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 2004-05 pool accounts, Producer Payment Options and the financial status of the Corporation at July 31, 2005.

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 fulfils 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 & Chief Executive Officer

B Chell

Brita Chell
Chief Financial Officer

Winnipeg, Manitoba
November 17, 2005

Auditors' report

To the board of directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which include the balance sheet as at July 31, 2005 and the combined statement of pool operations and statement of distribution to producers for the 2004-2005 pool accounts, the statements of operations and statements of distribution to producers for the 2004-2005 pool accounts for wheat and durum for the period August 1, 2004 to completion of operations on July 31, 2005, for designated barley for the period August 1, 2004 to completion of operations on August 31, 2005, and for barley for the period August 1, 2004 to January 31, 2005 and for the period February 1, 2005 to August 31, 2005, the statements of operations for wheat, durum, designated barley and barley producer payment options for the period August 1, 2004 to July 31, 2005, the statement of cash flow for the year ended July 31, 2005, and the statement of administrative expenses for the year ended July 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2005 and the results of its operations and the cash flow for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 17, 2005

Balance sheet

AS AT JULY 31 (dollar amounts in 000's)	**2005**	2004
ASSETS		
Accounts receivable		
Credit programs (Note 3)	$ 3,926,944	$ 5,311,103
Non-credit sales	12,450	27,510
Advance payment programs (Note 4)	333,794	318,776
Prepayment of inventory program	38,914	24,880
Other	50,000	61,389
	4,362,102	5,743,658
Inventory of grain (Note 5)	827,153	871,269
Deferred and prepaid expenses (Note 6)	40,187	10,093
Capital assets (Note 7)	47,659	51,436
Total assets	**$ 5,277,101**	**$ 6,676,456**
LIABILITIES		
Borrowings (Note 8)	$ 4,150,528	$ 5,482,135
Accounts payable and accrued expenses (Note 9)	156,290	149,611
Liability to agents (Note 10)	508,595	542,513
Liability to producers – Outstanding cheques	20,703	15,122
Liability to producers – Undistributed earnings (Note 11)	386,752	462,321
Provision for producer payment expenses (Note 12)	1,741	2,241
Special account (Note 13)	3,880	4,060
Contingency fund (Note 14)	48,612	18,453
Total liabilities	**$ 5,277,101**	**$ 6,676,456**

Approved by the board of directors:

Ken Ritter
Chair, board of directors

Adrian Measner
President and Chief Executive Officer

Combined pool accounts

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	**2005**	2004
STATEMENT OF POOL OPERATIONS*		
Receipts (tonnes)	**19 370 521**	**18 438 041**
Revenue	**$ 3,739,343**	**$ 4,136,168**
Direct costs		
Freight	181,200	190,437
Terminal handling	114,623	98,999
Inventory storage	64,490	52,654
Country inventory financing	5,489	7,216
Inventory adjustments (Note 15)	(18,818)	(3,982)
Other grain purchases (Note 16)	25,603	7,877
Other direct expenses (Note 17)	34,957	16,505
Total direct costs	**407,544**	**369,706**
Net revenue from operations	**3,331,799**	**3,766,462**
Other income (Note 18)	163,441	161,124
Net interest earnings	53,384	56,125
Administrative expenses (Note 19)	(69,212)	(67,581)
Grain industry organizations	(1,647)	(1,836)
Earnings for distribution	**$ 3,477,765**	**$ 3,914,294**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION		
Earnings distributed to pool participants		
Receipts (tonnes)	**17 701 418**	**18 278 788**
Initial payments on delivery	$ 2,513,799	$ 2,892,700
Adjustment payments	302,499	509,209
Interim payment	200,947	258,787
Final payment	223,440	204,961
Producer contract storage payments	9,608	15,984
Rebate on producer cars	102	139
Total earnings distributed to pool participants	3,250,395	3,881,780
Transferred to contingency fund		
Undistributed earnings (Note 14)	2,278	–
Non-pool Producer Payment Options program		
Receipts (tonnes)	**1 171 454**	**159 253**
Sales returns paid to payment program	225,092	32,514
Total distribution	**$ 3,477,765**	**$ 3,914,294**

Wheat pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	**2005** Total	Per tonne	2004 Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**13 296 295**		**12 375 988**	
Revenue	**$ 2,533,640**	**$ 190.55**	**$ 2,808,294**	**$ 226.91**
Direct costs				
Freight	106,535	8.01	134,766	10.89
Terminal handling	83,784	6.30	77,799	6.28
Inventory storage	40,763	3.07	32,074	2.59
Country inventory financing	3,649	0.27	4,913	0.40
Inventory adjustments (Note 15)	(8,683)	(0.65)	(5,056)	(0.41)
Other grain purchases (Note 16)	10,800	0.81	5,023	0.41
Other direct expenses (Note 17)	30,201	2.27	12,545	1.00
Total direct costs	**267,049**	**20.08**	**262,064**	**21.16**
Net revenue from operations	**2,266,591**	**170.47**	**2,546,230**	**205.75**
Other income (Note 18)	110,338	8.29	97,673	7.89
Net interest earnings	39,211	2.95	39,858	3.22
Administrative expenses (Note 19)	(47,508)	(3.57)	(45,362)	(3.67)
Grain industry organizations	(1,076)	(0.08)	(1,179)	(0.10)
Earnings for distribution	**$ 2,367,556**	**$ 178.06**	**$ 2,637,220**	**$ 213.09**

* Excludes operation of Producer Payment Options program

	2005 Total	Per tonne	2004 Total	Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**12 125 384**		**12 217 247**	
Initial payments on delivery	$ 1,690,743	$ 139.44	$ 1,989,659	$ 162.86
Adjustment payments	178,271	14.70	347,732	28.46
Interim payment	127,387	10.51	144,204	11.80
Final payment	146,115	12.05	123,148	10.08
Rebate on producer cars	54	–	78	0.01
Total earnings distributed to pool participants	2,142,570	176.70	2,604,821	213.21
Non-pool Producer Payment Options program				
Receipts (tonnes)	**1 170 911**		**158 741**	
Sales returns paid to payment program	224,986	192.15	32,399	204.10
Total distribution	**$ 2,367,556**	**$ 178.06**	**$ 2,637,220**	**$ 213.09**

Durum pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005		2004	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**3 823 967**		**3 079 664**	
Revenue	**$ 827,390**	**$ 216.37**	**$ 771,330**	**$ 250.46**
Direct costs				
Freight	60,621	15.85	46,311	15.04
Terminal handling	23,978	6.27	13,533	4.39
Inventory storage	17,676	4.62	12,047	3.91
Country inventory financing	1,113	0.29	1,305	0.42
Inventory adjustments (Note 15)	(10,361)	(2.71)	(962)	(0.31)
Other grain purchases (Note 16)	10,596	2.77	2,419	0.79
Other direct expenses (Note 17)	4,759	1.24	4,487	1.45
Total direct costs	**108,382**	**28.33**	**79,140**	**25.69**
Net revenue from operations	**719,008**	**188.04**	**692,190**	**224.77**
Other income (Note 18)	16,187	4.23	15,359	4.99
Net interest earnings	7,576	1.97	8,589	2.79
Administrative expenses (Note 19)	(13,663)	(3.57)	(11,288)	(3.67)
Grain industry organizations	(309)	(0.08)	(293)	(0.10)
Earnings for distribution	**$ 728,799**	**$ 190.59**	**$ 704,557**	**$ 228.78**

* Excludes operation of Producer Payment Options program

	2005 Total	2005 Per tonne	2004 Total	2004 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**3 823 579**		**3 079 194**	
Initial payments on delivery	$ 540,979	$ 141.48	$ 487,124	$ 158.20
Adjustment payments	88,275	23.09	77,437	25.15
Interim payment	54,223	14.18	93,275	30.29
Final payment	45,192	11.82	46,560	15.12
Rebate on producer cars	45	0.01	53	0.02
Total earnings distributed to pool participants	728,714	190.58	704,449	228.78
Non-pool Producer Payment Options program				
Receipts (tonnes)	**388**		**470**	
Sales returns paid to payment program	85	217.99	108	230.00
Total distribution	**$ 728,799**	**$ 190.59**	**$ 704,557**	**$ 228.78**

Designated barley pool

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2005 Total	2005 Per tonne	2004 Total	2004 Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**1 752 501**		**2 138 365**	
Revenue	**$ 310,711**	**$ 177.30**	**$ 408,950**	**$ 191.24**
Direct costs				
Freight	13,753	7.85	9,504	4.44
Terminal handling	5,136	2.93	2,181	1.03
Inventory storage	5,068	2.89	6,195	2.90
Country inventory financing	684	0.39	900	0.42
Inventory adjustments (Note 15)	196	0.11	2,085	0.97
Other grain purchases (Note 16)	2,458	1.40	289	0.14
Other direct expenses (Note 17)	(833)	(0.48)	(889)	(0.42)
Total direct costs	**26,462**	**15.09**	**20,265**	**9.48**
Net revenue from operations	**284,249**	**162.21**	**388,685**	**181.76**
Other income (Note 18)	35,095	20.02	47,574	22.25
Net interest earnings	1,848	1.05	1,790	0.84
Administrative expenses (Note 19)	(6,262)	(3.57)	(7,838)	(3.67)
Grain industry organizations	(222)	(0.13)	(284)	(0.13)
Earnings for distribution	**$ 314,708**	**$ 179.58**	**$ 429,927**	**$ 201.05**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	2005 Total	2005 Per tonne	2004 Total	2004 Per tonne
Earnings distributed to producers				
Receipts (tonnes)	**1 752 455**		**2 138 365**	
Initial payments on delivery	$ 245,659	$ 140.18	$ 327,636	$ 153.22
Adjustment payments	35,953	20.52	46,829	21.90
Interim payment	–	–	14,557	6.81
Final payment	23,477	13.40	24,918	11.65
Producer contract storage payments	9,608	5.48	15,984	7.47
Rebate on producer cars	3	–	3	–
Total earnings distributed to pool participants	314,700	179.58	429,927	201.05
Non-pool Producer Payment Options program				
Receipts (tonnes)	**46**		**–**	
Sales returns paid to payment program	8	174.57	–	–
Total distribution	**$ 314,708**	**$ 179.58**	**$ 429,927**	**$ 201.05**

Barley pool

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2005				2004	
	Barley pool A six mo's ended January 31		Barley pool B seven mo's ended August 31		Barley pool crop year ended July 31	
	Total	Per tonne	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*						
Receipts (tonnes)	**29 022**		**468 736**		**844 024**	
Revenue	**$ 4,449**	**$ 153.31**	**$ 63,153**	**$ 134.73**	**$ 147,595**	**$ 174.87**
Direct costs						
Freight	(21)	(0.73)	312	0.66	(143)	(0.17)
Terminal handling	342	11.79	1,383	2.95	5,486	6.49
Inventory storage	199	6.86	784	1.67	2,338	2.77
Country inventory financing	10	0.34	33	0.07	98	0.12
Inventory adjustments (Note 15)	23	0.79	7	0.02	(49)	(0.06)
Other grain purchases (Note 16)	1,552	53.46	197	0.42	146	0.17
Other direct expenses (Note 17)	495	17.09	335	0.71	362	0.43
Total direct costs	**2,600**	**89.60**	**3,051**	**6.50**	**8,238**	**9.75**
Net revenue from operations	**1,849**	**63.71**	**60,102**	**128.23**	**139,357**	**165.12**
Other income (Note 18)	602	20.76	1,219	2.59	517	0.61
Net interest earnings	2,483	85.55	2,266	4.83	5,888	6.98
Administrative expenses (Note 19)	(104)	(3.57)	(1,675)	(3.57)	(3,093)	(3.67)
Grain industry organizations	(2)	(0.09)	(38)	(0.08)	(80)	(0.10)
Earnings for distribution	**$ 4,828**	**$ 166.36**	**$ 61,874**	**$ 132.00**	**$ 142,589**	**$ 168.94**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	Total	Per tonne	Total	Per tonne	Total	Per tonne
Earnings distributed to producers						
Receipts (tonnes)	**28 913**		**468 736**		**843 982**	
Initial payments on delivery	$ 2,385	$ 82.46	$ 34,033	$ 72.61	$ 88,280	$ 104.60
Adjustment payments	–	–	–	–	37,211	44.09
Interim payment	578	20.00	18,759	40.02	6,752	8.00
Final payment	368	12.75	8,288	17.68	10,334	12.24
Rebate on producer cars	–	–	–	–	5	0.01
Total earnings distributed to producers	3,331	115.21	61,080	130.31	142,582	168.94
Transferred to contingency fund						
Undistributed earnings (Note 14)	1,484	51.34	794	1.69	–	–
Non-pool Producer Payment Options program						
Receipts (tonnes)	**109**		**–**		**42**	
Sales returns paid to payment program	13	116.72	–	–	7	169.21
Total distribution	**$ 4,828**	**$ 166.36**	**$ 61,874**	**$ 132.00**	**$ 142,589**	**$ 168.94**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		**2005**		2004
WHEAT PROGRAMS				
FIXED PRICE CONTRACT/BASIS PRICE CONTRACT				
Receipts (tonnes)		**1 170 911**		**158 741**
Revenue				
Sales returns paid to program	$	224,986	$	32,399
Net hedging activity		57,249		–
Liquidated damages		1,185		132
Net interest		43		9
		283,463		32,540
Expense				
Contracted amounts paid to producers		246,327		32,005
Net hedging activity		–		2
Administrative expense (Note 19)		299		255
		246,626		32,262
Surplus on program operations		**36,837**		**278**
Hedging gain distribution		**(5,060)**		**–**
Net surplus on program operations	**$**	**31,777**	**$**	**278**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**1 854 711**		**1 181 213**
Revenue				
Program discount	$	3,219	$	1,831
Liquidated damages		110		204
		3,329		2,035
Expense				
Pool returns less than contracted price		299		–
Net hedging activity		305		1,757
Net interest		205		137
		809		1,894
Net surplus on program operations	**$**	**2,520**	**$**	**141**
Transfer to pool participants (Note 18)		**(7,354)**		**–**
TOTAL WHEAT PROGRAMS (Note 14)	**$**	**26,943**	**$**	**419**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2005		2004
DURUM PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**388**		**470**
Revenue				
Sales returns paid to program	$	85	$	108
Net hedging activity		3		–
Liquidated damages		5		1
		93		109
Expense				
Contracted amounts paid to producers		77		94
Net hedging activity		–		9
Net interest		–		1
Administrative expenses (Note 19)		–		1
		77		105
Net surplus on program operations	**$**	**16**	**$**	**4**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**531 306**		**199 937**
Revenue				
Program discount	$	379	$	546
Liquidated damages		23		47
		402		593
Expense				
Net hedging activity		123		356
Net interest		16		46
		139		402
Net surplus on program operations	**$**	**263**	**$**	**191**
Transfer to pool participants (Note 18)		**(60)**		**–**
TOTAL DURUM PROGRAMS (Note 14)	**$**	**219**	**$**	**195**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)		2005		2004
DESIGNATED BARLEY PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**46**		**–**
Revenue				
Sales returns paid to program	$	8	$	–
		8		–
Expense				
Contracted amounts paid to producers		8		–
		8		–
Net surplus on program operations	**$**	**–**	**$**	**–**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**255 682**		**555 616**
Revenue				
Program discount	$	185	$	626
Net hedging activity		34		–
Liquidated damages		9		48
		228		674
Expense				
Net hedging activity		–		208
Net interest		9		81
		9		289
Net surplus on program operations	**$**	**219**	**$**	**385**
Transfer to pool participants (Note 18)		**(47)**		**–**
TOTAL DESIGNATED BARLEY PROGRAMS (Note 14)	**$**	**172**	**$**	**385**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2005		2004
	Barley pool A six mo's ended January 31	**Barley pool B seven mo's ended August 31**	Barley pool crop year ended July 31
BARLEY PROGRAMS			
FIXED PRICE CONTRACT			
Receipts (tonnes)	**109**	**–**	**42**
Revenue			
Sales returns paid to program	$ 13	$ –	$ 7
Net interest	–	–	1
	13	–	8
Expense			
Contracted amounts paid to producers	13	–	5
Net hedging activity	–	–	1
	13	–	6
Net surplus on program operations	**$ –**	**$ –**	**$ 2**
EARLY PAYMENT OPTION			
Receipts (tonnes)	**11 811**	**428 010**	**715 603**
Revenue			
Program discount	$ 20	$ 177	$ 1,468
Net hedging activity	50	–	88
Liquidated damages	–	3	27
Net interest	17	17	–
	87	197	1,583
Expense			
Net hedging activity	–	15	–
Producer contract storage	–	–	254
Liquidated damages	2	–	–
Net interest	–	–	101
	2	15	355
Net surplus on program operations	**$ 85**	**$ 182**	**$ 1,228**
Transfer to pool participants (Note 18)	**–**	**(39)**	**–**
TOTAL BARLEY PROGRAMS (Note 14)	**$ 85**	**$ 143**	**$ 1,230**

Statement of cash flow

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005	2004
Increases (decreases) of cash during the year		
Cash flow from operating activities		
Pool earnings for distribution	$ 3,477,765	$ 3,914,293
Producer Payment Options program operations	12,104	1,820
Pre-delivery Top-up program	4	–
Interest earned on non-program contingency fund balance	315	278
Add non-cash items		
Depreciation on CWB hopper cars	2,634	2,650
Depreciation on other capital assets	10,239	9,388
Adjustment related to 2002-03 EPO program	–	(1,289)
Cash flow from operating activities before changes in working capital	3,503,061	3,927,140
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	(2,602)	136,035
Inventory of grain	44,116	250,672
Deferred and prepaid expenses	(30,095)	25,214
Accounts payable and accrued expenses	6,678	10,174
Liability to agents	(33,918)	(334,302)
Liability to producers for outstanding cheques	5,583	11,374
Provision for producer payment expenses	(500)	(373)
Special account	(180)	(888)
	3,492,143	4,025,046
Cash flow from financing activities		
Decrease in borrowings	(1,331,607)	(949,337)
	(1,331,607)	(949,337)
Cash flow from investing and other activities		
Accounts receivable – Credit programs	1,384,158	592,476
Purchase of capital assets	(9,305)	(9,869)
Proceeds from sale of capital assets	209	277
	1,375,062	582,884
Cash distributions		
Prior year undistributed earnings	(462,321)	(208,595)
Current year distributions prior to July 31	(2,826,852)	(3,417,892)
Non-pool Producer Payment Option payments	(246,425)	(32,106)
	(3,535,598)	(3,658,593)
Net increase in cash and cash equivalents	–	–
Net cash position at beginning of year	–	–
Net cash position at end of year	**$ –**	**$ –**

Statement of administrative expenses

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	**2005**	2004
Human resources	$ 38,208	$ 40,355
Office services	3,459	3,388
Professional fees	10,181	7,033
Computer services	2,549	3,691
Facilities	1,745	2,150
Travel	2,262	1,823
Advertising & promotion	1,928	1,307
Other	838	726
Training	546	376
Depreciation	10,239	9,388
Recoveries	(1,965)	(2,229)
Total administrative expenses (Note 19)	**$ 69,990**	**$ 68,008**

Notes to financial statements

(dollars in thousands)

1. Act of incorporation and mandate

The Canadian Wheat Board (the Corporation) was established by *The Canadian Wheat Board Act,* a statute of the Parliament of Canada. On June 11, 1998, Bill C-4, *An Act to Amend The Canadian Wheat Board Act* continued the Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing, in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation is headed by a board of directors, comprised of 10 producer-elected and five government-appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected board members and to Parliament through the Minister Responsible for the Canadian Wheat Board.

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

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which require the Corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingencies. These estimates and assumptions are based on management's best knowledge of current events and actions that the Corporation may undertake in the future. Actual results could differ from those estimates.

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 income subsequent to July 31 – A provision is made for direct operating expenses and income 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 net accounts payable.

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 (CGSP) 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 (ACF). The Corporation assumes the risk not covered by the Government of Canada. For receivables resulting from credit sales made outside of the CGSP and the ACF, the Corporation may enter into arrangements with commercial banks, which 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 (AMPA),* the *Spring Credit Advance Program (SCAP)* and the *Unharvested Threshed Grain 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 allowance for losses is 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 Canadian or U.S. dollars are hedged by cross-currency interest-rate swaps and currency swaps and are converted into Canadian or U.S. dollars at the rates provided therein. The Corporation hedges U.S. dollar assets and liabilities on a portfolio basis primarily by matching U.S. dollar assets to U.S. 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, 2005 are $4,151 (2004 – $2,302).

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 used for risk-management purposes. These derivative contracts are initiated within the guidelines of the Corporation's risk-management and hedging policies, which provides for limited discretionary trading within the policy's trading limits. The Corporation formally documents its risk-management objectives and strategies for undertaking the hedging transaction and the relationship between the hedged item and derivative. The Corporation assesses, both at inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Effective August 1, 2003, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline AcG13 Hedging Relationships. The Guideline does not change the Corporation's method of accounting for derivative instruments in hedging relationships. Hedge accounting is applied when there is a high degree of correlation between changes in fair values or cash flows of derivative contracts and the hedged items.

The Corporation recognizes derivative financial and commodity instruments as a hedge of the underlying exposure. Gains or losses on these contracts are recognized when the related underlying hedged transaction is recognized. Commodity contracts, while an economic hedge, do not qualify for hedge accounting. They are marked to market at the balance-sheet date, with the unrealized gains or losses disclosed as a component of Deferred and Prepaid expenses. When the gains or losses are realized, they are recorded in the same pool account or Producer Payment Options (PPO) program as the related sale or PPO program that is being hedged.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in the respective pool account or PPO program in the period in which the underlying hedged transaction is recognized. If the designated hedged item is no longer expected to occur prior to the termination of the related derivative instrument, realized and unrealized gains or losses are recognized in the pool account or PPO program in which the underlying hedged transaction was expected to be recognized.

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated.

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, PPOs 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 PPOs. The amounts to be paid or received under futures 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 who choose 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, related accrued benefit obligation and other disclosures will be presented as required by the CICA Handbook Section 3461, Employee Future Benefits.

The Corporation sponsors three defined-benefit pension plans and one defined-contribution plan. The defined-benefit components provide pensions based on years of service and average earnings prior to retirement. The defined-contribution component provides pensions based on contributions made and investment earnings. Employer contributions to the CWB Pension Plan 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 and actuarial gains (losses) are being amortized over the Average Remaining Service Period (ARSP), which has been actuarially determined to be 12 years (2004 – 12 years).
- Amortization of actuarial gains (losses) will be recognized in the period in which, as of the beginning of the period, the net actuarial gains (losses) are more than 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets.

3. Accounts receivable from credit sales programs

	Credit Grain Sales Program	Agri-food Credit Facility	Other credit	**2005 Total**	2004 Total
Due from foreign customers					
Current	$ –	$ 49,887	$ –	**$ 49,887**	$ 72,752
Overdue	–	–	–	**–**	772,040
Rescheduled	3,853,730	–	–	**3,853,730**	4,446,391
	3,853,730	49,887	–	**3,903,617**	5,291,183
Due from Government of Canada	23,327	–	–	**23,327**	19,920
	$ 3,877,057	$ 49,887	$ –	**$ 3,926,944**	$ 5,311,103
Credit risk					
Guaranteed by Government of Canada	$ 3,877,057	$ 48,889	$ –	**$ 3,925,946**	$ 5,309,648
Guaranteed by commercial banks	–	–	–	**–**	–
Assumed by CWB	–	998	–	**998**	1,455
	$ 3,877,057	$ 49,887	$ –	**$ 3,926,944**	$ 5,311,103

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, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland and Russia. Of the $3,853,730 principal and accrued interest due from foreign customers at July 31, 2005, $2,801,215 represents the Canadian equivalent of $2,288,388, repayable in U.S. funds. Of the $5,218,431 principal and accrued interest due from customers at July 31, 2004, $3,932,454 represents the Canadian equivalent of $2,957,844, repayable in U.S. funds.

There were no overdue accounts receivable at July 31, 2005. In the previous year, these amounts were due from Iraq where payments for past credit sales had not been received on due dates and were still outstanding. This debt was rescheduled during the past year.

In the past year, the debt of Ethiopia and Zambia, which was $34,963 at July 31, 2004, was entirely paid by the Government of Canada. Of the amount, $400 represents the Canadian equivalent of $301, repayable in U.S. funds.

Russia also prepaid $589,576 of its debt during July 2005, which represents the Canadian equivalent of $486,649, repayable in U.S. funds.

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, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland and Russia. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Poland. 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 $23,327 was due from the Government of Canada as at July 31, 2005 under these debt reduction agreements. Of this amount, $10,615 represents the Canadian equivalent of $8,672 which will be repayable in U.S. 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 Guatemala, Indonesia, Mexico and Peru. The July 31, 2005 balance of $49,887 (principal and accrued interest) due under the Agri-food Credit Facility (ACF) represents the Canadian equivalent of $40,754 repayable in U.S. funds. The July 31, 2004 balance of $72,752 (principal and accrued interest) represents the Canadian equivalent of $54,721 repayable in U.S. funds.

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

Fair value

All accounts receivable resulting from sales made under credit programs as at July 31, 2005 have contractual interest-rate repricing dates under 365 days. As a result of the short terms to the repricing dates of these financial instruments, fair value approximates the carrying values.

Maturities

These accounts receivable mature as follows:

	2005	2004
Amounts due:		
Within 1 year	**$ 1,042,007**	$ 592,335
From 1 – 2 years	**509,025**	549,318
From 2 – 3 years	**533,056**	570,417
From 3 – 4 years	**770,889**	600,447
From 4 – 5 years	**106,624**	692,569
Over 5 years	**965,343**	1,533,977
Overdue	**–**	772,040
	$ 3,926,944	$ 5,311,103

4. Accounts receivable from advance payment programs

	Agricultural Marketing Programs Act	*Prairie Grain Advance Payments Act*	Spring Credit Advance Program	Unharvested Threshed Grain Advance Program	**2005 Total**	2004 Total
Due from producers	$ 104,955	$ –	$ 212,377	$ 207	**$ 317,539**	$ 301,804
Due from (to) Government of Canada	(332)	(1)	870	(7)	**530**	716
Due from (to) agents of the CWB	19,374	–	(3,649)	–	**15,725**	16,256
	$ 123,997	$ (1)	$ 209,598	$ 200	**$ 333,794**	$ 318,776

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 and the producer pays interest on any amounts in excess of $50.

The Government of Canada introduced the *Spring Credit Cash Advance Program (SCAP)* in the spring of 2000 to assist producers with spring seeding costs. The program enables producers to receive up to $50 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*.

The Government of Canada introduced the *Unharvested Threshed Grain Advance Program* in the 2002-03 crop year. The program provides cash flow to farmers who are unable to harvest their grain due to early snowfall. The program enables producers to receive up to $25 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to producers in the fall under the *AMPA*.

Cash advances issued during the year by the Corporation under these programs totalled $650,187 including $434,353 issued under the *AMPA*, $215,549 issued under the *SCAP* and $285 under the *Unharvested Threshed Grain Advance Program*.

Collections from producers and grain companies subsequent to reimbursement by the Government of Canada, plus interest on default accounts collected from producers, are remitted to the Government of Canada as these amounts are received.

Due to the timing of producer deliveries and subsequent remittance by the agent to the Corporation, a component of advance receivables is due from agents.

5. Inventory of grain

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

	2005		2004	
	Tonnes	Amount	Tonnes	Amount
Wheat	2 752 083	**$ 492,078**	2 334 701	$ 520,125
Durum	1 315 303	**261,581**	1 065 995	247,404
Designated barley	231 103	**44,654**	465 267	96,592
Barley	208 805	**28,840**	52 660	7,148
	4 507 294	**$ 827,153**	3 918 623	$ 871,269

6. Deferred and prepaid expenses

	2005	2004
Net results of hedging activities applicable to subsequent pool accounts	**$ 1,504**	$ (26,070)
Prepaid cost of moving inventory to eastern export position	**16,344**	15,663
Deposits on commodity margin accounts	**15,854**	15,325
Purchase and lease-renewal options on leased hopper cars	**3,369**	3,859
Other	**3,116**	1,316
	$ 40,187	$ 10,093

7. Capital assets

		2005			2004	
	Cost	**Accum deprec.**	**Net book value**	Cost	Accum deprec.	Net book value
Computer systems development	**$ 68,137**	**$ 39,659**	**$ 28,478**	$ 61,113	$ 32,003	$ 29,110
Hopper cars	**82,768**	**70,353**	**12,415**	83,130	67,890	15,240
Computer equipment	**17,592**	**13,642**	**3,950**	16,656	12,142	4,514
Furniture and equipment	**5,312**	**3,986**	**1,326**	4,992	3,778	1,214
Land, building and improvements	**8,987**	**7,844**	**1,143**	8,679	7,694	985
Automobiles	**561**	**214**	**347**	508	135	373
Leasehold improvements	**158**	**158**	**–**	158	158	–
	$ 183,515	**$ 135,856**	**$ 47,659**	$ 175,236	$ 123,800	$ 51,436

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 172 cars have been wrecked and dismantled, leaving 1,828 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 of 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 U.S. dollar.

Long-term borrowings are notes issued in the Domestic and Euro Medium Term Note market with an original term to maturity between one and 15 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 that of 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.

	Effective interest rate (%)	2005	2004
Short-term borrowings	2.10 – 3.74	**$ 3,320,681**	$ 5,612,617
Long-term borrowings	1.55 – 3.59	**1,662,298**	1,455,046
Accrued interest	–	**27,068**	19,130
Total borrowings	1.55 – 3.74	**5,010,047**	7,086,793
Less temporary investments	2.50 – 3.28	**(859,519)**	(1,604,658)
Net borrowings	1.55 – 3.74	**$ 4,150,528**	$ 5,482,135

Of the net borrowings at July 31, 2005, $2,864,270 represents the Canadian equivalent of $2,340,006 that will be repayable in U.S. funds. Of the net borrowings at July 31, 2004, $3,720,270 represents the Canadian equivalent of $2,798,247, repayable in U.S. funds.

These borrowings mature as follows:

	2005	2004
Amounts due:		
within 1 year	**$ 3,347,748**	$ 5,631,747
from 1 – 2 years	**30,603**	9,495
from 2 – 3 years	**42,844**	59,828
from 3 – 4 years	**24,482**	26,590
from 4 – 5 years	**212,759**	59,828
over 5 years	**1,351,611**	1,299,305
	$ 5,010,047	$ 7,086,793

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.

9. Accounts payable and accrued expenses

	2005	2004
Accounts payable and accrued liabilities	**$ 115,060**	$ 77,155
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	**33,628**	52,106
Deferred sales revenue	**7,602**	20,350
	$ 156,290	$ 149,611

10. Liability to agents

	2005	2004
Grain purchased from producers	**$ 452,309**	$ 467,957
Deferred cash tickets	**56,286**	74,556
	$ 508,595	$ 542,513

Grain purchased from producers

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for 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

Undistributed earnings represent the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $386,752 (2004 – $462,321), $183,706 (2004 – $257,221) was distributed to producers in an interim payment on October 25, 2005. The balance of $203,046 (2004 – $205,100) will be distributed to producers through final payments and producer car rebates.

12. Provision for Producer Payment expenses

The amount of $1,741 (2004 – $2,241) represents the balance of the reserve for producer-payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor-in-Council.

13. Special Account – net balance of undistributed payment accounts

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

The activity in the Special Account is comprised of:

	2005	2004
Beginning of year	**$ 4,060**	$ 4,948
Transfer from payment accounts	**657**	247
Expenditures	**(822)**	(1,132)
Payments to producers against old payment accounts	**(15)**	(3)
End of year	**$ 3,880**	$ 4,060
Ending balance comprised of:		
Unexpended authorizations	**$ 714**	$ 978
Not designated for expenditure	**3,166**	3,082
	$ 3,880	$ 4,060

During the year ended July 31, 2005, the balance from payment accounts for 1996 wheat, 1997 wheat, 1997 durum and 1997 designated barley were transferred to the Special Account under Order-in-Council P.C. 2005-921.

Program activity during the 2004-05 crop year is detailed as follows:

	Unexpended at beginning of year	Authorized	Expended	Expired	Unexpended at end of year
Market development program	$ 342	$ –	$ (21)	$ –	$ 321
Canadian International Grains Institute					
Capital expenditures	405	–	(198)	–	207
University of Manitoba					
Agribusiness chair	75	–	(75)	–	–
Scholarship program	6	393	(363)	–	36
Fusarium Head Blight research					
Project for barley	–	165	(165)	–	–
Variety Identification Project (VIP)	150	–	–	–	150
	$ 978	$ 558	$ (822)	$ –	$ 714

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, including the results of operations of the Producer Payment Options (PPO) program, or other sources of revenue received in the course of operations. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $50 million. The components of the contingency fund are described below:

Producer Payment Options program

The Corporation has implemented payment alternatives for producers. The Fixed Price Contract (FPC) and Basis Payment Contract (BPC) provides producers with the opportunity to lock in a fixed price or basis for all, or a portion of their grain, by October 31, three months after the beginning of the crop year. Full payment for the grain is received immediately after it has been both delivered and priced, and the producer is not eligible for other payments from the pool account. The Early Payment Option (EPO) provides producers with a greater portion of their expected final pool price at time of delivery, while still remaining eligible for other payments from the pool account. The Pre-delivery Top-up (PDT) provides producers who have taken a fall cash advance to apply for an additional per-tonne payment for their grain prior to delivery. Repayment is received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. Producers who participate in the PDT are charged an administration fee, with any surpluses credited to the contingency fund.

The surplus or deficit arising from the operation of these programs is transferred to a contingency fund, so that net operating results will not affect the pool accounts.

Other

As provided for under *The Canadian Wheat Board Act,* interest earnings from the barley pool 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, is allocated to the barley pool and the distorting effect of certain costs in years when pool volume is unusually low is mitigated. Consistent with the treatment applied to the pools and PPO program, the surplus is not specifically funded and earns interest at the Corporation's weighted-average cost of borrowing.

For the current year, the surpluses from the PPO programs that should be transferred to the contingency fund would result in the balance exceeding $50 million. As a result, combined with the requirement in *The Canadian Wheat Board Act* that all revenue generated less the cost of operations be distributed, $7.5 million has been distributed to the participants of the pool accounts.

The 2002-03 wheat pool deficit payment from the Government of Canada and related accounting treatment between the wheat pool account and the wheat EPO accounts resulted in a charge of $1,288,663 to the contingency fund.

The contingency fund balance at July 31, 2005 is detailed as follows:

	Producer Payment Options program						**2005**	2004
	Wheat	Durum	Des. barley	Barley	PDT	Other	**Total**	Total
Opening surplus, beginning of year	$ 3,795	$ 185	$ 385	$ 1,470	$ –	$ 12,618	**$ 18,453**	$17,235
Transferred from pool accounts	–	–	–	–	–	2,278	**2,278**	–
Surplus from PPO program	26,943	219	172	228	4	–	**27,566**	2,229
Interest earned on non-program fund balances	–	–	–	–	–	315	**315**	278
Adjustment related to 2002-03 EPO program	–	–	–	–	–	–	**–**	(1,289)
Closing surplus, end of year	$ 30,738	$ 404	$ 557	$ 1,698	$ 4	$ 15,211	**$ 48,612**	$18,453

15. Inventory adjustments

Inventory adjustments captures the related dollar impact, at the current initial price, of changes in grade and protein of 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 price of the higher-quality grain originally reported as delivered.

16. Other grain purchases

Other grain purchases is primarily made up of late receipts, inventory overages and inventory shortages. Late receipts arise from producers' deliveries subsequent to the previous pool period close. Overages and shortages occur when the Corporation's agents' inventory records differ from those of the Corporation. Acquired overages and late receipts 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 is primarily made up of program expenses, agents' commissions, fees for inspection and testing of grain, Corporation-owned and leased hopper 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, which were subsequently not incurred by the agent. The most significant charge recovered is the recovery of the rail-freight cash ticket deduction when grain moves to a location other than terminal position.

As discussed in Note 14 Contingency Fund, a portion of the surpluses generated by the PPO program was distributed to the participants of the pool accounts. These surpluses amounted to $7,500 and were included in Other Income.

19. Administrative expenses

	2005	2004
Allocated as follows:		
Wheat pool	$ 47,508	$ 45,362
Durum pool	13,663	11,288
Designated barley pool	6,262	7,838
Barley pool A	104	3,093
Barley pool B	1,675	–
Total to pools	69,212	67,581
Wheat FPC/BPC PPO program	299	255
Producer payment accounts	479	172
Administrative expenses	$ 69,990	$ 68,008

Administrative expenses, less the expenses attributable to the distribution of final payments and the incremental costs related to the PPO program, is allocated to each pool on the basis of relative tonnage.

20. Commitments

Hopper car leases

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, 86 have been wrecked and dismantled, leaving 1,664 cars in this fleet. All lease costs to the end of the original lease periods are recoverable from the Government of Canada and not charged to the pool accounts. Total payments associated with these leases for the year ended July 31, 2005 were $13,518 (2004 – $14,630).

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 241 cars to a third party for a term expiring October 2005. The Corporation terminated both the lease and sub-lease on October 10, 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, 77 cars have been wrecked and dismantled, leaving 1,473 cars, which may be purchased at a total cost of $17,393 in U.S. dollars. The cost of these options is recorded in Deferred and Prepaid Expenses. On June 30, 2005, the Corporation gave the lessors notice to purchase these cars. Purchase dates have been set between December 30, 2005 and July 2, 2006.

On September 28, 2005, the Corporation exercised its right of first refusal to purchase 191 hopper cars relating to a lease agreement for which a purchase option did not exist. These hopper cars will be purchased by the Corporation on January 2, 2006 at an approximate cost of $2,865 in U.S. dollars.

Operating leases

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 2005 and October 2011. 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, 2005 were $747 (2004 – $876).

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

	Hopper cars (US$)	Premises and office equipment (Cdn$)
2006	93	591
2007	–	217
2008	–	79
2009	–	52
After 2009	–	60

Capital leases

The Corporation is transitioning its vehicles from company-owned to capital-lease arrangements. The first set of vehicles was transitioned August 1, 2005, with the last vehicle being leased by June 2007. These capital leases will be accounted for in 2005-06 as an acquisition of an asset (net of accumulated amortization) and an assumption of an obligation. The vehicles under the capital lease will be amortized on a straight-line basis over their economic life. Estimated future payments on vehicles leased to November 17, 2005 are:

	Vehicles (Cdn$)
2005-06	41
2006-07	48

Other

The Corporation has agreed to fund the operations of the Canadian International Grains Institute (CIGI) for a base amount of $1,666 annually, through to 2008.

21. Derivative financial and commodity 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.

These financial instruments qualify for hedge accounting and are not recognized in the Balance sheet. As at July 31, 2005 the total notional amount of these financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2005			2004		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest-rate contracts						
Single-currency interest-rate swaps	**$ 645,779**	**$ 2,718**	**$ 9,815**	$ 732,575	$ (2,791)	$ 3,737
Cross-currency interest-rate swaps	**1,075,779**	**(13,698)**	**32,757**	722,471	(24,560)	8,125
	1,721,558	**(10,980)**	**42,572**	1,455,046	(27,351)	11,862
Foreign-exchange contracts						
Forwards	**1,046,171**	**9,106**	**14,091**	1,412,962	24,253	29,084
Currency swaps	**157,014**	**(502)**	**1,756**	815,372	(6,519)	6,879
	1,203,185	**8,604**	**15,847**	2,228,334	17,734	35,963
	$ 2,924,743	**$ (2,376)**	**$ 58,419**	$ 3,683,380	$ (9,617)	$ 47,825

As of the statement date, all foreign-exchange contracts mature within one year. The interest-rate contracts with maturities between less than one year, one and five years and beyond five years had notional amounts outstanding of $27,582, $310,687 and $1,383,383 respectively. The swap contracts rates ranged between 1.55 per cent and 3.59 per cent.

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, 2005 was $938,262 (2004 – $780,784) and the largest credit risk with any institution as at July 31, 2005 was $14,921 (2004 – $8,957).

The Corporation also enters into commodity contracts, including futures and options, for wheat and barley in the exchange markets, as a normal course of business. The contracts outstanding at July 31 are carried in the financial statements at fair value.

22. Employee future benefits

Employee future benefits relates to the Corporation's pension plans and the other post-employment benefits.

Total cash payments

Total cash payments for Employee future benefits, consisting of cash contributed by the Corporation to its defined-benefit and defined-contribution plans, plus cash payments made directly to employee and beneficiaries and third-party service providers for the benefit plans, were $4,388 (2004 – $4,962).

Pension plans

The Corporation's pension expense for the year ended July 31, 2005 was $2,968 (2004 – $3,970).

An actuarial valuation of the Corporation's pension plan is required annually for the first three years of existence. The Corporation is not able to disclose the full pension obligation or plan assets for the year ended July 31, 2005 as required by GAAP, because the actuarial valuation is not complete, pending completion of the pension-transfer asset value.

Defined-benefit pension plan assets:

These tables include the defined-benefit components of the Corporation's pension plans, but exclude the pension-transfer value from the *PSSA* plan.

Change in fair value

	2005	2004
Balance, beginning of year	**$ 5,314**	$ 427
Actual return on plan assets	**802**	205
Employer contributions	**5,065**	3,868
Employee contributions	**1,110**	1,191
Benefits and expenses	**(2,591)**	(377)
Balance, end of year	**$ 9,700**	$ 5,314

The percentages of plan assets, based on market values at July 31, are:

Asset category	**2005**	2004
Equity securities	**59%**	43%
Debt securities	**32%**	28%
Other	**9%**	29%
Total	**100%**	100%

Defined-contribution plan:

The Corporation expensed $38 (2004 – $32) to the defined-contribution component of the Corporation's pension plan. Employees contributed $186 (2004 – $142) to the defined-contribution component of the Corporation's pension plan as at July 31, 2005. Benefits paid from the defined-contribution component were $17 (2004 – $13).

Other post-employment benefits

The Corporation measures its accrued benefit obligations for accounting purposes as at July 31, 2005. The most recent actuarial valuation was completed as of July 31, 2004 with the next required valuation as of July 31, 2007. The Corporation amended its other post-employment benefits effective August 1, 2006. The financial effect of this amendment is not known. As a result of the proposed changes, an actuarial valuation will be completed sooner than July 31, 2007.

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.

Reconciliation of accrued benefit obligation:

	2005	2004
Accrued benefit obligation, beginning of year	**$ 26,858**	$ 18,616
Employee contributions	**–**	–
Benefits paid	**(1,420)**	(992)
Current service cost	**904**	626
Interest cost	**1,655**	1,106
Curtailment*	**682**	1,227
Curtailment recognized	**(682)**	(1,227)
Curtailment gain	**(583)**	–
Actuarial loss	**4,073**	7,502
Accrued benefit obligation, end of year	**$ 31,487**	$ 26,858

Reconciliation of the accrued obligation and plan deficit to accrued liability:

	2005	2004
Fair value of plan assets	**$ –**	$ –
Accrued benefit obligation	**31,487**	26,858
Funded status – plan deficit	**(31,487)**	(26,858)
Unamortized net actuarial (gain) loss	**10,586**	7,502
Unamortized transitional obligation	**7,481**	8,911
Accrued benefit liability, end of year	**$ (13,420)**	$ (10,445)

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

	2005	2004
Accrued benefit liability, beginning of year	**$ (10,445)**	$ (7,668)
Current service cost	**(904)**	(626)
Interest cost	**(1,655)**	(1,106)
Benefits paid	**1,420**	992
Amortization of transitional obligation	**(748)**	(810)
Amortization of net actuarial loss	**(406)**	–
Curtailment*	**(682)**	(1,227)
Accrued benefit liability, end of year	**$ (13,420)**	$ (10,445)

* During 2003-04 and 2004-05, staff reductions resulted in curtailment, which has been fully expensed by the Corporation.

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

	2005	2004
Current service cost	**$ 904**	$ 626
Interest cost	**1,655**	1,106
Amortization of transitional obligation	**748**	810
Amortization of actuarial loss	**406**	–
Curtailment	**682**	1,227
Actuarial loss	**10,586**	7,502
Net cost (before adjustments)	**14,981**	11,271
Adjustments-actuarial loss	**(10,586)**	(7,502)
Total expense included in Administrative expenses	**$ 4,395**	$ 3,769

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

	2005	2004
Discount rate	**5.25%**	6.25%
Rate of compensation increase	**4.00%**	4.00%
Medical cost trend rate	**10.00%**	10.00%
Medical cost trend rate declines to	**5.00%**	5.00%
Medical cost trend rate declines over	**5 years**	5 years
Dental cost trend rate	**3.00%**	3.00%

Sensitivity analysis:

Assumed medical/dental cost trend rates have a significant effect on the amounts reported. A one percentage-point change in assumed rates would have the following effects for 2005:

	Increase	Decrease
Accrued benefit obligation	$ 4,570	$ (3,536)
Current service and interest cost	$ 518	$ (388)

23. Contingent liability

On September 13, 2002 the North Dakota Wheat Commission (NDWC) and the U.S. Durum Growers Association filed anti-dumping (AD) and countervailing duty (CVD) petitions against imports of Canadian hard red spring wheat (HRS) and durum. On October 3, 2003, the U.S. International Trade Commission (ITC) dismissed the durum petition by a 4-0 vote. However, with respect to HRS, the ITC ruled 2-2 that Canadian HRS imports caused injury to U.S. HRS producers. As a result, AD and CVD tariffs totalling 14.15 per cent ad valorem were in place pending the completion of certain appeals launched by the CWB. The appeals, taken under NAFTA with subsequent remands to the appropriate U.S. administrative agency, were ultimately successful. The CVD tariff was reduced from 5.29 per cent to 2.54 per cent. Most significantly, however, on October 5, 2005 the ITC voted 4-1 that Canadian HRS imports did not injure U.S. producers. On October 12, 2005 the NDWC filed a challenge of the ITC's ruling with the NAFTA Secretariat. That challenge should be disposed of early in 2006. If the challenge is dismissed, all tariffs should be removed shortly thereafter.

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 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.