precipitation throughout the growing season. Slightly over six million acres were seeded to durum in 2002-03, up 15 per cent from the previous year. Total production was 3.9 million tonnes. Although this was still well below the five-year average of 4.7 million tonnes, it did represent a significant increase over production in 2001-02 which came in at three million tonnes. As with spring wheat, the grade pattern for durum was unfortunately affected by the very wet conditions in the fall of 2002. Where 56 per cent of the durum crop normally grades No. 1 or No. 2, that percentage fell to 26 per cent in 2002-03.

EARNINGS DISTRIBUTED TO FARMERS
Durum – 2002-03

THE MARKETING ENVIRONMENT

Global production of durum in 2002-03 was 33.2 million tonnes, up considerably from the 31 million tonnes that were produced the previous year. Production in both Canada and the European Union (EU) was higher. The increase in EU production was two million tonnes. Increased production was partially offset by increased demand, especially in the countries of North Africa. Buyers in these nations purchased 3.5 million tonnes, up 400 000 tonnes from 2001-02. On the other hand, demand for durum in the U.S. was down as buyers there had concerns over the grade pattern of the durum crop. International trade in durum shrank from a total of 7.3 million tonnes on average to 6.6 million tonnes in 2002-03.

THE STRATEGY

We entered the 2002-03 crop year with fairly tight carry-in stocks of just over 1.5 million tonnes. Lower stocks and below-average production resulted in considerably less durum to sell than in previous years. As with the wheat pool, we needed to ensure that the needs of our highest quality and highest value customers were met, even though supplies of durum in general were down and supplies of No. 1 and No. 2 durum were particularly tight. The CWB was successful in selling significant quantities of No. 3 and 4 durum on farmers' behalf.

THE DELIVERIES

The CWB announced in the fall of 2002 that it would be accepting 100 per cent of the durum that farmers would sign up to Series A, B and C delivery contracts. Three-quarters of the Series A No. 1 Canada Western Amber Durum (CWAD) was called before December 31, 2002. Other grades were not called quite as quickly: 50 per cent of No. 2, No. 3 and No. 4 CWAD committed to Series A contracts was called by the end of 2002 while No. 5 CWAD was not called until 2003. Carry-out stocks increased slightly to 1.7 million tonnes.

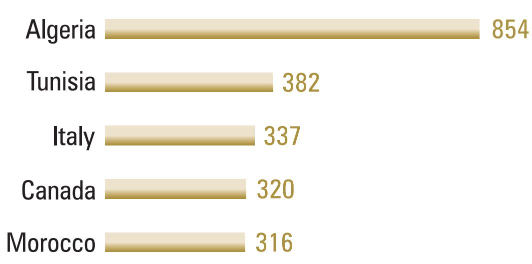
THE RESULTS

Algeria continues to be the largest volume customer for western Canadian durum with purchases of 854 000 tonnes. Tunisia and Italy followed with purchases of 382 000 and 337 000 tonnes respectively. Our own domestic market moved up to fourth position among buyers. A total of 320 000 tonnes of durum were bought by Canadian processors. Morocco, which had been the third largest volume buyer of western Canadian durum in 2001-02 rounded out the top-five customers with purchases of 316 000 tonnes.

In total, the durum pool returned just over $1 billion on receipts of 3.8 million tonnes. Although farmer deliveries were higher than in the previous crop year by close to 600 000 tonnes, a lower grade crop caused by excessive precipitation at harvest resulted in a decline in the average per tonne revenue of three per cent or $8.61 to $278.89. However, on a grade basis, the returns on No. 1 and No. 2 CWAD were up between nine and 14 per cent compared to 2001-02.

LARGEST VOLUME DURUM CUSTOMERS

(000 tonnes) 2002-03



DIRECT COSTS

Direct costs decreased by $6.48 per tonne to $26.16 due primarily to lower freight costs and the income effect of inventory adjustment demotions, offset by greater terminal handling costs.

For sales to the U.S., the CWB typically incurs directly the rail freight cost and recovers this amount through higher sales revenue. The dramatic decline in U.S. sales during 2002-03, due primarily to the lower grade crop and the U.S. trade action, resulted in a corresponding decline in U.S. rail freight expense. This was offset somewhat by greater St. Lawrence Seaway freight as these sales were partially redirected to sales out of the east coast. Movement of a greater proportion of total sales through the eastern terminals also led to a corresponding increase in related fobbing costs recorded under terminal handling.

There was substantial grade demotion of carry-in stocks for the 2002-03 durum pool. The carryover of inventory from 2001-02 was primarily No. 1 and No. 2 CWAD much of which was blended with the 2002-03 crop (which had a poorer grade pattern) to maintain a minimum grade of No. 3 CWAD. The overall sales value of the 2002-03 durum pool is lower from having lower quality grain to sell than that which was reported by handling agents to the CWB and on which the CWB has made adjustment, interim and final payments. This loss is partially mitigated because the grain companies are only reimbursed the value of the lower quality grain whereas they have paid the farmer the higher initial payment of the higher quality grain initially reported as delivered.

OTHER INCOME

The drop in sales to the U.S. also indirectly resulted in the decline in other income. One of the main components of Other income is the recovery from CWB agents of the freight deducted from cash tickets where the grain was shipped to other than terminal locations. Typically, a significant volume of durum is sold to the U.S. and therefore is not railed to terminal position, resulting in substantial recoveries. With the decline of sales to the U.S., a greater proportion of durum was sold through terminal positions where these recoveries are not applicable.

DISTRIBUTION OF EARNINGS

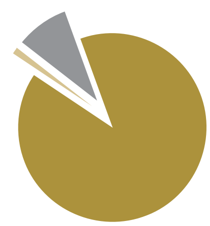
The average sales proceeds available for distribution decreased three per cent or $8.66 per tonne to $252.70. Of the amounts returned to pool participants, 82 per cent was distributed by November 27, 2002 in the form of initial and adjustment payments. A further 14 per cent, or $34.80 per tonne, was distributed as an interim payment on October 3, 2003.

For producer receipts delivered under the Fixed Price Contract program, $459,469 was paid from the pool to the program representing the final pool return on the specific grades delivered to the durum pool under the FPC program. The payment option program in turn paid farmers at the respective contracted price under the program.

The feed barley pool

	2002-03	2001-02
Receipts (tonnes)	**39 698**	**54 373**
Revenue	**$ 168.28**	$ 162.86
Direct costs	**16.90**	2.53
Net revenue from operations	**151.38**	160.33
Other income	**6.35**	7.34
Net interest earnings	**137.70**	145.54
Administrative expenses	**(4.03)**	(2.69)
Grain industry organizations	**(0.13)**	(0.08)
Earnings for distribution	**291.27**	310.44
Transferred to contingency fund	**127.89**	130.85
Earnings distributed to pool participants	**$ 163.38**	$ 179.59

EARNINGS DISTRIBUTED TO FARMERS
Feed barley – 2002-03



THE CROP

The five-year average for barley production in Western Canada is 11.8 million tonnes. In 2002-03, the drought cut barley production almost in half, down to 6.4 million tonnes. This was the smallest barley crop since 1968. Farmers seeded 11.8 million acres to barley in 2002, up 10 per cent from the previous year. Along with reduced production, the quality of the barley crop was also severely affected by the weather. Prolonged wetness in the fall reduced bushel weights and resulted in sprouting and bleaching. Some feed barley was not harvested until the spring of 2003.

THE MARKETING ENVIRONMENT

The domestic livestock industry uses close to nine million tonnes of feed barley annually. With total barley production at levels well below domestic feed consumption, it was clear very early in the crop year that supply and demand factors would push feed barley prices higher. Much higher imports of American corn, however, limited the increase in domestic feed barley prices. In 2002-03, 2.5 million tonnes of U.S. corn flowed into Western Canada, compared to a five-year average of 600 000 tonnes. The announcement on May 20, 2003 that bovine spongiform encephalopathy (BSE) had been found in a cow in Western Canada caused feed barley prices to decline significantly as demand dwindled in the wake of the closure of cattle export markets. The increase in the value of the Canadian dollar compared to the U.S. currency also caused prices in the domestic feed industry to decline. Meanwhile, international trade in feed grains was feeling the effects of strong export activity on the part of the minor exporters (Russia, Ukraine and the nations of Eastern Europe) as well as China which exported 14.5 million tonnes. Therefore, in spite of developments that pressured prices in the domestic market as the crop year progressed, domestic feed market values remained more attractive than international prices throughout 2002-03.

THE STRATEGY

Strong domestic prices for feed barley led many farmers to sell their feed barley into the domestic market rather than through the CWB to off-shore customers. For the barley delivered to the CWB, the strategy was to market these limited supplies to achieve the highest possible return.

THE DELIVERIES

All feed barley offered by farmers and contracted for sale through the CWB was accepted for delivery. A guaranteed delivery contract for feed barley was offered at the start of 2002-03. Total farmer deliveries were 39 698 tonnes.

THE RESULTS

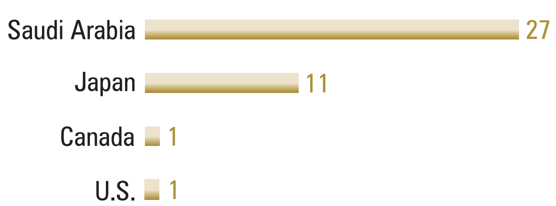
Very little barley was sold during the year. Because the majority of deliveries occurred very late in the crop year, export sales only materialized at year-end. The majority of the barley that was delivered into the feed barley pool was sold to Saudi Arabia (close to 27 000 tonnes). A further 11 300 tonnes were sold to Japan. The remaining limited volumes were sold in the domestic and U.S. markets. The 2002-03 feed barley pool was far below the five-year average of 344 000 tonnes.

Given the size of the feed barley pool, only a portion of the interest earnings were paid out to farmers though the pool account. This was done to avoid distorting the feed barley return. The remaining interest earnings were allocated to a contingency fund, as they were in the previous crop year.

Barley sales during the year totaled $6.7 million or $168.28 per tonne on 39 698 tonnes, compared to $162.86 per tonne in 2001-02.

LARGEST VOLUME FEED BARLEY CUSTOMERS

(000 tonnes) 2002-03



DIRECT COSTS

The small pool size experienced during the past two years causes greater volatility in the per tonne rate calculated. As such, direct costs show a $14.37 increase to $16.90, primarily due to reduced inventory shortage settlements, increased terminal handling, offset by a decrease in inventory storage.

During the prior year, as a result of terminal inventory audits, there were some substantial settlements of inventory shortages. These shortages must be settled by grain companies at export price and represent income to the pool.

The increase in terminal handling was entirely due to the fact that a greater proportion of the total barley pool was sold on a FOB basis to off-shore customers. As such, the pool incurred greater fobbing and stevedoring charges that were offset by higher revenue.

Although total storage costs in the country were relatively stable, terminal storage cost were much lower as only a small volume of carry-over stocks were maintained in terminal position during the year. With deliveries and the majority of export opportunities only materializing late in the crop year, sales during the year were primarily domestic and, therefore, little barley was moved into terminal position.

DISTRIBUTION OF EARNINGS

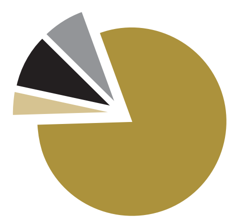
Including the benefit of greater than $137 per tonne in net interest earnings, primarily related to credit sales from past years, the average proceeds from the feed barley pool available for distribution amounted to $291.27 per tonne. Of this amount, the average return disbursed to farmers through the feed barley pool account was $163.38. CWB initial and adjustment payments paid out 91 per cent of this total to farmers by November 27, 2002. Just over $5 million of interest earnings was transferred into the contingency fund.

The designated barley pool

	2002-03	2001-02
Receipts (tonnes)	**891 433**	**2 205 058**
Revenue	**$ 219.70**	$ 196.50
Direct costs	**10.82**	6.98
Net revenue from operations	**208.88**	189.52
Other income	**30.66**	19.78
Net interest earnings	**1.52**	0.92
Administrative expenses	**(4.03)**	(2.67)
Grain industry organizations	**(0.25)**	(0.13)
Earnings for distribution	**$ 236.78**	$ 207.42

EARNINGS DISTRIBUTED TO FARMERS

Designated barley – 2002-03



THE CROP

Barley acreage in 2002 was up 10 per cent from the previous year's levels. In 2002-03, 11.8 million acres were planted to barley compared to 10.8 million in 2001-02. Of these acres, 73.4 per cent were planted to malting-eligible varieties.

Because of drought in many of the significant barley growing areas of Western Canada, total production was slashed by over three million tonnes from the previous year's total and was just over half of the five-year average of 11.8 million tonnes. Quality of the barley crop was also a serious concern as early frosts and wet conditions at harvest combined with the summer's drought to produce a number of degrading factors, including mildew, sprouting, bleaching and shrunken and immature kernels. This resulted in very limited supplies of malting-quality barley.

THE MARKETING ENVIRONMENT

Because of the high prices in the domestic feed industry early in the crop year, it was initially quite difficult to attract supplies of designated barley. International malting barley prices were slow to reflect the lower volumes produced in both Canada and Australia (which produced only 3.3 million tonnes of barley compared to the 8.4 million tonnes grown the previous year) as very large Australian carry-in stocks continued to weigh on the market. Global demand was also reduced as consumers in China appeared to curtail their purchases of beer as a result of the severe acute respiratory syndrome (SARS) epidemic.

THE STRATEGY

The CWB worked closely with maltsters to meet the demands of the domestic malting industry. An early payment program which paid farmers 95 per cent of the September Pool Return Outlook was implemented in early fall to attract available supplies of malting-quality barley. This program paid farmers an in-store Vancouver or St. Lawrence price of $230.85 per tonne and $211.85 per tonne for Special Select two-row and six-row malting barley respectively. Exports as a whole declined because of decreased supplies and concerns with the suitability of the crop for malting purposes.

THE DELIVERIES

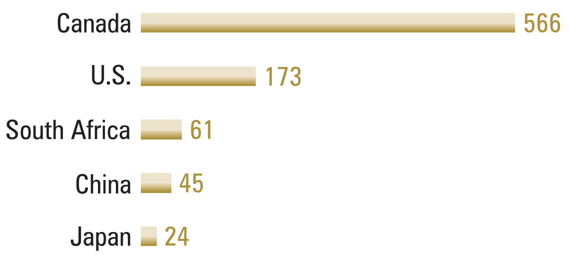
Two-row and six-row designated barley deliveries were spread fairly evenly throughout the year. Reduced production because of the drought, degrading of the crop caused by wet harvest conditions and the demands of the domestic livestock industry all combined to reduce the size of the designated barley pool. It was 891 433 compared to 2.2 million tonnes in 2001-02.

THE RESULTS

The CWB's most significant malting barley customer in 2002-03 was the domestic malting industry. It purchased 566 000 tonnes, which was roughly half of its purchases of western Canadian malting barley in the previous year (1.15 million tonnes). The U.S. retained its standing as the largest foreign buyer of Prairie designated barley. Its purchases also dropped significantly from last year's level of 452 000 tonnes and totaled only 173 000 tonnes in 2002-03. The U.S. was followed by South Africa, China and Japan. Chinese buyers went from purchasing 400 000 tonnes in 2001-02 to 45 000 tonnes in 2002-03.

Revenue generated from the designated barley pool totaled $196 million on just over 891 000 tonnes. This equates to a per tonne revenue of $219.70 which is up over $23 or 12 per cent compared to last year.

LARGEST VOLUME DESIGNATED BARLEY CUSTOMERS
(000 tonnes) 2002-03



DIRECT COSTS

Direct costs have increased $3.84 to $10.82 on a per tonne basis due to increases in storage, other grain purchases and other direct expenses, offset by a decline in freight.

Storage costs were down in total due to significantly reduced crop volumes. However, the per tonne rate has increased because, on average, stocks were in inventory for longer periods, reflecting the fact that stocks were brought in early.

Other grain purchases relate entirely to substantial inventory overages, reported by grain companies during 2002-03. These overages were subsequently acquired by the CWB at the initial payment value.

Other direct expense increased due to producer receipts received subsequent to the prior crop year's end date, under 2001-02 cash tickets, that the CWB accepted due to contractual commitments. These late receipts are recorded as an expense based on the 2001-02 final return for the grades received. Offsetting the increase in other direct expense is a reduction in selection fees due to the reduced crop.

Freight has shown a significant decline from 2001-02 due to the fact that the prior year has several Cost and Freight sales where the CWB incurred ocean freight charges. These charges were recovered through greater sales revenue.

OTHER INCOME

The increase in the per tonne value of other income is due primarily to the recovery of the rail freight cash ticket deduction on grain sales that are not shipped through terminal position. Although total other income has declined, the per tonne value has increased because the proportion of sales that did not move through terminal position compared to total sales was greater than in 2001-02.

DISTRIBUTION OF EARNINGS

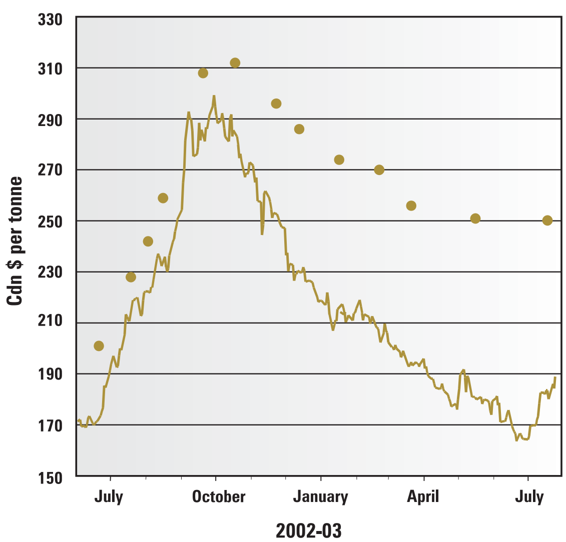
Average earnings for distribution in the designated barley pool increased 14 per cent or $29.36 per tonne to $236.78. Of the amount returned to pool participants, 84 per cent was distributed to producers by November 27, 2002 in the form of initial and adjustment payments. A further nine per cent was distributed as an interim payment on October 3, 2003. These percentages do not take into account the maltster early payment program that was offered in 2002-03.

The deficit in the wheat pool

The $85.4 million deficit in the wheat pool account came about as a result of the concurrence of a number of extraordinary factors in 2002-03. These factors are described in detail below.

THE 2002 CROP

The CWB came into 2002-03 with tight wheat stocks (about five million tonnes compared to a 10-year average of 5.7 million). It was clear, with these stocks and production cut almost in half by drought in the summer of 2002, that there would be much less wheat to sell. It was also very dry in the U.S. and in Australia and there was flooding in northern Europe. Concerns in all of these major wheat exporting countries caused the price of wheat to climb over the summer months, as the following chart indicates.



THE EARLY SALES PACE

During the summer of 2002, the CWB was selling grain, as it always does, in order to meet the needs of its customers and because it makes sense to spread out sales to get the best price, year-in, year-out. Sales were being made at a cautious pace, however, because crop conditions were deteriorating as the summer progressed (therefore, the market was moving up) and harvest of the 2002 crop had not begun. It should also be noted that a significant portion of sales during the early fall period were actually old year stocks as new crop is typically not available for sale until September or October. These sales are accounted for in the wheat pool returns received by farmers for the 2001-02 crop.

THE 2002 HARVEST

In the fall of 2002, the Prairies received much needed rain but it caused huge delays in harvest and downgraded the crop severely. Many farmers were not finished combining until December, and in some cases, harvest even dragged into May of the following spring. Only 37 per cent of the 2002 wheat crop graded No. 1 or No. 2 CWRS compared to an average of 65 per cent. Most importantly, the total volume of No. 1 and No. 2 CWRS was only 3.2 million tonnes, the lowest level ever on record.

CONTRACT SIGN-UP

As a result of these factors, the CWB did not have a clear picture of the quantity and quality of the wheat crop that it would have for sale when wheat prices were peaking in late September. This situation was further exacerbated by the fact that there was a small crop and therefore, the margin for error was slight. Farmers were slow to commit to delivery contracts with the CWB because they didn't know what they were going to get off the field, if anything. The October deadline for Series A contract sign-up was pushed back to November 15 to give farmers a chance to get their crop harvested. That proved to be insufficient; farmers continued to sign up well into December.

STEPPING BACK FROM THE MARKET

The CWB limited its sales of wheat during the early fall period (late August, September 2002). There was concern at the time that there would not be enough good quality grain to meet the needs of Western Canada's core customers. Sales continued to be made into these markets but the CWB stopped serving other markets because it could not afford to over-commit and then short its best customers. Concern over its ability to supply its core customers with higher quality wheat led the CWB to approach its customers with requests to downgrade or defer purchases of No. 1 or No. 2 CWRS. The CWB also bought back some sales contracts so that this grain could be allocated to higher return markets and to solidify long-term business relationships with its core customers.

THE "MINOR" EXPORTERS

By early October, prices in the commodity markets began to drop. The large volumes of wheat harvested and marketed by countries of the former Soviet Union (Ukraine, Russia, Kazakhstan) to which the industry often refers as minor exporters were the prime reason. There was awareness throughout the grain industry that a large crop had been harvested in these countries. But because it was lower quality wheat and because these countries had not had a major presence in the market for many years, markets were caught off guard by just how much grain they eventually sold, especially to customers who usually buy good quality wheat. By selling at values of about $100 US less than market values in North America, they were able to gain a much larger share of the international wheat trade than anyone – including the CWB – had expected (about 39 per cent over the course of 2002-03). In reaction to this aggressive selling by the "minor" exporters, the EU also resumed its export subsidy program. As a result, 60 per cent of the world trade in wheat in 2002-03 was sold at prices well under U.S. commercial values and close to $110 US per tonne.

HOW BUYERS REACTED

Prices continued to fall through November and December. By this time, harvest in Western Canada was finally winding down and the CWB was at last getting a clearer picture of what there was for sale. However, achieving a fair price for the wheat crop became very difficult. Buyers were continuing to use blends with a higher portion of lower quality wheat from the "minor" exporters. They were buying hand-to-mouth because they could also see prices dropping or they had already forward-bought enough grain to satisfy their needs.

THE WHEAT MARKET OVERALL

After peaking at a value of $189.32 US per tonne in early October, nearby futures on the Minneapolis exchange fell steadily, reaching a low of $121.35 US on June 27, 2003. In addition to ample supplies of lower quality wheat and limited buyer demand, prices were also pressured downward in the spring of 2003 by much improved crop prospects in many of the major exporting nations including Canada, the U.S. and Australia.

THE CANADIAN DOLLAR

Another challenge was also emerging. In January of 2003, the value of the Canadian dollar began to strengthen against the U.S. dollar. Over the following six months, it strengthened from $1 US = $1.5672 CDN on January 2, 2003 to $1 US = $1.4048 CDN on July 31, 2003, but it was as high as $1 US = $1.3350 CDN on June 13. Because CWB sales are priced against the U.S. markets, this had a direct impact on wheat prices.

THE CWB PRO

The combination of the drop in the value of wheat on the commodity markets and the increase in the value of the Canadian dollar proved devastating. Nearby futures on the Minneapolis exchange in Canadian dollars declined by over $135 per tonne from the fall of 2002 to the spring of 2003 (see graph on previous page). The CWB's PRO followed wheat markets up and down. However, because it is a pooled price for the entire year as opposed to a spot price, changes in the PRO were neither as extreme nor as sudden. The PRO for No.1 Canada Western Red Spring (CWRS) 13.5 per cent protein peaked at $312 per tonne in October 2002 and fell to $250.20 by July 2003. This is a decline of $61.80 per tonne. It could not fall any further because the federal government guarantees the initial and adjustment payments made to the farmers of Western Canada through the CWB.

THE DEFICIT IN THE WHEAT POOL

Based on the PROs that were predicted in the fall of 2002, the CWB recommended an initial payment of $250.20 on No.1 CWRS 13.5 per cent protein. The federal government analysed the CWB's recommendation and authorized it in November 2002. In hindsight, the risk factor that was taken on unsold grain when this recommendation was made and approved was not enough to cover both the fall in wheat markets and the increase in the value of the Canadian dollar.

As a result, there was a deficit in the wheat pool of $85.4 million at the end of the 2002-03 crop year. There was no final payment on the wheat that farmers delivered for sale through the CWB. Funding of a deficit in the CWB's pool accounts is guaranteed by the Government of Canada under *The Canadian Wheat Board Act.*

Indirect income and expense

ADMINISTRATIVE EXPENSES

Consistent with objectives described previously relating to the change in the presentation format of the Operating Statement, the CWB has also revised its presentation of administrative expenses to make them clearer and more understandable.

Administrative expenses have increased $5.4 million or nine per cent from the prior crop year to $66.7 million. This increase is primarily due to the $10 million in legal costs expended to fight the U.S. trade challenges. Without this expense, the CWB would have realized year-over-year savings on administrative expenses of $4.6 million as it continued to exercise fiscal restraint during a very difficult year.

In recognition of the need to limit expenditures in 2002-03, management took the initiative of eliminating all salary increases for staff and there was a five per cent roll back in compensation for all levels of senior management.

Significant savings were also achieved, under Human Resources, by the continued strategy of reducing reliance on contractors to meet technology objectives. Additionally, notable savings were realized by minimizing all non-critical office, travel, advertising and training expenses.

GRAIN INDUSTRY ORGANIZATIONS

The CWB has continued to provide support for organizations that benefit, both directly and indirectly, the western Canadian grain farmer. During 2002-03, the CWB contributed a combined $1.8 million to the operations of Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC).

NET INTEREST EARNINGS

Net interest earnings of $54.8 million are due primarily to the net interest earned on amounts owed to the CWB on credit grain sales made under the Credit Grain Sales program (CGSP) and the Agri-food Credit Facility (ACF). When the CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers and conduct ongoing operations. The CWB is able to borrow at interest rates lower than those extended to the credit customer. As a result, the CWB earns an interest 'spread'.

During periods when interest rates are trending downwards or upwards, the spread will widen or narrow because of the differences in term between the receivable and the related borrowing. The spread margin earned during the current year is consistent with 2001-02 because interest rates trended downward similarly during both periods.

Although the spread margin remained consistent, overall interest revenue and expenses declined steeply due to lower interest rates, lower U.S. dollar exchange rates, and reduced credit receivable balances, as countries such as Poland, Iran, Russia and Brazil made sizeable repayments.

(000's)	**2002-03**	2001-02
Interest on credit sales		
Revenue on credit sales receivable	$ 173,626	$ 273,848
Expense on borrowings used used to finance credit sales receivables	116,623	187,907
Net interest on credit sales	57,003	85,941
Interest (expense) revenue on pool account balances	**(4,455)**	**5,105**
Other interest		
Revenue	5,126	4,630
Expense	2,858	4,037
Net other interest revenue	2,268	593
Total Net interest earnings	**$ 54,816**	$ 91,639

The interest on pool account balances is in a net expense position this year almost solely due to the wheat pool deficit incurred for 2002-03. The result was an interest charge to the wheat pool of $5.4 million compared to interest revenue of $3.9 million in the prior year.

The most significant component of Other interest revenue is interest revenue from customers due to delays in the receipt of sales proceeds on non-credit sales. Normal fluctuations will occur in the account as the number of days outstanding on these arrangements will typically range between one and 10 days.

Expenses primarily from financing costs such as treasury fees and bank charges make up the main portion of Other interest expense. The expenses are down due to a decrease in dealer commissions paid on Wheat Board Notes as these commissions are now built into the interest rate.

Producer Payment Options

Providing farmers choice and flexibility is a priority of the farmer-controlled board of directors. Beginning in 2000-01, the board of directors introduced a number of innovative Producer Payment Options (PPOs) which, in the 2002-03 crop year, were enhanced and extended to a wider range of crops. While the PPOs offer farmers opportunities to exercise control over the marketing of their wheat, durum and barley, they are structured so that the viability and the integrity of the CWB pool accounts are maintained. Price pooling, which provides farmers a return that reflects sales made throughout the crop year, is an effective price risk management tool that farmers continue to value and support.

PROGRAMS

Three types of PPOs are available to Prairie farmers through the CWB.

1. The Fixed Price Contract (FPC): Introduced in the 2000-01 crop year, the FPC enables farmers to lock in a price for all or a portion of their wheat or feed barley before the beginning of the crop year (August 1). It is based on the CWB Pool Return Outlook (PRO) minus a discount for risk, time-value of money and administration costs of the program. Farmers get full payment for their grain when it is delivered. They receive no further payments from the pool accounts for these deliveries. Program costs are entirely covered by the farmers who use it. In 2000-01, fixed prices on CWRS and feed barley were offered. For 2001-02 and 2002-03, the FPC was extended to all classes of wheat and to feed barley. As well, an FPC on durum wheat was developed and made available to farmers on a trial basis for 2002-03. During the 2002-03 crop year, 247 farmers signed an FPC. They delivered 29 304 tonnes of wheat and 1 836 tonnes of durum under the FPC. The maximum value for No.1 CWRS 13.5 per cent protein that could have been locked in under an FPC for the 2002-03 crop year was $235.38 per tonne.

2. The Basis Payment Contract (BPC): Launched at the same time as the FPC, the BPC enables farmers to lock in the difference or basis between the fixed price and the relevant U.S. futures price. When pricing their grain, farmers get the futures price that they have selected plus the basis that they locked in. Farmers get full payment for their grain when it has been both delivered and priced. They receive no further payments from the pool accounts for these deliveries. The BPC was extended to all classes of wheat (excluding durum) for the 2001-02 crop year. In 2002-03, 55 farmers signed a BPC. A total of 8 796 tonnes of wheat were delivered under the BPC. The maximum value for No.1 CWRS 13.5 per cent protein that could have been locked in under a BPC for the 2002-03 crop year was just over $325 per tonne. This value could have been achieved by locking in the basis portion in May 2002 and pricing the futures portion of the BPC in early October.

3. The Early Payment Option (EPO): In 2001-02, the CWB introduced the EPO as a pilot program for producers of CWRW and CWSWS wheat. It had previously only been available on feed barley committed to Guaranteed Delivery Contracts. The EPO enables farmers to receive 90 per cent of the PRO – less a discount for risk, time-value of money and administration costs – at time of delivery while remaining in the pool account. Farmers receive the initial payment less the usual freight and elevation charges at that time. The CWB then issues an additional payment to bring the total to 90 per cent of the locked-in PRO less the discount. Because these deliveries remain in the pool account, farmers are eligible for any future adjustment, interim and final payments that increase the price of these deliveries beyond the value that they have locked in. This program, therefore, not only serves to help farmers meet their cash flow needs but also gives them the opportunity to set a floor price for their wheat and barley. The EPO was extended to all classes of wheat (excluding durum) for the 2002-03 crop year. Under the EPO, a total of 130 696 tonnes of wheat were delivered for sale through the CWB in 2002-03. A total of 897 farmers signed EPO contracts. The maximum value for No.1 CWRS 13.5 per cent protein that could have been locked in under an EPO for the 2002-03 crop year was just over $270 per tonne.

FINANCIAL RESULTS

Once grain is delivered to the CWB for marketing purposes, there is no segregation between deliveries made as a pool participant and those made under the FPC or BPC programs. The final return of the grades and classes of grain delivered under the FPC and BPC programs are paid from the pool to the respective program. In 2002-03, this amounted to $8,644,633 for wheat and $459,469 for durum. When other revenue like hedging gains, liquidated damages and program expenses (including interest and administrative expenses) are accounted for, the FPC and BPC programs showed a surplus of $20,166 on wheat and a deficit of $9,806 on durum.

For the wheat EPO, although wheat pool returns fell short of the contracted amounts paid to producers, hedging activities and the program discount more than offset this shortfall to leave the program in a surplus position of $570,253. Although there were no farmer deliveries under the feed barley EPO in 2002-03, the program did show a surplus of $6,906 as a result of interest earned on the program's contingency fund balance. The resulting surplus on all PPO's was $587,519. (see Financial Statement note 14).

Credit Sales

CREDIT SALES DURING YEAR

(000's)	2002-03	2001-02
Credit Grain Sales Program	$ –	$ 131,554
Agri-food Credit Facility	95,750	114,717
Credit assumed by others	95,750	158,568
Total credit sales	191,500	404,839
Total Sales	**$3,339,872**	$ 4,379,269

CREDIT PROGRAMS

The Government of Canada provides repayment guarantees on CWB credit sales. New credit proposals are recommended by the CWB for review and approval by the government. Acting within credit limits and terms approved by the government, the CWB works with individual customers to structure credit facilities. These credit arrangements are structured according to commercial terms and can be an important factor in foreign markets. During 2002-03, credit sales totaled $191.5 million, representing 5.7 per cent of total sales, compared to $404.8 million, or 9.2 per cent of sales in the previous year.

The CWB uses two credit programs:

Credit Grain Sales Program (CGSP)
The CGSP was established to facilitate CWB grain sales made on credit to customers that can provide a sovereign guarantee of repayment from their central bank or ministry of finance. During the year ended July 31, 2003, there were no grain sales under the CGSP program (compared to $131.6 million the previous year).

The balance receivable at July 31, 2003 was $5.9 billion. Of this amount, $5.0 billion represented receivables, where payment of principal and interest has 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 $26.2 million to be paid to the CWB by the government under debt-reduction arrangements, where the government had assumed certain amounts that otherwise would have been paid by the debtor government.

Overdue amounts of $801.6 million are due from Iraq as at July 31, 2003. 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 Financial Statement note 3).

Agri-food Credit Facility (ACF)
The ACF was established to facilitate CWB grain sales made on credit, directly or through accredited exporters, to commercial (non-government) customers around the world. The Government of Canada, together with the CWB, evaluates each transaction. During the year ended July 31, 2003, $95.7 million of grain was sold under the ACF program, compared to $114.7 million during the previous year.

The balance receivable at July 31, 2003 from sales made under this program was $30.4 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 not guaranteed. The portion of credit risk assumed by the CWB under this program at July 31, 2003 was $600,000. This is considered collectable, therefore there was no allowance made for credit losses (see Financial Statement note 3).

Credit Assumed by Others
The CWB may partner with other parties in providing credit to CWB customers. In these cases, the CWB receives payment for the other party's portion of the credit transaction. The other party then assumes the risk of non-payment by the customer on their portion of the credit extended. During the year ended July 31, 2003, credit provided by other parties under these arrangements totaled $95.7 million, compared to $158.6 million during the previous year.

Funding

The CWB 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 long-term and short-term credit ratings from Moody's Investor Service (Aaa / P-1), Standard and Poor's Ratings Group (AAA / A-1+) and Dominion Bond Rating Service (AAA / R-1(high)).

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 mitigates currency risk by converting borrowings into either Canadian or U.S. dollars to match the assets being financed.

The CWB manages multiple debt portfolios ranging between $6 billion and $7 billion CDN outstanding. 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.

Although the notes issued under the Euro Medium-Term Note Program typically have a 10 to 15 year original term to maturity and are therefore considered long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity due to embedded call features. During 2002-03, most of the outstanding medium-term notes were called, resulting in a significant reduction in long-term debt (see Financial Statement note 8, 2003 - $0.347 billion, 2002 - $1.517 billion).

Financial risk management

The CWB seeks to minimize risks related to its financial operations. The CWB actively manages exposures to financial risks and ensures adherence to approved corporate policies and risk-management guidelines.

MARKET RISK

Market risk is exposure to movements in the level or volatility of market prices that may adversely affect the CWB's financial condition. The market risks to which the CWB is exposed are commodity, foreign exchange and interest rate risk.

Commodity price risk is exposure to reduced revenue for the CWB resulting from adverse change in commodity prices. The CWB uses exchange-traded futures and option contracts to mitigate commodity price risk inherent to its core business.

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 the grain by using exchange-traded derivative contracts. The CWB may also use derivative contracts to price grain when there is insufficient opportunity to do so in the physical market. In addition, the CWB manages commodity price risk related to various payment options offered to Prairie farmers.

Foreign exchange risk is the exposure to changes in foreign exchange rates that may adversely 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 foreign exchange risk as it relates to various payment options offered to Prairie farmers.

Interest rate risk is the exposure to changes in market interest rates that may adversely affect the CWB's net interest earnings. The CWB's interest rate risk arises from the mismatch in term and interest rate 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 represents net interest earnings, which are paid to farmers annually.

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 credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage the CWB's market risks.

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). Under the ACF, the CWB assumes a portion of credit risk. 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 39 and Financial Statement note 3.

INVESTMENTS

The CWB uses short-term 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 investment-related credit risk by transacting only with highly rated counterparties.

DERIVATIVE TRANSACTIONS

The CWB enters into master agreements with all counterparties to minimize credit, legal and settlement risk. The CWB transacts only with highly rated counterparties who meet the requirements of the CWB's financial risk management policies. These policies meet or exceed the Minister of Finance's credit policy guidelines.

The CWB's commodity futures and option contracts involve minimal credit risk, as the contracts are exchange traded. The CWB manages its credit risk on futures and option contracts by dealing through exchanges which require daily mark-to-market and settlement.

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. Additionally, the CWB maintains lines of credit with financial institutions to provide supplementary access to funds.

OPERATIONAL RISK

Operational Risk is the 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

The precipitation that fell in the fall of 2002 brought welcome and widespread relief from the drought. With the exception of an area between Edmonton, Alberta and Prince Albert, Saskatchewan, which came into 2003 with continuing concerns over dryness, soil moisture conditions at seeding were far more promising than they had been the previous spring.

As the spring and early summer advanced, moisture conditions were good. In some areas, hopes for an above-average crop were dashed when dryness returned in July. Excessive heat and dry, parching winds also stressed Prairie crops. Where rain did fall, yields were excellent. Furthermore, harvesting conditions in the fall of 2003 were generally ideal, enabling farmers to harvest their crop almost without interruption. As a result, the grade pattern for the 2003 crop was excellent with a very high percentage of the crop grading No. 1 or No. 2.

Production in other major exporting nations also rebounded. Farmers in the U.S. harvested a very large crop and in Australia, drought conditions subsided and production bounced back to normal levels. The exception was the European Union where crops, especially durum, were affected by drought and very high temperatures in late summer.

In countries like those of the former Soviet Union (Ukraine and Russia) which emerged as significant exporters in 2002-03, production was much less than in the previous crop year. In stark contrast to 2002-03 where their exports represented a significant amount of world trade in wheat, some of them are expected to be importing grain in 2003-04 to meet their own needs.

Many parts of North Africa harvested bumper crops. This has a significant impact on demand conditions for Canadian durum as three of the top five markets for durum in 2002-03 were located in this area.

Other factors have also affected the markets for western Canadian grain. The most important of these is the on-going strength of the Canadian dollar compared to the U.S. dollar. The foreign exchange rate for the Canadian dollar in the fall of 2003 is approximately 20 per cent lower than it was at the same time the previous year.

The effects of the BSE crisis can be felt in the domestic feed grain market. Uncertainty in the cattle markets as well as an extremely large U.S. corn crop have pressured domestic feed grain prices downward and have brought them closer in line with international feed grain values. This has made the international marketplace a more attractive option for Prairie farmers.

A sudden increase in the cost of ocean freight, especially on the Pacific Ocean, has occurred because of increased Asian demand for coal and iron ore. This has affected buyer behaviour and when and how they take delivery of the grain they purchase. As a result, transportation of grain out of Western Canada towards the ports of Vancouver and Prince Rupert has also been hampered.

Overall, the CWB's 2003-04 marketing program will focus on regaining market share after the previous year's crop that was characterized by a poor grade pattern and reduced volumes.

The 2003-04 crop year will see continued activity on a number of other fronts that are of concern to western Canadian farmers.

Monsanto's application for environmental and human safety approvals for its genetically-modified Roundup Ready wheat is still before the federal government at this time. The CWB has made sure that the federal authorities have sound scientific studies before them and continues to pressure the Canadian government to include a cost-benefit analysis in the approval process for crops, like Roundup Ready wheat, that have novel traits.

The U.S. is pursuing its policy of trade harassment towards the farmers of Western Canada. Tariffs imposed by the U.S. Department of Commerce on imports of Canadian spring wheat remain in place. The CWB is appealing these tariffs and is working with the Canadian government, as well as the governments of Alberta and Saskatchewan, to get them removed. At the same time, the U.S. administration has filed a World Trade Organization (WTO) case against Canada and we are also fighting these allegations of unfair trading.

Lastly, the federal government continues to review its regulations governing rail transportation. The CWB, together with farm groups throughout Western Canada, is working to ensure that the resulting legislative framework builds more competition into the rail transportation system. With transportation costs representing such a significant portion of farmers' marketing costs, it is vital that grain-handling and transportation on the Prairies be as efficient and economical as possible.

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 2002-03 pool accounts, producer payment options and the financial status of the Corporation at July 31, 2003.

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, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk 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, Finance and Risk 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.

Adrian Measner

Adrian Measner
President and Chief Executive Officer

Gordon P. Menzie
Executive Vice-President, Finance

Winnipeg, Manitoba
November 21, 2003

Deloitte.

Auditors' Report

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, 2003 and the combined statement of pool operations and statement of distribution for the 2002-03 pool accounts, the statements of operations and statements of distribution for the 2002-03 pool accounts for wheat, durum and barley for the period August 1, 2002 to completion of operations on July 31, 2003 and for designated barley for the period August 1, 2002 to completion of operations on August 31, 2003, the statement of payment option program operations for wheat, durum and barley for the period August 1, 2002 to July 31, 2003, the statement of cash flow for the year ended July 31, 2003, and the statement of administrative expenses for the year ended July 31, 2003. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinon 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, 2003 and the results of its operations and its cash flows for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 21, 2003

Balance Sheet

(000's)

AS AT JULY 31	2003	2002
ASSETS		
Accounts Receivable		
Credit programs (Note 3)	$ 5,903,578	$ 6,965,448
Non-credit sales	4,450	15,166
Advance payment programs (Note 4)	374,824	394,921
Prepayment of inventory program	73,429	42,102
Due from Government - funding of wheat pool deficit	85,388	–
Other	30,500	59,190
	6,472,169	7,476,827
Inventory of Grain (Note 5)	1,121,941	905,643
Deferred and Prepaid Expenses (Note 6)	35,306	18,972
Capital Assets (Note 7)	53,881	56,762
Total Assets	**$ 7,683,297**	**$ 8,458,204**
LIABILITIES		
Borrowings (Note 8)	$ 6,431,472	$ 7,336,362
Accounts Payable and Accrued Expenses (Note 9)	137,872	115,016
Liability to Agents (Note 10)	876,815	550,015
Liability to Producers – Outstanding Cheques	3,746	34,644
Liability to Producers – Undistributed Earnings (Note 11)	208,595	402,859
Provision for Producer Payment Expenses (Note 12)	2,614	3,687
Special Account (Note 13)	4,948	4,199
Contingency Fund (Note 14)	17,235	11,422
Total Liabilities	**$ 7,683,297**	**$ 8,458,204**

Approved by the board of directors:

Ken Ritter

Ken Ritter
Chair, board of directors

Adrian Measner

Adrian C. Measner
President and Chief Executive Officer

Combined pool accounts

For the crop year ended July 31 (dollar amounts in 000's)	2003	2002
STATEMENT OF POOL OPERATIONS*		
Receipts (tonnes)	**13 430 948**	**18 836 452**
Revenue	**$ 3,339,872**	**$ 4,379,269**
Direct costs		
Freight	144,050	190,654
Terminal handling	68,470	77,722
Inventory storage	56,940	59,819
Country inventory financing	13,577	11,684
Inventory adjustments (Note 15)	405	15,535
Other grain purchases (Note 16)	11,718	10,724
Other direct expenses (Note 17)	23,544	18,411
Total Direct costs	**318,704**	**384,549**
Net revenue from operations	**3,021,168**	**3,994,720**
Other income (Note 18)	132,672	188,487
Net interest earnings	54,816	91,639
Administrative expenses (Note 19)	(54,082)	(50,446)
Grain industry organizations	(1,799)	(1,689)
Earnings for distribution	**$ 3,152,775**	**$ 4,222,711**

* Excludes operation of producer payment option programs

	2003	2002
STATEMENT OF DISTRIBUTION		
Earnings distributed to pool participants		
Receipts (tonnes)	**13 391 012**	**18 684 301**
Initial payments on delivery	$ 2,789,347	$ 3,366,342
Adjustment payments	222,473	401,370
Interim payment	151,527	209,793
Final payment	57,050	192,959
Producer contract storage payments	3,568	12,955
Rebate on producer cars	17	107
Total Earnings distributed to pool participants	3,223,982	4,183,526
Government funding of pool deficit	(85,388)	-
Non-pool Producer Payment Option programs		
Receipts (tonnes)	**39 936**	**152 151**
Sales returns paid to payment programs	9,104	32,070
Transferred to contingency fund		
Undistributed earnings	5,077	7,115
Total Distribution	**$ 3,152,775**	**$ 4,222,711**

Wheat pool

For the crop year ended July 31 (dollar amounts in 000's)	2003 Total	2003 Per Tonne	2002 Total	2002 Per Tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**8 696 221**		**13 330 652**	
Revenue	**$ 2,076,582**	**$ 238.79**	**$ 3,003,802**	**$ 225.33**
Direct costs				
Freight	86,758	9.98	122,690	9.20
Terminal handling	42,290	4.86	61,683	4.63
Inventory storage	35,707	4.11	38,495	2.89
Country inventory financing	9,460	1.08	8,193	0.61
Inventory adjustments (Note 15)	9,741	1.12	9,837	0.74
Other grain purchases (Note 16)	8,226	0.95	9,802	0.74
Other direct expenses (Note 17)	16,667	1.92	12,330	0.92
Total Direct costs	**208,849**	**24.02**	**263,030**	**19.73**
Net revenue from operations	**1,867,733**	**214.77**	**2,740,772**	**205.60**
Other income (Note 18)	97,883	11.26	126,312	9.47
Net interest earnings	39,458	4.54	69,709	5.23
Administrative expenses (Note 19)	(35,016)	(4.03)	(35,708)	(2.68)
Grain industry organizations	(1,092)	(0.13)	(1,123)	(0.08)
Earnings for distribution	**$ 1,968,966**	**$ 226.41**	**$ 2,899,962**	**$ 217.54**

* Excludes operation of producer payment option programs

	2003 Total	2003 Per Tonne	2002 Total	2002 Per Tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**8 658 121**		**13 178 501**	
Initial payments on delivery	$ 1,866,790	$ 215.61	$ 2,336,994	$ 177.33
Adjustment payments	178,919	20.66	293,024	22.23
Interim payment	–	–	99,460	7.55
Final payment	–	–	138,342	10.50
Rebate on producer cars	–	–	72	0.01
Total Earnings distributed to pool participants	2,045,709	236.27	2,867,892	217.62
Government funding of pool deficit	(85,388)	(9.86)	–	–
Non-pool Producer Payment Option programs				
Receipts (tonnes)	**38 100**		**152 151**	
Sales returns paid to payment programs	8,645	226.89	32,070	210.78
Total Distribution	**$ 1,968,966**	**$ 226.41**	**$ 2,899,962**	**$ 217.54**

Durum pool

For the crop year ended July 31 (dollar amounts in 000's)	2003 Total	2003 Per Tonne	2002 Total	2002 Per Tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**3 803 596**		**3 246 369**	
Revenue	**$ 1,060,762**	**$ 278.89**	**$ 933,324**	**$ 287.50**
Direct costs				
Freight	57,174	15.03	63,478	19.55
Terminal handling	25,804	6.78	15,553	4.79
Inventory storage	17,101	4.50	14,805	4.56
Country inventory financing	3,128	0.82	1,768	0.54
Inventory adjustments (Note 15)	(9,512)	(2.50)	4,909	1.51
Other grain purchases (Note 16)	1,386	0.36	1,614	0.50
Other direct expenses (Note 17)	4,454	1.17	3,849	1.19
Total Direct costs	**99,535**	**26.16**	**105,976**	**32.64**
Net revenue from operations	**961,227**	**252.73**	**827,348**	**254.86**
Other income (Note 18)	7,206	1.89	18,140	5.58
Net interest earnings	8,535	2.24	11,978	3.68
Administrative expenses (Note 19)	(15,316)	(4.03)	(8,705)	(2.68)
Grain industry organizations	(478)	(0.13)	(274)	(0.08)
Earnings for distribution	**$ 961,174**	**$ 252.70**	**$ 848,487**	**$ 261.36**

* Excludes operation of producer payment option programs

	2003 Total	2003 Per Tonne	2002 Total	2002 Per Tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**3 801 760**		**3 246 369**	
Initial payments on delivery	$ 747,652	$ 196.66	$ 621,925	$ 191.58
Adjustment payments	35,371	9.30	83,431	25.70
Interim payment	132,318	34.80	108,702	33.48
Final payment	45,357	11.93	34,399	10.59
Rebate on producer cars	17	–	30	0.01
Total Earnings distributed to pool participants	960,715	252.69	848,487	261.36
Non-pool Producer Payment Option programs				
Receipts (tonnes)	**1 836**		–	
Sales returns paid to payment programs	459	250.26	–	–
Total Distribution	**$ 961,174**	**$ 252.70**	**$ 848,487**	**$ 261.36**

Barley pool

For the crop year ended July 31 (dollar amounts in 000's)	2003 Total	2003 Per Tonne	2002 Total	2002 Per Tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**39 698**		**54 373**	
Revenue	**$ 6,680**	**$ 168.28**	**$ 8,855**	**$ 162.86**
Direct costs				
Freight	7	0.17	(43)	(0.80)
Terminal handling	387	9.75	244	4.49
Inventory storage	217	5.46	424	7.81
Country inventory financing	18	0.45	3	0.06
Inventory adjustments (Note 15)	22	0.57	(21)	(0.38)
Other grain purchases (Note 16)	(17)	(0.43)	(534)	(9.83)
Other direct expenses (Note 17)	37	0.93	64	1.18
Total Direct costs	**671**	**16.90**	**137**	**2.53**
Net revenue from operations	**6,009**	**151.38**	**8,718**	**160.33**
Other income (Note 18)	252	6.35	399	7.34
Net interest earnings	5,467	137.70	7,913	145.54
Administrative expenses (Note 19)	(160)	(4.03)	(146)	(2.69)
Grain industry organizations	(5)	(0.13)	(5)	(0.08)
Earnings for distribution	**$ 11,563**	**$ 291.27**	**$ 16,879**	**$ 310.44**
STATEMENT OF DISTRIBUTION				
Earnings distributed to producers				
Receipts (tonnes)	**39 698**		**54 373**	
Initial payments on delivery	$ 5,889	$ 148.33	$ 7,057	$ 129.79
Adjustment payments	37	0.94	366	6.74
Interim payment	–	–	1,631	30.00
Final payment	560	14.11	708	13.02
Rebate on producer cars	–	–	2	0.04
Total Earnings distributed to producers	6,486	163.38	9,764	179.59
Transferred to contingency fund				
Undistributed earnings (Note 14)	5,077	127.89	7,115	130.85
Total Distribution	**$ 11,563**	**$ 291.27**	**$ 16,879**	**$ 310.44**

Designated barley pool

For the crop year ended August 31 (dollar amounts in 000's)	2003 Total	2003 Per Tonne	2002 Total	2002 Per Tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**891 433**		**2 205 058**	
Revenue	**$ 195,848**	**$ 219.70**	**$ 433,288**	**$ 196.50**
Direct costs				
Freight	111	0.12	4,529	2.05
Terminal handling	(11)	(0.01)	242	0.11
Inventory storage	3,915	4.39	6,095	2.76
Country inventory financing	971	1.09	1,720	0.78
Inventory adjustments (Note 15)	154	0.17	810	0.37
Other grain purchases (Note 16)	2,123	2.38	(158)	(0.07)
Other direct expenses (Note 17)	2,386	2.68	2,168	0.98
Total Direct costs	**9,649**	**10.82**	**15,406**	**6.98**
Net revenue from operations	**186,199**	**208.88**	**417,882**	**189.52**
Other income (Note 18)	27,331	30.66	43,636	19.78
Net interest earnings	1,356	1.52	2,039	0.92
Administrative expenses (Note 19)	(3,590)	(4.03)	(5,887)	(2.67)
Grain industry organizations	(224)	(0.25)	(287)	(0.13)
Earnings for distribution	**$ 211,072**	**$ 236.78**	**$ 457,383**	**$ 207.42**
STATEMENT OF DISTRIBUTION				
Earnings distributed to producers				
Receipts (tonnes)	**891 433**		**2 205 058**	
Initial payments on delivery	$ 169,016	$ 189.60	$ 400,366	$ 181.57
Adjustment payments	8,146	9.14	24,549	11.13
Interim payment	19,209	21.55	–	–
Final payment	11,133	12.49	19,510	8.85
Producer contract storage payments	3,568	4.00	12,955	5.87
Rebate on producer cars	–	–	3	–
Total Distribution	**$ 211,072**	**$ 236.78**	**$ 457,383**	**$ 207.42**

Statement of payment option program operations

For the crop year ended July 31 (dollar amounts in 000's)	2003	2002
WHEAT PROGRAMS		
FIXED PRICE/BASIS PRICE CONTRACT		
Receipts (tonnes)	**38 100**	**152 151**
Revenue		
Sales returns paid to program	$ 8,645	$ 32,070
Net hedging activity	–	1,704
Liquidated damages	326	649
Net interest	90	–
Total Revenue	9,061	34,423
Expense		
Contracted amounts paid to producers	8,391	29,673
Net hedging activity	294	–
Net interest	–	77
Bad debt expense	–	427
Administrative expense (Note 19)	356	323
	9,041	30,500
Net surplus on program operations	**$ 20**	**$ 3,923**
EARLY PAYMENT OPTION		
Receipts (tonnes)	**130 696**	**11 308**
Revenue		
Program discount	$ 852	$ 21
Net hedging activity	1,717	6
Liquidated damages	38	1
	2,607	28
Expense		
Pool returns less than contracted price	1,993	–
Net interest	43	4
	2,036	4
Net surplus on program operations	**$ 571**	**$ 24**
TOTAL WHEAT PROGRAMS (Note 14)	**$ 591**	**$ 3,947**

Statement of payment option program operations

For the crop year ended July 31 (dollar amounts in 000's)	2003	2002
DURUM PROGRAM		
FIXED PRICE CONTRACT		
Receipts (tonnes)	**1 836**	–
Revenue		
Sales returns paid to program	$ 459	$ –
Liquidated damages	10	–
Total Revenue	469	–
Expense		
Contracted amounts paid to producers	389	–
Net hedging activity	69	–
Net interest	3	–
Administrative expense (Note 19)	18	–
	479	–
Net deficit on program operations (Note 14)	**$ (10)**	**$ –**
BARLEY PROGRAM		
EARLY PAYMENT OPTION		
Receipts (tonnes)	–	**2 501**
Revenue		
Program discount	$ –	$ 18
Liquidated damages	–	3
Net interest	7	5
	7	26
Expense		
Net hedging activity	–	11
	–	11
Net surplus on program operations (Note 14)	**$ 7**	**$ 15**

Statement of cash flow

(000's)

FOR THE CROP YEAR ENDED JULY 31	2003	2002
Increases (Decreases) of cash during the year		
Cash Flow from Operating Activities		
Pool earnings for distribution	$ 3,152,776	$ 4,222,711
Producer payment option programs operations	263	1,565
Interest earned on non-program contingency fund balance	148	–
Add non-cash items		
Depreciation on CWB hopper cars	2,698	2,574
Depreciation on other capital assets	7,797	7,392
Cash flow from operating activities before changes in working capital	3,163,682	4,234,242
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	28,176	(7,920)
Inventory of grain	(216,298)	90,160
Deferred and prepaid expenses	(16,335)	(11,677)
Accounts payable and accrued expenses	22,857	(10,015)
Liability to agents	326,800	(44,204)
Liability to producers for outstanding cheques	(30,898)	2,569
Provision for producer payment expenses	(1,073)	(1,082)
Special account	749	919
	3,277,660	4,252,992
Cash Flow from Financing Activities		
Increase (Decrease) in borrowings	(904,890)	(308,614)
	(904,890)	(308,614)
Cash Flow from Investing and Other Activities		
Accounts receivable - credit programs	1,061,870	213,905
Purchase of capital assets	(7,941)	(7,019)
Proceeds from sale of capital assets	327	552
	1,054,256	207,438
Cash Distributions		
Prior year undistributed earnings	(402,859)	(341,476)
Current year distributions prior to July 31	(3,015,388)	(3,780,667)
Non-pool producer payment option payments	(8,779)	(29,673)
	(3,427,026)	(4,151,816)
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

(000's)

FOR THE CROP YEAR ENDED JULY 31	2003	2002
Human resources	$ 35,692	$ 38,158
Office services	3,720	4,279
Professional fees	12,596	3,395
Computer services	3,568	2,674
Facilities	2,283	2,165
Travel	1,363	1,976
Advertising & promotion	806	1,748
Other	664	950
Training	228	467
Depreciation	7,797	7,392
Recoveries	(2,053)	(1,951)
Total Administrative Expenses (Note 19)	**$ 66,664**	**$ 61,253**

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 grain grown in Western Canada to domestic and export customers. 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

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the Corporation's 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 thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

Revenue – Revenue from grain sales is recognized in the accounts at the time that shipment is made, at a value defined in the sales contract.

Inventory – Inventory of grain on hand at July 31 is valued at the amount of sales proceeds that is ultimately expected to be received as sale proceeds.

Direct operating expenses and incomes subsequent to July 31 – A provision is made for direct operating expenses and incomes occurring subsequent to July 31 relating to the marketing of grain inventories on hand at July 31. The amounts, which primarily relate to inventory storage, inventory financing and grain movement, are accrued to the appropriate Operating Statement account and are reflected in the Balance Sheet as accounts payable or other receivables.

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.*

With respect to receivables from credit programs, non-credit sales and advance payment programs, as a result of these guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations. Other receivable accounts are monitored and allowances for losses are provided for where collection is deemed unlikely.

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 6
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. 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 cross-currency interest rate swaps and currency swaps and are converted into Canadian or United States dollars at the rates provided therein. The Corporation hedges its United States dollar assets and liabilities on a portfolio basis primarily by matching United States dollar assets with United States dollar liabilities.

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.

The net foreign exchange gains included in operations for the year ended July 31, 2003 are $7,935,552 (2002 - $4,760,885).

DERIVATIVE FINANCIAL AND COMMODITY INSTRUMENTS

The Corporation uses various types of derivatives such as swaps, forwards, futures 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. The Corporation assesses on an ongoing basis whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Corporation recognizes derivative financial and commodity instruments as a hedge of the underlying exposure. The realized and unrealized gains and losses from these derivatives are recognized in income in the same period as the respective underlying exposure. Effective August 1, 2003, the Corporation has adopted the Canadian Institute of Chartered Accountants Accounting Guideline AcG13 Hedging Relationships.

Interest rate contracts are used to manage interest rate risk associated with the Corporation's funding and asset/liability management strategies. The amounts to be paid or received under single currency and cross-currency interest rate swap contracts are recognized in the period in which they occur, as a component of net interest earnings.

Foreign exchange contracts are used to hedge currency exposure arising from grain sales, producer payment options (PPO) and funding operations. The amounts to be paid or received under forward and option contracts are recognized in the same pool account or PPO program in which the related foreign currency transaction occurs as a component of revenue. The amounts to be paid or received from currency contracts used to hedge currency risk from funding operations are recognized in the period, in which they occur, as a component of net interest earnings.

Commodity contracts are used to manage price risk arising from grain sales and PPO's. The amounts to be paid or received under future and option contracts are recognized as a component of revenue, in the same pool account or PPO program as the related sale or PPO program that is being hedged.

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.

EMPLOYEE FUTURE BENEFITS

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

Pension Plan – Effective July 1, 2003, the Corporation began administrating its own pension plan for its employees. Previously, employees participated in the *Public Service Superannuation Act (PSSA)* pension plan administered by the Government of Canada. Currently, the Corporation is negotiating with the Government of Canada for the transfer of pension assets from the *PSSA* for employees choosing to transfer past service to the new plan. This transfer of assets from the *PSSA* will occur in the future. When the asset transfer amount is known, the value of these assets, the related accrued benefit obligation and other disclosures will be presented prospectively according to the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, Employee Future Benefits.

The Corporation sponsors two defined benefit pension plans and a defined contribution plan. The defined benefit components provide pension based on years of service and average earnings prior to retirement. The defined contribution component provides pension based on contributions made and investment earnings. Employer contributions to the Corporation's pension plan are expensed during the year in which the services are rendered.

Under the 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.

Other Post-Employment 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 was $13,685,546 and is being amortized over the Average Remaining Service Period (ARSP) which is 15 years.
- Actuarial gains (losses) over 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets are amortized over the ARSP.

3. ACCOUNTS RECEIVABLE FROM CREDIT SALES PROGRAMS

(000's)	Credit Grain Sales Program	Agri-food Credit Facility	**2003 Total**	2002 Total
Due from Foreign Customers				
Current	$	$ 30,416	**$ 30,416**	$ 196,345
Overdue	801,609	–	**801,609**	884,086
Rescheduled	5,045,332	–	**5,045,332**	5,854,174
	5,846,941	30,416	**5,877,357**	6,934,605
Due from Government of Canada	26,221	–	**26,221**	30,843
	$ 5,873,162	$ 30,416	**$ 5,903,578**	$ 6,965,448
Credit Risk				
Guaranteed by Government of Canada	$ 5,873,162	$ 29,808	**$ 5,902,970**	$ 6,964,243
Assumed by CWB	–	608	**608**	1,205
	$ 5,873,162	$ 30,416	**$ 5,903,578**	$ 6,965,448

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, Iraq, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. Of the $5,846,940,933 principal and accrued interest due from foreign customers at July 31, 2003, $4,389,683,187 represents the Canadian equivalent of $3,124,774,478 repayable in United States funds. Of the $6,874,364,143 principal and accrued interest due from customers at July 31, 2002, $5,279,682,444 represents the Canadian equivalent of $3,335,449,140 repayable in United States funds.

Overdue accounts receivable at July 31, 2003 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 for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the Government of Canada at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Algeria, Brazil, Egypt, Ethiopia, Haiti, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. The terms vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

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 $26,221,826 was due from the Government of Canada as at July 31, 2003 under these debt reduction agreements. Of this amount, $6,995,147 represents the Canadian equivalent of $4,979,461 that will be repayable in United States funds.

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

AGRI-FOOD CREDIT FACILITY

Accounts receivable under this facility arise from sales to customers in Indonesia, Mexico, and Peru. The July 31, 2003 balance of $30,415,531 for principal and accrued interest due under the Agri-food Credit Facility (ACF) represents the Canadian equivalent of $21,651,147 repayable in United States funds. The July 31, 2002 balance of $60,241,181 represents the Canadian equivalent of $38,057,477 repayable in United States funds.

There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. No allowances have been made for credit losses because Management considers the accounts collectible in their entirety.

FAIR VALUE

All accounts receivable resulting from sales made under credit programs as at July 31, 2003 have contractual interest rate repricing dates under 365 days. As a result of the short terms to repricing dates of these financial instruments, fair value approximates the carrying values.

MATURITIES

These accounts receivable mature as follows:

(000's)	**2003**	2002
Amounts due:		
Within 1 year	**$ 493,794**	$ 604,612
From 1 - 2 years	**499,181**	448,988
From 2 - 3 years	**567,198**	536,784
From 3 - 4 years	**589,296**	609,792
From 4 - 5 years	**620,961**	634,378
Over 5 years	**2,331,538**	3,246,808
Overdue	**801,610**	884,086
	$ 5,903,578	$ 6,965,448

4. ACCOUNTS RECEIVABLE FROM ADVANCE PAYMENT PROGRAMS

(000's)	Agricultural Marketing Programs Act	Prairie Grain Advance Payment Act	Spring Credit Advance Program	Unharvested Grain Advance Program	**2003 Total**	2002 Total
Due from Producers						
Principal balances outstanding	$ 46,325	$ –	$ 325,212	$ 831	**$ 372,368**	$ 392,842
Due from (to) Government of Canada						
Recovery of interest costs on producers' interest free portion of advances	1,373	–	2,547	14	**3,934**	3,877
Amounts collected from producers and grain companies subsequent to reimbursement by Government of Canada	(466)	(7)	–	–	**(473)**	(987)
Interest on defaulted accounts collected from producers on behalf of Government of Canada	(957)	(2)	(46)	–	**(1,005)**	(811)
	(50)	(9)	2,501	14	**2,456**	2,079
	$ 46,275	$ (9)	$ 327,713	$ 845	**$ 374,824**	$394,921

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

The Government of Canada introduced the *Agricultural Marketing Programs Act (AMPA)* in 1997 to provide producers 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 (PGAPA)***.** 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 (SCAP)* in the spring of 2000 to assist producers with spring seeding costs. The program enables producers to receive up to $50,000 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 under the *AMPA.*

Effective December 2002, under the *AMPA* legislation, the Corporation began administering an advance payment program for unharvested grain. This program was implemented to assist farmers who were unable to harvest their grain due to unusual weather conditions. Producers can receive up to $25,000 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 under the *AMPA.*

Cash advances issued during the year by the Corporation under these programs totalled $653,517,409, including $322,313,225 issued under the *AMPA,* $330,070,984 issued under the *SCAP* and $1,133,200 issued under the unharvested grain 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:

(dollar amounts in 000's)	**2003** Tonnes	**2003** Amount	2002 Tonnes	2002 Amount
Wheat	2 981 996	**$ 649,368**	2 136 847	$ 531,831
Durum	1 584 030	**413,060**	1 038 583	282,946
Barley	30 589	**5,677**	23 944	4,680
Designated Barley	241 853	**53,836**	416 634	86,186
	4 838 468	**$1,121,941**	3 616 008	$ 905,643

6. DEFERRED AND PREPAID EXPENSES

(000's)	**2003**	2002
Purchase and lease-renewal options on leased hopper cars	**$ 4,193**	$ 4,526
Deposits on commodity margin accounts	**10,930**	2,948
Net results of commodity hedging activities applicable to subsequent pool accounts	**18,216**	9,690
Other	**1,967**	1,808
	$ 35,306	$ 18,972

7. CAPITAL ASSETS

(000's)	2003 Cost	2003 Accum Deprec.	2003 Net Book Value	2002 Cost	2002 Accum Deprec.	2002 Net Book Value
Computer systems development	**$ 54,582**	**$ 25,086**	**$ 29,496**	$ 48,934	$ 19,450	$ 29,484
Hopper cars	**83,583**	**65,473**	**18,110**	83,900	62,925	20,975
Computer equipment	**14,891**	**11,179**	**3,712**	14,557	10,664	3,893
Furniture & equipment	**4,971**	**3,557**	**1,414**	4,610	3,287	1,323
Land, building and improvements	**8,275**	**7,505**	**770**	7,982	7,273	709
Automobiles	**512**	**133**	**379**	563	196	367
Leasehold improvements	**158**	**158**	**–**	159	148	11
	$ 166,972	**$ 113,091**	**$ 53,881**	$160,705	$ 103,943	$ 56,762

The Corporation purchased 2,000 hopper cars in 1979-80 having an original cost of $90,555,620. Of these cars, 154 cars have been wrecked and dismantled, leaving 1,846 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, bank loans and medium-term notes with remaining maturities less than one year. The Corporation uses swaps in the same notional amounts and with the same terms as the underlying borrowings to convert the currency exposure to either the Canadian dollar or the United States dollar.

Long-term borrowings are notes issued in the Euro Medium Term Note market with an original term to maturity between one and fifteen years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest rate fluctuations on the notes' principal and interest payments.

(dollar amounts in 000's)	Effective Interest Rate (%)	**2003**	2002
Short-term borrowings	0.86 – 3.52	**$ 7,515,620**	$ 6,005,296
Long-term borrowings	0.68 – 1.15	**346,873**	1,517,028
Accrued interest	–	**29,072**	28,333
Total borrowings	0.68 – 3.52	**7,891,565**	7,550,657
Less temporary investments	1.05 – 3.02	**(1,460,093)**	(214,295)
Net borrowings	0.68 – 3.52	**$ 6,431,472**	$ 7,336,362

Of the net borrowings at July 31, 2003, $4,410,350,021 represents the Canadian equivalent of $3,139,486,063 that will be repayable in United States funds. Of the net borrowings at July 31, 2002, $5,364,721,459 represents the Canadian equivalent of $3,389,172,695 repayable in United States funds.

After giving effect to interest rate swaps, all borrowings have contractual interest rate repricing dates of 365 days or less and, as a result, carrying values of these borrowings approximate their fair values.

These borrowings mature as follows:

(000's)	**2003**	2002
Amounts due:		
within 1 year	**$ 7,544,692**	$ 6,067,682
from 1 – 3 years	**–**	–
from 3 - 4 years	**33,777**	23,999
from 4 - 5 years	**56,192**	514,442
over 5 years	**256,904**	944,534
	$ 7,891,565	$ 7,550,657

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(000's)	2003	2002
Accounts payable and accrued liabilities	**$ 61,867**	$ 49,630
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	**63,786**	45,888
Deferred sales revenue	**12,219**	19,498
	$ 137,872	$ 115,016

10. LIABILITY TO AGENTS

(000's)	2003	2002
Grain purchased from producers	**$ 756,076**	$ 465,734
Deferred cash tickets	**120,739**	84,281
	$ 876,815	$ 550,015

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 terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for 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

Represents the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $208,594,604 (2002 - $402,859,044), $151,527,062 (2002 - $209,792,684) was distributed to producers in an interim payment on October 3, 2003. The balance of $57,067,542 (2002 - $193,066,360) will be distributed to producers through final payments and producer car rebates.

12. PROVISION FOR PRODUCER PAYMENT EXPENSES

The amount of $2,614,031 (2002 - $3,687,300) 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

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)	2003	2002
Beginning of year	**$ 4,199**	$ 3,281
Transfer from payment accounts	**1,622**	2,105
Expenditures	**(868)**	(1,185)
Payments to producers against old payment accounts	**(5)**	(2)
End of year	**$ 4,948**	$ 4,199
Ending balance comprised of:		
Unexpended authorizations	**$ 780**	$ 1,102
Not designated for expenditure	**4,168**	3,097
	$ 4,948	$ 4,199

During the year ended July 31, 2003, the balance from payment accounts for 1995 Wheat, 1995 Durum and 1995 Designated Barley were transferred to the Special Account under Order-in-Council P.C. 2003-592.

Program activity during the 2002-03 crop year is detailed as follows:

(000's)	Unexpended, beginning of year	Authorized	Expended	Expired	Unexpended, end of year
Market development program	$ 113	$ 250	$ (37)	$ –	$ 326
Scholarship program	149	251	(281)	–	119
Canadian International Grains Institute					
Capital expenditures	65	250	(130)	–	185
Test Baking Facility	300	–	(95)	(205)	–
Agribusiness Chair – University of Manitoba	225	–	(75)	–	150
Automated Quality Testing	250	–	(250)	–	–
	$ 1,102	$ 751	$ (868)	$ (205)	$ 780

14. CONTINGENCY FUND

The Canadian Wheat Board Act provides for the establishment of a contingency fund. The contingency fund can be populated through a variety of mechanisms such as the results of operations of the producer payment options or other sources of revenue received in the course of operations. The components of the contingency fund are described below:

PRODUCER PAYMENT OPTION PROGRAMS

The Corporation has implemented 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 Early Payment Option (EPO) provides the producer with a greater portion of their expected final pool price at time of delivery, while their deliveries remain 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.

OTHER

As provided for under the Act, interest earnings of $5,076,898 from the 2002-03 barley pool (2001-02 $7,114,908) have been transferred to the contingency fund. The transfer amount is based on a specific formula approved by the board of directors. The formula ensures that a fair amount of interest earnings, on a per-tonne basis, are allocated to the barley pool and the distorting effect of certain fixed costs in years when pool volume is unusually low, is mitigated.

Consistent with the treatment applied to the pools and producer payment option programs, the surplus is not specifically funded and earns interest at the Corporation's weighted average cost of borrowing.

The contingency fund balance at July 31, 2003 is detailed as follows:

	Producer Payment Option Programs			Other	**2003**	2002
(000's)	Wheat	Durum	Barley		**Total**	Total
Opening surplus, beginning of year	$ 4,074	$ -	$ 233	$ 7,115	**$ 11,422**	$ 345
Transferred from Pool accounts	-	-	-	5,077	**5,077**	7,115
Surplus from Producer Payment Option programs	591	(10)	7	-	**588**	3,962
Interest earned on non-program fund balances	-	-	-	148	**148**	-
Closing surplus, end of year	$ 4,665	$ (10)	$ 240	$12,340	**$ 17,235**	$11,422

15. INVENTORY ADJUSTMENTS

Inventory Adjustments capture the related dollar impact, at the current initial price, of changes in grade and protein in the grain delivered by producers, from the grain that is ultimately available for sale.

Overall promotion in the grain handling system is disclosed as an expense to the pool because the Corporation compensates grain companies for the increase in current initial price value created by positive blending activities. Generally, there is an overall benefit to the pool to the extent that the greater sales value returned to the pool, from selling higher quality grain, exceeds the increase in the initial value.

In the case of demotions, the opposite is true. The pools' overall sales value will be lower from having lower quality grain to sell, compared to that which was reported and upon which the Corporation must still make future adjustment, interim and final payments. This loss is partially mitigated because the grain companies are only reimbursed the value of the lower quality grain whereas they have paid the farmer the higher initial payment of the higher quality grain originally reported as delivered.

16. OTHER GRAIN PURCHASES

Other grain purchases captures the net result of inventory overages acquired at initial price and inventory shortages sold at export price. These overages and shortages occur when the Corporation's agents' inventory records differ from that of the Corporation. Acquired overages are recorded as an expense to the pool with the pool benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks.

17. OTHER DIRECT EXPENSES

Other direct expenses are primarily made up of contract cancellation charges, program expenses, agent's commissions, fees for inspection and testing of grain, Corporation owned and leased hoppers cars, and demurrage.

18. OTHER INCOME

Other income is primarily made up of the Freight Adjustment Factor recovery and recovery of charges, deducted by the Corporation's agents at time of producer delivery, that were subsequently not incurred by the agent. The most significant charge recovered comprises the recovery of the rail freight cash ticket deduction when grain moves to a location other than terminal position.

19. ADMINISTRATIVE EXPENSES

Beginning with the 2002-03 crop year, the Corporation has discontinued the policy of applying a portion of the subsequent crop year's administrative expense to the current year pool results. This amount was intended to represent the administrative cost of marketing the current crop year inventory in stock at July 31. Typically, the amount brought into the current results approximates the amount of current year expenses that was allocated to the previous crop year. As a result, the application of the policy had a minimal impact to the pool results. The new policy does not attempt to redistribute administrative expense between crop years and simply allocates the administrative expenses, occurring during the fiscal year ending July 31, as reported in the Statement of Administrative Expenses, to that crop year's results.

The new policy has been applied prospectively, beginning with the 2002-03 crop year. Retroactive restatement is not possible as prior year pool results are finalized and settled with producers and there is no mechanism to recover or pay out amounts arising from subsequent adjustments. The estimated impact of this change to the 2002-03 crop year is to reduce administrative expense allocated to the pools by approximately $18 million or $1.34 per tonne. There is no impact to the amounts allocated to the payment option programs or the producer payment accounts.

Administrative expenses, less the expenses attributable to the distribution of final payments and the incremental costs related to the payment option programs, are allocated to each pool on the basis of relative tonnage.

During 2002-03, the Corporation incurred approximately $9.7 million ($0.72 per tonne) in legal costs to defend anti-dumping (AD) and countervailing duty (CVD) petitions filed by the North Dakota Wheat Commission and the U.S. Durum Growers Action Committee against imports of Canadian hard red spring wheat (HRS) and durum and to assist the Government of Canada in the defence of a World Trade Organization challenge. These costs are included in administrative expenses and are therefore allocated to each pool based on relative tonnage as described above. This allocation is deemed appropriate because, although the actions were directed at wheat and durum, the actions were in effect challenges to the Corporation's single-desk mandate and the defense served to protect the interest of all grains. This methodology is consistent with the treatment of legal costs incurred for prior years' trade challenges.

(000's)	**2003**	2002
Administrative expenses for fiscal year ended July 31	**$ 66,664**	$ 61,253
Current fiscal year's expense related to administration of the prior year's pool accounts	**(11,993)**	(22,256)
Subsequent fiscal year's expense related to administration of the current year's pool accounts (estimated)	–	11,993
Prior fiscal year's expense related to administration of the current year's payment option programs	**83**	148
Current fiscal year's expenses related to administration of the subsequent year's payment option programs	–	(83)
Adjusted Administrative expenses	**$ 54,754**	$ 51,055
Allocated as follows:		
Wheat pool	**$ 35,016**	$ 35,708
Durum pool	**15,316**	8,705
Barley pool	**160**	146
Designated Barley pool	**3,590**	5,887
Total to pools	**54,082**	50,446
Wheat FPC/BPC payment option program	**356**	323
Durum FPC/BPC payment option program	**18**	-
Producer payment accounts	**298**	286
	$ 54,754	$ 51,055

20. LEASE COMMITMENTS

The Corporation administers leases for grain hopper cars for the Government of Canada with lease terms of 25 years, expiring in 2006. Of the 1,750 cars leased under the original agreements, 84 have been wrecked and dismantled, leaving 1,666 cars in this fleet. 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 for the year ended July 31, 2003 were $16,658,004 (2002 - $17,388,769).

In 1995, the Corporation purchased an option to extend the lease agreement on 250 hopper cars for a five-year term at a bargain lease rate. Effective October 1, 2000, the Corporation exercised this right on the 244 remaining cars. The cost of the option is being amortized over the term of the five-year extension. The lease payments under this lease extension option are not recoverable from the Government of Canada and will be paid directly by the pool accounts. Effective April 2001, the Corporation sublet the remaining 242 cars to a third party for a term expiring October 2005.

Between 1991 and 1995, the Corporation purchased options to acquire 1,550 of the Government of Canada cars at the end of the lease terms in 2006. Of these cars, 74 cars have been wrecked and dismantled, leaving 1,476 cars, which may be purchased at a total cost of $17,430,029 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 August 2003 and October 2008. 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, 2003 were $1,071,509 (2002 – $1,142,627).

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

(000's)	Hopper Cars (US$)	Premises & Office Equipment (Cdn $)
2004	$456	$947
2005	456	422
2006	76	198
2007	–	162
2008	–	27
After 2008	–	–

21. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

The Corporation enters into single and cross-currency interest rate swap contracts to manage its funding costs and to implement asset/liability management strategies designed to reduce exposure resulting from currency and interest rate fluctuations.

The Corporation also enters into foreign exchange forward and currency swap agreements with financial institutions to hedge currency exposure arising primarily from grain sales and funding operations.

As at July 31, 2003 the total notional amount of these off balance sheet financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2003			2002		
(000's)	Notional Amounts	Net Fair Value	Credit Risk	Notional Amounts	Net Fair Value	Credit Risk
Interest rate contracts						
Single-currency interest rate swaps	**$ 196,812**	**$ (8,562)**	**$ 47**	$ 838,620	$ 886	$ 2,713
Cross-currency interest rate swaps	**163,637**	**3,219**	**5,221**	820,552	34,944	36,089
	360,449	**(5,343)**	**5,268**	1,659,172	35,830	38,802
Foreign exchange contracts						
Forwards	**940,379**	**(12,282)**	**5,851**	644,437	(8,952)	709
Currency swaps	**1,180,301**	**(20,537)**	**3,624**	182,949	10,902	10,902
	2,120,680	**(32,819)**	**9,475**	827,386	1,950	11,611
	$2,481,129	**$ (38,162)**	**$14,743**	$ 2,486,558	$ 37,780	$ 50,413

As of the statement date, interest rate contracts with notional amounts outstanding of $13,575,987 and all foreign exchange contracts mature within one year. The interest rate contracts with maturities between one and five years and beyond five years had notional amounts outstanding of $89,968,841 and $256,904,205 respectively. The swap contracts rates ranged between 0.68% and 1.42%.

The net fair value of interest rate and foreign exchange contracts refers to the estimated 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. These estimates of fair value are 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. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk management policies approved by the Corporation's board of directors. Master netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2003 was $477,323,291 (2002 – $853,457,961) and the largest credit risk with any institution as at July 31, 2003 was $3,104,487 (2002 – $24,759,486).

22.EMPLOYEE FUTURE BENEFITS

Employee future benefits relate to the Corporation's Pension Plan and the other post-employment benefits.

PENSION PLAN

The Corporation expensed $3,808,273 as its contribution to the PSSA plan to June 30, 2003. The Corporation also expensed, for the one month ended July 31, 2003, $315,669 to the defined benefit component and $2,810 to the defined contribution component of the Corporation's Pension Plan. Total pension expense for PSSA and the Corporation Pension Plan as at July 31, 2003 is $4,126,752 (2002 - $3,719,364). Employees contributed $102,433 to the defined benefit component and $12,389 to the defined contribution component of the Corporation Pension Plan as at July 31, 2003. No benefits have been paid from the Corporation Pension Plan to July 31, 2003.

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, 2003, as calculated, is $18,615,804. The accrued benefit obligation included on the Corporation's Balance Sheet is:

(000's)	**2003**	2002
Accrued benefit obligation, beginning of year	**$ 6,031**	$ 4,255
Current service cost	**591**	591
Interest cost	**1,063**	1,098
Benefits paid	**(929)**	(825)
Amortization of transitional obligation	**912**	912
Accrued benefit obligation, end of year	**$ 7,668**	$ 6,031

The Corporation's expense, with respect to other post-employment benefits, included in administrative expenses is:

(000's)	**2003**	2002
Current service cost	**$ 591**	$ 591
Interest cost	**1,063**	1,098
Amortization of transitional obligation	**912**	912
Total post-employment benefit expense	**$ 2,566**	$ 2,601

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

	2003	2002
Discount rate	**6.0%**	6.5%
Rate of compensation increase	**4.0%**	4.0%

For measurement purposes, benefits provided are assumed to increase at a rate of eight per cent for 2003, grading down by one per cent per year to an ultimate level of three per cent per annum in 2008 and thereafter.

23. CONTINGENT LIABILITY

On September 13, 2002 the North Dakota Wheat Commission and the U.S. Durum Growers Action Committee filed anti-dumping (AD) and countervailing duty (CVD) petitions against imports of Canadian HRS wheat and durum. Over the course of the year, the Corporation vigorously defended these challenges. Tariffs came into effect in March 2003 and May 2003 for the CVD and AD petitions, respectively. On October 3, 2003, the U.S. International Trade Commission (ITC) ruled 4-0 that imports of durum are not causing injury to the U.S. durum growing industry. Accordingly, tariffs on durum were lifted and tariff-free access to the U.S. durum market was re-established. In the case of HRS, the ITC ruled 2-2 that Canadian HRS imports are causing injury and so AD and CVD tariffs totaling 14.15 per cent will be in place pending appeals and/or administrative reviews by the U.S. Department of Commerce. At this time, it is not possible to accurately assess the financial impact of the imposition of tariffs on HRS. The Corporation is pursuing a variety of appeal avenues in respect to the HRS decisions.

24. 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 or futures – 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 specified 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.