CWB
The Canadian Wheat Board

PURSUING INNOVATION

2004-05 report to producers

Financial highlights

	2004-05	2003-04	2002-03	2001-02	2000-01
Combined pool operating results ($ millions)					
Revenue	**$3,739.3**	$4,136.2	$3,339.9	$4,379.2	$4,220.9
Direct costs	**407.5**	369.7	318.7	384.5	350.5
Net revenue from operations	**3,331.8**	3,766.5	3,021.2	3,994.7	3,870.4
Other income	**163.4**	161.1	132.7	188.5	179.9
Net interest earnings	**53.4**	56.1	54.8	91.6	75.2
Administrative expenses	**(69.2)**	(67.6)	(54.1)	(50.4)	(66.4)
Grain industry organizations	**(1.6)**	(1.8)	(1.8)	(1.7)	(1.7)
Earnings for distribution	**$3,477.8**	**$3,914.3**	**$3,152.8**	**$4,222.7**	**$4,057.4**
Receipts from producers (000's tonnes)					
Wheat	**13 296.3**	12 376.0	8 696.0	13 331.0	13 961.0
Durum	**3 824.0**	3 079.7	3 804.0	3 246.0	3 665.0
Designated barley	**1 752.5**	2 138.4	891.0	2 205.0	2 273.0
Barley (pool A)	**29.0**	–	–	–	–
Barley (pool B)	**468.7**	–	–	–	–
Barley	**–**	844.0	40.0	54.0	454.0
Total	**19 370.5**	**18 438.0**	**13 431.0**	**18 836.0**	**20 353.0**

INNOVATION is about being inventive; investigating new paths; looking for novel opportunities; giving options; adding value; being advanced; trailblazing; taking initiative; using original thinking; and investing in notable research.

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The CWB is dedicated to pursuing innovation, both through the programs it designs for Prairie farmers and the investments it makes to enhance customer service, which ensures continued demand for the finest wheat and barley grown in the world.

As you continue through these pages, you'll read about some of the activities undertaken and programs designed by the CWB in 2004-05.

While the achievements are both many and memorable, they in no way signal an end point. Pursuing innovation will remain a cornerstone of the CWB's planning, action and activities as we move into the future.

Inventive

- The CWB **modified its Early Payment Option (EPO)** program to improve farmers' ability to get money sooner. The EPO, which allows farmers to receive 80, 90 or 100 per cent of the projected value of their grain within 10 working days of delivery, normally has to be contracted prior to delivery. However, realizing that many farmers faced significant financial challenges in 2004-05, the CWB opted to make a one-time-only modification to the program, giving farmers the option to apply previously delivered grain to new EPOs. This change gave farmers access to much-needed cash flow.

New

- The new **CWB Master Grower awards program** was launched to ensure western Canadian farmers are recognized for their success in producing outstanding wheat and malting barley crops. Each year, farmers are invited to send in samples of their best crops, which are judged on quality, end-use suitability and best management practices. Awardees are designated "Master Growers", receive a prize package and participate in special education programs.

- The CWB **changed the way farmers commit their feed barley** to the CWB by splitting the crop year into two pooling periods instead of one. The first pool runs from August 1 to January 31 and the second from February 1 to July 31. Pool Return Outlooks (PROs) are issued for both pools, giving farmers better price signals on feed barley and improving the CWB's ability to attract deliveries when sales opportunities are favourable.

Novel

- The CWB hedges Fixed Price Contracts (FPCs) and Basis Payment Contracts (BPCs) in futures markets to offset any potential losses caused by undesirable price changes. At times, this practice results in financial gains for the organization, which are then placed in the CWB's contingency fund. In 2004-05, the CWB initiated a one-time-only policy change and **returned hedging gains to farmers,** to help reduce the financial difficulties faced by those unable to fulfil their contracts due to the extreme weather conditions.

Options

- The CWB provided farmers with more marketing choice by **launching a new Producer Payment Option called the Daily Price Contract (DPC).** Through the DPC, farmers can choose a price for their wheat based on daily cash prices derived from U.S. elevator prices. The program gives farmers even more options, while still protecting the marketing clout of the CWB's single desk. Prairie farmers have the ability to track markets on a daily basis and receive a price that reflects a basket of U.S. elevator prices. The program also gives farmers not located near the U.S. border the opportunity to pursue similar values at their local elevators, meaning all farmers can choose a daily price, regardless of their location.

- The CWB created a new Producer Payment Option designed specifically for organic farmers. The **Organic Spread Contract (OSC)** lets organic farmers settle a final price spread at the time of sale, rather than waiting for final pool returns. This streamlines the farmer's transaction with the CWB and reduces pricing uncertainty, allowing the farmer to know his or her net return on the day of the sale.

Value

- The CWB is dedicated to advocating for the trading rights of western Canadian farmers. In August 2004, the World Trade Organization (WTO) **dismissed an appeal by the U.S.** of an earlier WTO ruling, which once again determined that the CWB operates on a purely commercial basis.
- **The CWB won a decisive victory** in its long-running battle to protect farmers' trading rights. In June 2005, following a CWB appeal, a NAFTA panel ruled that the U.S. International Trade Commission (ITC) erred in finding that imports of Canadian Hard Red Spring (HRS) wheat injure U.S. wheat farmers. Then, in the resulting remand determination released October 5, 2005, **the ITC reversed its original decision,** thus paving the way for western Canadian wheat farmers to resume unfettered trading with the United States.
- The CWB **supported a $25,000 loan to the Farmer Rail Car Coalition (FRCC),** which has the potential to save farmers millions of dollars. The FRCC negotiated to obtain approximately 12,400 hopper cars owned by the federal government. The CWB loan was in addition to a grant of $85,000 and a previous loan of $50,000, which were used to support FRCC negotiating efforts. Now that the deal has been finalized, both loans are repayable to the CWB. Finalizing the deal gives farmers a major role in grain transportation, the single biggest cost in grain marketing.

Advanced

- The CWB demonstrated its commitment to leading-edge technology **by launching the electronic *MyCWB* news bulletin,** designed specifically for farmers. Sent directly to farmers' e-mail inboxes, *MyCWB* links directly to key information, including PROs, weather highlights and market analysis, with just a single mouse click. This news bulletin represents another step in expanding the CWB's range of online services, which currently include electronic contracting, as well as viewing cash advance account balances and information online, and conducting repayment scenarios.

MyCWB e-newsletter for farmers

- The CWB **provided farmers with better access to the weather information they need** by creating a Quick Maps player designed specifically for farmers who use low-bandwidth dial-up Internet connections. The player offers one-click access to maps that show heat units, weekly precipitation, per-cent-of-normal precipitation, accumulated total precipitation, soil-moisture content and growth-stage development. Specialized maps denoting significant weather and crop events, such as frost and heat stress, are also produced when needed. Farmers view the maps by logging into the secure e-services area of the CWB Web site.

Trailblazing

- **The Pre-delivery Top-up (PDT) program was expanded** in 2004-05 to include Canada Western Red Spring (CWRS) wheat. The PDT gives farmers access to a greater portion of the value of their grain before delivery, which gives them the opportunity to manage cash flow and pay suppliers. By adding Western Canada's largest wheat class to this program, more farmers are able to access more of their money earlier in the crop year, when they often need it the most.
- The CWB celebrated the **10th anniversary of its Beijing office** during a special event in September 2004. China bought its first wheat shipment from the CWB more than 40 years ago; since that time, the country has purchased more than 120 million tonnes of western Canadian grain. The Beijing office was opened a decade ago to enhance the CWB's ability to provide personal and dedicated customer service to this important market.

Initiative

- The CWB signed a **Memorandum of Agreement with China** for the sale of one million tonnes of milling wheat in 2005-06, representing a value of approximately $250 million. The CWB's trading relationship with this important customer began more than 40 years ago; to date, more than 120 million tonnes of Prairie farmers' grain has been shipped to China. Like the Tokyo office, the CWB maintains a sales office in Beijing, China to provide this valued customer with excellent service.

- The grand opening by Rogers Foods of a $30-million flour mill in Chilliwack, B.C. provided the CWB with another customer for Prairie farmers' high-quality wheat and provest that **value-added production is growing in Western Canada.** Rogers Foods executives consulted with the CWB to discuss the merits of locating the mill in Western Canada. The CWB's excellent customer service and ability to supply the mill with a high-quality, consistent supply of western Canadian grain played a role in the company's decision to locate in British Columbia. The mill produces 250 tonnes of flour each day.

- **The CWB successfully increased customer demand for specific varieties of western Canadian wheat and barley,** through a combination of market development and marketing efforts. More than 100 000 tonnes of the barley variety CDC Copeland were sold to maltsters in Canada and China, up from the 5 000 tonnes sold the previous year. CDC Copeland offers Prairie farmers higher yields, and the increased customer demand for this variety puts more money in farmers' pockets.

More than 650 000 tonnes of Canada Western Hard White Spring (CWHWS) wheat were sold to customers in 22 countries, up from 175 000 tonnes in 2003-04. Increasing customer acceptance of this variety means western Canadian farmers can compete with Australia and the U.S. for white wheat market share.

Both of these crops were offered through CWB Identity Preserved Contract Programs (IPCPs), which provide farmers with incentives for growing specific varieties. This allows the CWB to create market demand for new varieties of grain and ensures customers have access to wheat and barley that meets their specific needs.

Original

- **The Value-added Incentive Program (VIP)** was created to promote the direct delivery of wheat, durum and malting barley to mills and malting plants in Western Canada. Farmers are paid a premium to deliver eligible grain directly to buyers, which means money that would have been paid to grain companies for carrying costs can now be paid directly to farmers. The VIP also benefits millers and maltsters by allowing them to source the quality and quantity of grain needed to meet processing needs.

- The CWB celebrated its **70th anniversary** on July 5, 2005. Since its birth seven decades ago, the CWB has sold over one billion tonnes of grain on behalf of western Canadian farmers. The CWB's single desk has made it possible for Prairie farmers to compete globally with large, multinational grain companies and market their grain to more than 70 countries around the globe. The anniversary will be celebrated with a series of farmer, customer and employee events throughout the 2005-06 crop year.

Notable

- **The Canadian Wheat Board Centre for Grain Storage Research** at the University of Manitoba was officially opened in March 2005. Scientists will use the Centre's technology to conduct research into reducing the effects of insect infestation, mould and excess moisture on stored grain. Prairie farmers and CWB customers will all reap the benefits of the facility as it investigates new ways of preserving the high quality of western Canadian wheat and barley. **The CWB invested $400,000 in the facility** from the Special Account (uncashed farmer cheques). Other investors include the Canadian Foundation for Innovation, the Province of Manitoba and the University of Manitoba.

- The CWB invested $330,000 in **fusarium head blight (FHB) research** through a joint funding venture with the Western Grains Research Foundation (WGRF) and Agriculture and Agri-food Canada (AAFC). Funded through the CWB's Special Account (containing uncashed producer cheques), the investment will be directed toward the operation of a fusarium field nursery at the Brandon Research Centre and toward increased deoxynivalenol (DON) testing of collected samples.

For more detail on these initiatives, visit the CWB's Web site at www.cwb.ca

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NOTABLE

2004–05 Crop Year

Introduction

Although near-record yields were achieved in the 2004-05 growing season, the grade pattern of the wheat and barley crop was the lowest since the early 1990s. The lower-grade pattern was mainly caused by a severe frost in August and above-normal precipitation in September.

The 2004-05 growing season was one of the coldest on record in the eastern Prairies. Development was generally two-to-three weeks behind normal at the end of June, the result of cool conditions and some planting delays. Warmer temperatures improved crop development in the month of July, while rainfall for that period was close to normal across the Prairies.

The combination of moderate temperatures and adequate moisture resulted in above-average yield potential. Temperatures in August dropped to below-normal levels, which continued to delay crop development. Freezing temperatures during the third week of August caused significant damage to immature crops in parts of Saskatchewan and Manitoba. Persistent rains in late August and early September delayed harvest progress across the Prairie region, which further reduced the average quality of wheat and barley crops. However, drier, milder weather in late September and early October resulted in rapid harvest progress; over 80 per cent of the crop was harvested by the middle of October, about three weeks behind normal. Harvesting continued into the month of November, but some crops were left unharvested in northern Saskatchewan, northern Alberta and southeastern Manitoba.

Despite the difficulties with the 2004-05 harvest, wheat and barley production was above average. Total wheat production for Western Canada reached 24 million tonnes; spring wheat production accounted for 18 million tonnes of the total. Durum production reached nearly five million tonnes, while barley production climbed to just over 12 million tonnes. The overall crop quality was poor, with most of the spring wheat crop falling into the lower three grades. The production of barley suitable for malt was also significantly reduced, due to adverse weather conditions.

The combination of moderate temperatures and adequate moisture resulted in above-average yield potential.

Indirect income and expenses

Administrative expenses

Administrative expenses increased $2 million, or three per cent from the previous crop year, to $70 million. This increase was primarily due to the new Information and Technology (I&T) outsourcing agreement and resulting transition of $3 million. The I&T outsourcing costs were partly offset by savings experienced in human resources and computer services of $1.1 million. Further decreases in human resources resulted from increased vacancies and corporate review savings, for a total decrease of $2.1 million. Other significant increases included the depreciation for new capital projects ($900,000); resumption of normal travel, training and other expenses ($700,000); and advertising expenses ($600,000), largely due to new corporate initiatives.

Grain industry organizations

The CWB continued to provide support for organizations that benefit, both directly and indirectly, western Canadian grain farmers. During 2004-05, the CWB contributed $1.6 million to the operations of the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC). CIGI and CMBTC play an integral role in the CWB's marketing and product development strategy by providing technical information and educational programs to costumers.

(Dollar amounts in 000's)	2004-05	2003-04
Interest on credit sales		
Revenue on credit sales receivables	**$ 150,628**	$ 131,520
Expense on borrowings used to finance credit sales receivables	**106,821**	78,305
Net interest on credit sales	**43,807**	53,215
Interest revenue on pool account balances	**5,609**	410
Other interest		
Revenue	**5,870**	5,321
Expense	**1,902**	2,821
Net other interest revenue	**3,968**	2,500
Total net interest earnings	**$ 53,384**	$ 56,125

Net interest earnings

Net interest earnings of $53.38 million were 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 until the credit is repaid to the CWB. The CWB is able to borrow at interest rates lower than those rates received by the CWB from 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 remained stable compared to 2003-04.

Although the spread margin did not fluctuate, interest revenue and expense increased due to higher interest rates. This was offset by lower U.S. exchange rates, and reduced credit receivables balances, as countries such as Brazil, Mexico, Peru, Poland, Russia and Zambia made sizeable repayments during the year.

The interest on the pool account balances has increased as a result of the net undistributed earnings in wheat being more favourable in the current crop year.

Other interest revenue from customers, which includes receipt of sales proceeds on non-credit sales, will fluctuate year-over-year, as the number of days outstanding on these arrangements will typically range between one and 10. Expenses, primarily from financing costs such as treasury fees and bank charges, make up the main portion of other interest expense.

The wheat pool

The marketing environment

Western Canadian wheat returns were pressured lower in 2004-05, due to the combined effects of larger world wheat supplies and a stronger Canadian dollar in comparison to the U.S. dollar. World wheat production reached a record 620 million tonnes in 2004-05, up from 554 million tonnes in 2003-04. World ending stocks rose from 132 million tonnes in 2003-04 to just over 143 million tonnes in 2004-05. Dramatic production recoveries were realized in the European Union-25 (EU-25), where production was up 30 million tonnes to a record 136 million tonnes. Production was also up in major Commonwealth of Independent States (CIS) countries (i.e. Russia, Kazakhstan and Ukraine) by 46 per cent over 2003-04 levels, to just over 71 million tonnes (a year-on-year increase of 22 million tonnes). These dramatic production-level increases were equal to two years of Canadian wheat production, or 50 per cent of the world wheat trade. Burdensome supplies from the EU-25 and CIS brought significant price pressure to the mid-to-lower class segment of the wheat market. European Union (EU) French wheat prices collapsed, dropping over $35 US per tonne in 2004-05. Southern-hemisphere wheat supplies were healthy, as Australia and Argentina combined produced 36 million tonnes (down slightly from 40 million tonnes in 2003-04).

China continued to be a significant player in 2004-05, and the CWB was able to secure a solid share of the high-quality segment of this market. Wheat demand in Canada rose slightly in 2004-05, partly due to the declining popularity of the Atkins Diet in North America. Global supplies of high-grade milling wheat declined in 2004-05 versus 2003-04, as the U.S. experienced a wet harvest of Hard Red Winter (HRW) wheat and a delayed harvest for Dark Northern Spring (DNS) wheat. In addition, the grade profile of the Canadian crop declined significantly, due to an early frost and a rainy harvest period. World prices for high-grade milling wheat stayed flat, as mills incorporated a higher percentage of lower-grade wheat into the grist and suppliers drew down high-quality stocks from the previous year.

The strategy

One way the CWB manages marketing risks and price volatility is to price grain throughout the year. By marketing grain on a continuous basis, the CWB is also able to match logistical constraints with producer delivery requirements and customer buying patterns. The CWB employs an integrated approach to sales and risk management for the wheat pool, resulting in pricing that encompasses the entire period from the time the crop is seeded, through to the following harvest. This approach also allows for the flexibility to take advantage of periodic market opportunities.

The essence of the CWB's marketing strategy is constant from year to year and is designed to select a customer mix that will maximize revenue, subject to logistical, market and crop conditions. Marketing the 2004-05 crop to the best advantage required a multi-pronged approach. The first prong focused on targeting the limited supplies of high-grade and protein to maintain market share in key premium markets, which is fundamental to maximizing farmer returns. The second and most critical tactic focused on expanding marketing volumes into the lesser quality demand segments, so that customer requirements tightly matched the quality parameters of the much larger-than-usual supply of milling wheat falling into the middle and lower grades. The final approach focused on feed wheat. Maintaining fluid movements for this grade allowed the CWB to market the significant volumes produced by the August frost and wet harvest conditions to both milling and feed grain markets.

The deliveries

Delivery opportunities for wheat varied depending on the grade and class. All of the wheat committed to the Series A, B and C contracts was accepted, with most of the A series wheat being called before the end of December.

Since the volume of high-protein No. 1 Canada Western Red Spring (CWRS) wheat was limited, delivery calls on this grade and protein were spaced throughout the year, to ensure a consistent supply for premium markets. By mid-December, delivery calls were in place for 60 per cent of all grades of CWRS. These calls were generally followed by contract terminations in an effort to encourage CWRS deliveries into the system throughout the year. By the end of January, 100 per cent of Series A contracts had been called, to support increased marketing efforts on Canada Western Feed Wheat (CWFW). Early calls and terminations were seen on Canada Western Extra Strong (CWES) wheat and Canada Prairie Spring White (CPSW) wheat, with at least 75 per cent of Series A contracts called in October, in order to acquire sufficient quantities at port for sale. Calls on Series A Canada Prairie Spring Red (CPSR) wheat were later than usual, reflecting greater-than-expected supplies and lower demand earlier in the crop year. Early movement was seen for Canada Western Red Winter (CWRW) wheat, with 75 per cent of Series A contracts called in October. As usual, calls for Canada Western Soft White Spring (CWSWS) wheat deliveries were spread evenly throughout the year, reflecting domestic demand.

In spite of an aggressive approach to delivery calls and terminations, market conditions for the quality of the crop resulted in a slower pace of deliveries compared to previous crop years.

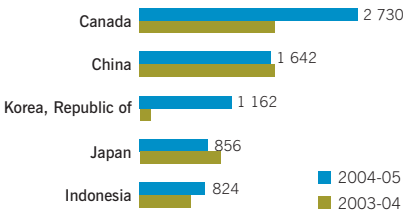
Deliveries of all non-durum wheat totalled 13.3 million tonnes, an increase from 12.4 million tonnes the year before.

The results

Offshore customers purchased 10.61 million tonnes of wheat in 2004-05, equivalent to the amount purchased in 2003-04. For the second consecutive year, the CWB's largest single export customer for wheat was China, which maintained its strong demand for high-quality milling wheat. China purchased 1.64 million tonnes in 2004-05, compared to 1.69 million tonnes in 2003-04. The domestic market purchased 2.73 million tonnes of non-durum wheat in 2004-05, up from 1.69 million tonnes in 2003-04. Japanese purchases decreased in 2004-05 to 856 000 tonnes, versus 1.01 million tonnes in 2003-04. With the sharp increase in CWFW supplies, exports of feed wheat to the Republic of Korea (ROK) rose sharply, from 135 000 tonnes to 1.16 million tonnes, while demand for high-grade milling wheat in that market remained relatively steady. Indonesian purchases rose to 824 000 tonnes, compared to 637 000 tonnes in 2003-04, while the sharp reduction in high-grade, high-protein milling wheat availability reduced sales to the Philippines from 705 000 tonnes to just 237 000 tonnes. Mexican imports in 2004-05 totalled 664 000 tonnes, down slightly from 682 000 tonnes in 2003-04.

Largest volume wheat customers

(2004-05 and 2003-04 sales in 000's tonnes)



The wheat pool returned just over $2.53 billion in gross revenues on 13.3 million tonnes of receipts, or an average gross revenue of $190.55 per tonne, down from the average of $226.91 per tonne the previous year. The dramatic shift in the grade profile due to poor weather during the growing season and harvest, combined with the relative strength of the Canadian dollar versus the U.S. dollar, were two major factors that contributed to the decline in overall returns. However, limited supplies of high-grade,

high-protein North American milling wheat, combined with constrained U.S. freight logistics, contributed to much of the strength of final pool returns for high-grade, high-protein milling wheat. The final pool return for No. 1 CWRS with 13.5 per cent protein (net of all costs) was $205 per tonne in store Vancouver/St. Lawrence, compared to $211 per tonne a year ago. The protein spread between 11.5 per cent and 13.5 per cent protein was $15 per tonne, compared to $5 per tonne the previous year, due to the limited supplies of high-protein North American milling wheat, combined with an abundance of lower-grade milling wheat supplies globally. Final pool returns for Nos. 3 CWRS and CPSR fell approximately $27 per tonne compared to a year ago, to end at $166 per tonne and $157 per tonne, respectively.

Direct costs

Direct costs decreased $1.08 per tonne to $20.08, primarily due to lower freight offset by cost increases for inventory storage, other grain purchases and other direct expenses. More specifically:

- Continuing U.S. tariffs against wheat exports, which created a lower U.S. export program compared to prior years, resulting in overall lower U.S. rail-freight costs, despite the fact that freight rates on a per-tonne basis were higher during the year. Overall freight costs were lower, due also to decreased sales volume through the eastern ports.
- Inventory storage costs increased primarily in terminal position resulting from higher stocks and higher storage rates.
- Increases in other grain purchases reflect the higher level of late receipts accepted in 2004-05.
- An increase in other direct expenses due to higher demurrage resulting from increased challenges with the late harvest, rail performance issues, and in securing quality grain, as well as loading rate increases. (The increases in wheat costs were offset by decreases in costs for the other pools with the net effect for all pools being a demurrage cost of $791.)
- In addition, higher premiums were paid in varietal seed programs in 2004-05.

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005 Total	2005 Per tonne	2004 Total	2004 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	(8,683)	(0.65)	(5,056)	(0.41)
Other grain purchases	10,800	0.81	5,023	0.41
Other direct expenses	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	110,338	8.29	97,673	7.89
Net interest earnings	39,211	2.95	39,858	3.22
Administrative expenses	(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				
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**

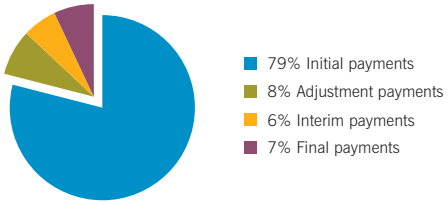
Distribution of earnings

The average sales proceeds available for distribution decreased 16 per cent or $35.03 per tonne to $178.06. Of the amounts returned to pool participants, 87 per cent was distributed by May 25, 2005 in the form of initial and adjustment payments. A further six per cent, or $10.51 per tonne, was distributed as an interim payment on October 25, 2005.

Producer Payment Options (PPOs), like the Fixed Price Contract (FPC) and Basis Payment Contract (BPC), are designed to operate independently of the pool and therefore do not impact the pools' net results. Just under $225 million of sales returns were paid from the wheat pool to the PPO program, representing the return on the specific grades and classes of wheat delivered under the FPC and BPC programs. The PPOs in turn paid farmers at the respective contracted price.

Earnings distributed to farmers

Wheat 2004-05



The durum pool

The marketing environment

Western Canadian durum returns declined in 2004-05, due to rising global durum supplies and a stronger Canadian dollar. Global durum production set back-to-back production records, with 2004-05 world durum production reaching 39.8 million tonnes (up 2.2 million tonnes over the 2003-04 record). Global durum stocks virtually doubled, rising from 3.3 million tonnes in 2003-04 to 6.4 million tonnes in 2004-05. Rising durum supplies in both the key Mediterranean-demand basin and dominant North American exporting region put pressure on global durum prices. This increase in supplies led to a decline in 2004-05 Spanish durum prices of $23 US per tonne.

The Mediterranean-demand region saw local durum supplies rise over three million tonnes, as the European Union-25 (EU-25) posted a record durum crop of 11.6 million tonnes, and North Africa produced another large durum crop of 5.5 million tonnes. North America saw durum production increase from 6.9 million tonnes in 2003-04 to 7.4 million tonnes in 2004-05. Significantly higher internal production reduced demand for durum imports in both North Africa and Europe in 2004-05.

The strategy

The durum crop experienced frost and wet harvest conditions similar to spring wheat, resulting in a below-average grade pattern, with No. 3 Canada Western Amber Durum (CWAD) wheat making up the majority of supply. The crop was also the largest since 2000-01, with production reaching nearly five million tonnes. The durum pool required marketing strategies similar to the wheat pool. The limited stocks of No. 1 CWAD were stretched to maintain supply to premium markets. However, as the marketing year progressed, the CWB had to negotiate with a number of these buyers to accept No. 2 in place of No. 1 CWAD. As with wheat, there were significant volumes of feed grade durum harvested and the CWB successfully engaged customers for this grain. The biggest challenge and primary focus of CWB marketing efforts was to maximize marketings and market share in segments demanding Nos. 3 and 4 CWAD, in order to market the large crop.

The deliveries

Poor harvest conditions resulted in the majority of the crop grading No. 3 CWAD, with very little of the crop grading No. 1. Durum acceptance varied by contract series and market potential. Sixty per cent of all grades of durum committed on Series A contracts were accepted. All of the No. 1 CWAD offered on Series B contracts were accepted, reflecting the tight supply and strong demand for high-grade durum. Stronger-than-expected movement opportunities later in the crop year resulted in 20 per cent contract acceptance on Series C contracts for Nos. 2 and 3 CWAD, and 100 per cent on Nos. 1, 4 and 5 CWAD. Delivery opportunities were generally spaced evenly throughout the crop year.

Total deliveries to the durum pool were 3.82 million tonnes, up from 3.08 million tonnes the previous year. In total, the CWB accepted 74 per cent of the total durum offered on farmer contracts.

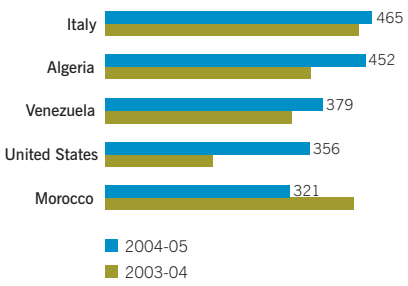
The results

Offshore markets accounted for 3.56 million tonnes of durum sales for the year, compared to 2.87 million tonnes in 2003-04. While demand in North Africa was below average due to a second consecutive year of above-average production, Italy became the single largest export durum customer, accounting for 465 000 tonnes of sales, while Algeria accounted for 452 000 tonnes. The third-largest export durum customer was Venezuela, accounting for 379 000 tonnes of sales. Sales to U.S. customers rose two-fold, to 356 000 tonnes, largely as a result of the U.S. International Trade Commission's (ITC) ruling in September 2004 that removed the tariffs on Canadian durum wheat exports to the United States. Export sales to Morocco were 321 000 tonnes, down from 455 000 tonnes in 2003-04, as supplies of high-grade durum were insufficient to maximize sales to this high-quality market. Sales of durum to the domestic market rose to 320 000 tonnes.

The durum pool returned just over $827.39 million in gross revenues on 3.82 million tonnes of receipts, or an average of $216.37 per tonne, down from the average of $250.46 per tonne the previous year. Final pool returns for No. 1 CWAD wheat with 13 per cent protein fell from $228 per tonne in store Vancouver/St. Lawrence to $214 per tonne, driven by the strength of the Canadian dollar and the large increase in global durum production and high stock levels. The pronounced decline in average western Canadian durum protein content levels and the concurrent tightening of high-protein durum supplies caused the protein spread between 11.5 per cent and 13 per cent to widen to $13 per tonne, compared to almost $4 per tonne a year ago. The final pool return for No. 3 CWAD wheat declined $33 per tonne to $176 per tonne, due to the large increase in the global production of mid-grade durum.

Largest volume durum customers

(2004-05 and 2003-04 sales in 000's tonnes)



The crop was also the largest since 2000-01, with production reaching nearly five million tonnes.

Direct costs

Direct costs increased by $2.64 per tonne to $28.33, due primarily to higher freight costs, terminal handling and grain purchases, offset by an increase in the income effect of inventory adjustment demotions. More specifically:

- Freight costs were higher due to increases in shipments through eastern ports.
- Increased terminal handling, the result of larger pool receipts and a larger proportion of these tonnes moving out of export position.
- Higher levels of grain purchases were made for the 2004-05 crop year, the result of a large volume of producer receipts received subsequent to the 2003-04 crop year's end date and accepted in the 2004-05 year, combined with larger overages reported by grain companies.
- A net demotion of durum stocks reporting during the year. Grain companies were paying for higher grading on deliveries than they received on shipment of the stock, which then led to significant grade demotions. Grade demotions were reported predominantly on No. 1 CWAD wheat.

Other income

The net decrease is primarily attributed to a reduction of overdue charges on late shipments of grain compared to 2003-04, which had experienced a severe short supply of dry-bulk freight, resulting in the late calling of grain by accredited exporters.

Distribution of earnings

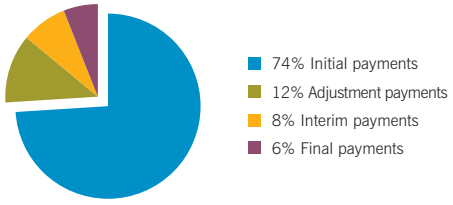
The average sales proceeds available for distribution decreased 17 per cent or $38.19 per tonne to $190.59. Of the amounts returned to pool participants, 86 per cent was distributed by May 25, 2005 in the form of initial and adjustment payments. A further eight per cent, or $14.18 per tonne, was distributed as an interim payment on October 25, 2005.

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005 Total	2005 Per tonne	2004 Total	2004 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	(10,361)	(2.71)	(962)	(0.31)
Other grain purchases	10,596	2.77	2,419	0.79
Other direct expenses	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	16,187	4.23	15,359	4.99
Net interest earnings	7,576	1.97	8,589	2.79
Administrative expenses	(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				
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**

For producer receipts delivered under the Fixed Price Contract (FPC) program, $84,582 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 options program in turn paid farmers at the respective contracted price.

Earnings distributed to farmers

Durum 2004-05



The designated barley pool

The marketing environment

Western Canadian malting barley returns declined in 2004-05 on the backs of larger supplies in Australia, lower U.S. demand and a rising Canadian dollar. Australia increased its malting barley exports 23 per cent in 2004-05.
A reduction in the incidence of Fusarium Head Blight south of the border led to a rise in U.S. malting barley supplies in 2004-05. The rise in local supplies caused U.S. demand for Canadian malting barley to decline markedly in 2004-05, dropping 215 000 tonnes or 53 per cent. These supply factors, combined with a poor harvest in Western Canada, led to a difficult marketing environment for malting barley.
One bright spot in the 2004-05 environment was a 34 per cent rise in Chinese demand for malting barley.

The strategy

The difficult conditions during harvest resulted in reduced volumes of barley that met malting standards and a correspondingly lower pool size.
With a smaller crop, the CWB strategy was to allocate limited supplies to critical higher return customers while moving the crop relatively earlier in the year to avoid potential problems that could result from longer storage. High and volatile rates for ocean freight continued to be a dominant feature in the global malting barley market throughout the 2004-05 marketing campaign, and the CWB sought options to minimize this impact, including the use of container shipping when it was cost effective. Market development efforts continued, primarily focused on increasing the customer acceptance of CDC Copeland in China.

The deliveries

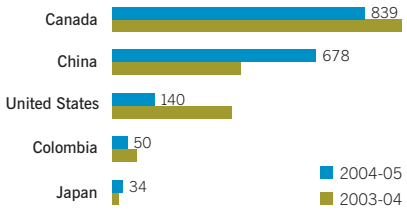
Early frost and poor harvest conditions reduced the amount of selectable two-row barley and drastically reduced supplies of selectable six-row barley. Two-row delivery opportunities were spread evenly throughout the year, due to a large program with China. The poor quality of the Australian crop resulted in increased marketing opportunities in the latter half of the crop year. Total receipts were 1.75 million tonnes, down from 2.14 million tonnes the year before.

The results

Sales of malting barley to the domestic market totalled 839 000 tonnes, compared to 961 000 tonnes in 2003-04, as production difficulties limited the supply of quality selectable malting barley. China was the single largest export market for malting barley, and sales increased to 678 000 tonnes. Sales to the U.S. declined to 140 000 tonnes, mainly the result of production problems in Western Canada and a larger, improved-quality crop in the U.S. six-row barley-growing region. The CWB successfully maintained its presence in a number of markets where western Canadian malting barley has recently made inroads, including Colombia with 50 000 tonnes and South Africa with 27 000 tonnes. Exports to Japan accounted for 34 000 tonnes.

Largest volume designated barley customers

(2004-05 and 2003-04 sales in 000's tonnes)



The designated barley pool returned almost $310.71 million in revenues on 1.75 million tonnes of receipts, generating an average gross revenue of $177.30 per tonne, down from the average of $191.24 per tonne the previous year. Despite the relatively tight supplies of western Canadian malting barley (due to early frost and inclement harvest weather), abundant supplies of Australian and European malting barley and the relative strength of the Canadian dollar had a negative effect on market values. The final pool return for Special Select Two-row barley in store Vancouver/St. Lawrence was $179 per tonne, compared to $200 per tonne a year ago. The final pool return for Special Select Six-row barley was $166 per tonne, compared to $186 per tonne in 2003-04. The spread between No. 1 Canadian Western Feed Barley and Special Select Two-row barley widened from $32 per tonne in 2003-04 to $48 per tonne in 2004-05, compared to the three-year average of $52.42 per tonne.

Direct costs

Direct costs increased $5.61 per tonne to $15.09, primarily due to ocean-freight costs, terminal-handling costs and grain purchases, offset by a reduction in inventory adjustments. More specifically:

Market development efforts continued, primarily focused on increasing the customer acceptance of CDC Copeland in China.

- Continuing high ocean-freight rates plus strong ocean-freight demand resulted in overall higher ocean-freight costs, as a significant proportion of the pool was exported where the CWB was responsible for ocean-freight payment.
- Increased terminal handling and selection fees, due to twice as many export tonnes moving through terminal.
- Higher levels of late receipts, which were accepted in the 2004-05 year due to contractual commitments, compared to the 2003-04 crop year.
- Significant decreases in inventory adjustments compared to 2003-04, when substantial inventory promotions were recorded.

Other income

The decrease in Other income is primarily attributed to a significant reduction in freight-adjustment factor recovery, resulting from a decline in tonnes moving through the U.S. and Thunder Bay catchment areas.

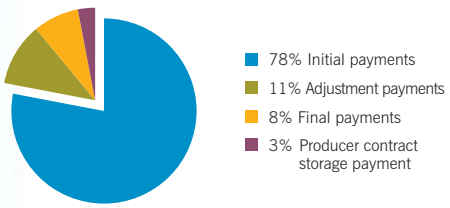
Distribution of earnings

The average sales proceeds available for distribution decreased 11 per cent, or $21.47 per tonne, to $179.58. Of the amounts returned to pool participants, 89 per cent was distributed by May 25, 2005, in the form of initial and adjustment payments. In addition, three per cent, or $5.48 per tonne, was distributed as producer contract storage payments.

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	196	0.11	2,085	0.97
Other grain purchases	2,458	1.40	289	0.14
Other direct expenses	(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	35,095	20.02	47,574	22.25
Net interest earnings	1,848	1.05	1,790	0.84
Administrative expenses	(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				
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**

Earnings distributed to farmers

Designated barley 2004-05



The feed barley pool

Implementation of shorter pooling period

Under *The Canadian Wheat Board Act* (Section 31), the CWB has the authority to implement shorter pooling periods. On August 9, 2004, the CWB announced that the feed barley crop year would be split into two pooling periods, rather than having one pool for the entire crop year. The two fixed-pooling periods implemented to the CWB's feed barley marketing programs were designed to better meet farmers' needs, providing them with more responsive pooling alternatives. The first pool started on August 1, 2004 and ran to January 31, 2005. The second pool ran from February 1, 2005 to August 31, 2005. Nine Guaranteed Delivery Contracts (GDCs) and delivery periods were offered during the crop year. The first four contracts were part of pool A, while contracts five to nine made up pool B. In total, farmers signed 4,331 contracts, totalling almost 507 000 tonnes.

Feed barley pool A

The marketing environment

During the first half of the 2004-05 crop year, returns available to western Canadian feed barley producers in the international marketplace declined markedly, due to a sharp rise in barley supplies among competitors. Barley production in the EU-25 rose by 14 per cent or 7.5 million tonnes, reaching 62.3 million tonnes in 2004-05, resulting in increased barley exports from the region. Ukrainian feed barley production and exports also rose markedly in 2004-05, settling at 11.1 million tonnes (up 60 per cent from 2003-04) and 4.3 million tonnes (up 186 per cent from 2003-04) respectively. The large offshore supplies of feed barley depressed world prices, making Canadian supplies generally not price-competitive in export markets through the pool A marketing period. Pool A Canadian feed barley sales were limited by this extremely competitive offshore environment.

The strategy

The first six months of 2004-05 did not present opportunities to originate and market significant volumes of feed barley offshore, as export values were depressed relative to domestic values. The combination of aggressive competition in export markets and high ocean-freight costs rendered the export market unattractive through this period and farmers focused on the domestic market or held onto their barley, waiting for improved prices.

The deliveries

Export feed barley prices were very low during the pool A period, due to an over-abundance of world feed grain supplies and depressed world prices. This situation, combined with continually high ocean-freight rates, made deliveries into this pool generally less attractive to western Canadian farmers than the domestic feed market. Therefore, a very small pool resulted, with 29 022 receipted tonnes.

The results

The CWB sold all of the feed barley delivered by farmers, including some late-receipt-tonnage and rejected malting barley in export markets for competitive values. Factoring in these additional grain purchases, the feed barley pool totalled 42 760 tonnes. The limited sales were divided between the Japanese market, which accounted for 28 400 tonnes of sales, and U.S. customers who purchased 14 200 tonnes.

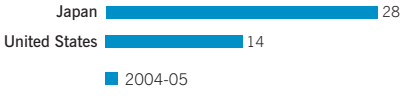
In total, the feed barley pool A returned almost $4.45 million in gross revenues on 29 022 tonnes of receipts, or an average of $153.31 per tonne.

Direct costs

The small pool size of the 2004-05 pool A caused greater volatility in the per-tonne rate calculated. As such, direct costs reflect a per-tonne cost of $89.60, which is primarily due to other grain purchases consisting of overages and late receipts totalling 13 738 tonnes. The net margin return realized on these purchased tonnes was distributed to the pool participants.

Largest volume feed barley pool A customers

(2004-05 sales in 000's tonnes)

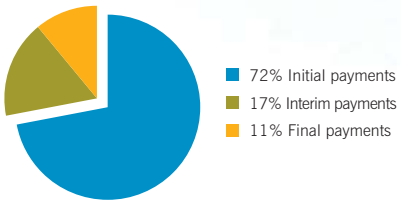


Other income

A relative increase in sales to the U.S. resulted in an increase in rail-freight recovery, one of the main components of Other income. Rail-freight recovery is the recovery of the freight deducted from cash tickets by CWB agents, where the grain was shipped to destinations other than terminal locations.

Earnings distributed to farmers

Feed barley pool A 2004-05



Distribution of earnings

The average sales proceeds available for distribution were $166.36 per tonne. Of the amounts returned to pool participants, 72 per cent was distributed in the form of initial payments. A further 17 per cent, or $20 per tonne, was distributed as an interim payment on May 31, 2005.

Feed barley pool B

The marketing environment

The last half of the 2004-05 crop year saw a dramatic improvement in both the prices and sales of western Canadian feed barley in the international market. A drought in Spain dramatically curtailed the European Union Commission's exports of feed barley in the latter part of 2004-05. In addition, feed barley production in both Ukraine and Russia declined. Reduction in supplies among these two competitors, in conjunction with lower ocean-freight rates, allowed the CWB to take advantage of rising global feed barley prices. Significant sales volumes were contracted in the latter half of the year, primarily to the Middle East.

The strategy

The positive shift in the global market fundamentals for feed barley in early summer 2005, including a significant softening in ocean-freight rates, created an opportunity for the CWB to trade significant volumes of feed barley for export. The improved prices also coincided with promising new crop development, so farmers' interest in marketing some of their supplies to the CWB for the export market was higher. The strategy was straightforward – take advantage of any windows of opportunity to originate and market feed barley to the extent farmer deliveries allowed. In addition to dividing barley into two shorter pool periods, the CWB also successfully relied on GDCs with farmers and tendering with companies to assure supplies. These tools enabled the CWB to know precisely how much farmers wished to market and to respond to buyer interest with assured, timely delivery and execution, right through the chain from farmers to customer.

The deliveries

A series of positive changes to global feed barley fundamentals in the latter half of the year resulted in stronger feed barley prices, which in turn translated into stronger projected returns for pool B versus pool A. This encouraged many farmers to market feed barley through the CWB rather than sell into the domestic market. The use of GDCs also provided farmers greater certainty regarding timing of delivery. As a result, total feed barley receipts for pool B were 468 736 tonnes.

The results

As described above, a series of factors in the international feed barley market presented trading opportunities to the CWB during the latter half of the marketing year, while farmer interest in marketing feed barley through the CWB dramatically increased the size of pool B.

Sales to Middle Eastern destinations represented 177 000 tonnes of total feed barley exports in 2004-05, while total sales volume to Saudi Arabia was 156 000 tonnes and Japan represented 117 000 tonnes of sales. The U.S. also provided an outlet for pool B feed barley sales, accounting for 17 000 tonnes.

In total, the feed barley pool B returned almost $63.15 million in gross revenues on 468 736 tonnes of receipts, or an average of $134.73 per tonne. Final pool returns for No. 1 Canada Western Feed Barley in store Vancouver/St. Lawrence yielded $131.68 per tonne.

Direct costs

Direct costs reflect a per-tonne cost of $6.50, primarily due to lower terminal handling costs resulting from fewer free on board (FOB) sales and decreased storage, as average country and terminal storage time was significantly less.

Other income

A relative increase in sales to the U.S. resulted in increased rail-freight recovery, one of the main components of Other income. Rail-freight recovery is the recovery of the freight deducted from cash tickets by CWB agents where the grain was shipped to destinations other than terminal locations.

Distribution of earnings

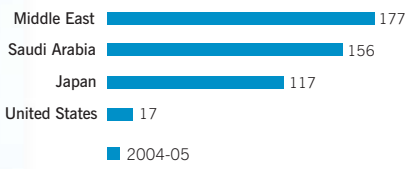
The average sales proceeds available for distribution were $132 per tonne. Of the amounts returned to pool participants, 56 per cent was distributed in the form of initial payments. A further 31 per cent, or $40.02 per tonne, was distributed as an interim payment on October 25, 2005.

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2005 Barley pool A six Mo's Ended January 31 Total	2005 Barley pool A six Mo's Ended January 31 Per tonne	2005 Barley pool B seven Mo's Ended August 31 Total	2005 Barley pool B seven Mo's Ended August 31 Per tonne	2004 Barley pool crop Year Ended July 31 Total	2004 Barley pool crop Year Ended July 31 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	23	0.79	7	0.02	(49)	(0.06)
Other grain purchases	1,552	53.46	197	0.42	146	0.17
Other direct expenses	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	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	(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**
STATEMENT OF DISTRIBUTION						
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	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**

* Excludes operation of Producer Payment Options program

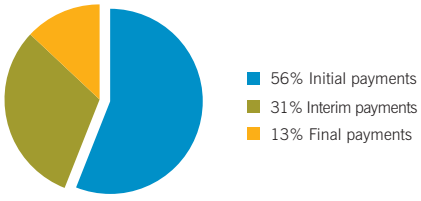
Largest volume feed barley pool B customers

(2004-05 sales in 000's tonnes)



Earnings distributed to farmers

Feed barley pool B 2004-05



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) that have been expanded or enhanced every crop year. The 2004-05 crop year was no exception, with enhancements to the Fixed Price Contracts (FPCs) and Basis Payment Contracts (BPCs) to make both programs easier for farmers to use. As well, the Early Payment Option (EPO) and Pre-delivery Top-up (PDT) programs were expanded.

The most significant change was the extension of the sign-up deadline for the FPC and BPC for wheat and the FPC for barley and durum wheat until October 31, 2004, a full three months later than the July 31 deadline that had been in place since the program's inception. This enables farmers to choose a fixed price or basis level later in the crop year when quantity and quality of grain is known. This allows the farmers to more accurately analyze their pricing options. The enhancements follow a series of consultations held with farmers on how to strengthen the PPOs and build on the work done since the PPOs were first introduced five years ago.

While the PPOs offer farmers unprecedented opportunities to exercise control over the marketing of their wheat and barley, they are structured so that the integrity of the CWB pool accounts is 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 and a PDT program are available to Prairie farmers through the CWB.

1. The 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, durum or barley from February 28 to October 31. The wheat FPC is comprised of the December basis plus the relevant futures price. The durum and barley FPC is comprised of the Pool Return Outlook (PRO) less a discount. Program costs are entirely covered by the farmers who use it. 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. During the 2004-05 crop year, 5,870 farmers signed an FPC and delivered 948 535 tonnes of wheat, 388 tonnes of durum, 46 tonnes of designated barley and 109 tonnes of feed barley.

2. The BPC: Launched at the same time as the FPC, the BPC enables farmers to lock in the pooled basis and futures at different times during the program. 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 2004-05, 912 farmers signed a BPC and a total of 222 376 tonnes of wheat was delivered.

3. The EPO: Introduced in the 2001-02 crop year, the EPO enables farmers to receive 80, 90 or 100 per cent of the PRO, less a discount for risk, time value of money and administration costs, at time of delivery. 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 80, 90, or 100 per cent of the locked-in PRO less the discount. 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 grain.

   In the 2004-05 crop year, the program was expanded to include a 100 per cent EPO for wheat and feed barley and an 80 per cent EPO for durum and designated barley. The 80 per cent early payment value was added to provide farmers with more cash flexibility at lower discount costs. Introduced due to frost and poor harvest conditions, the Feed Grade EPO offers farmers increased cash flow following delivery and a floor price for feed grade wheat and durum.

   A total of 11,690 farmers signed EPO contracts, delivering 3 081 520 tonnes.

2004-05 EPO programs

	80%	90%	100%
Wheat	✓	✓	✓*
Feed barley	✓	✓	✓*
Designated barley	✓*	✓	✓
Durum	✓*	✓	✓

*New for 2004-05

4. The PDT program: The program was first introduced in the 2003-04 crop year, but was limited to non-Canada Western Red Spring (CWRS) wheat classes. In the 2004-05 crop year the program was expanded to include CWRS. Wheat growers who have taken a fall cash advance can apply for an additional $20 per tonne for their grain, to be paid prior to delivery. Participants are responsible for the costs of the program, including risk management, administration costs and time value of money. Repayment is received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. PDT payments of $704,140 were issued to 67 farmers.

Financial results

1. FPC/BPC

In 2004-05, there was a dramatic increase in the number of tonnes delivered under the FPC and BPC programs, rising from 159 253 tonnes in 2003-04 to 1 171 454 tonnes in 2004-05. Deliveries made under FPCs and BPCs are outside of the pool accounts, with all pool returns (initial, interim and final payments) that otherwise would have been paid to farmers, instead paid to these programs. This amounted to $224,985,944 for wheat, $84,582 for durum, $8,030 for designated barley and $12,723 for barley. When other revenue, like liquidated damages and program expenses (including net hedging results after resulting distributions, interest and administrative expenses), is accounted for, the FPC and BPC programs generated a combined surplus of $31,792,174.

Of the total combined surplus, the wheat FPC/BPC program contributed $31,776,656. There were two significant events that resulted in the wheat surplus.

The CWB hedges to manage risks associated with the FPC and BPC programs. This year, futures markets have generally trended downwards, resulting in hedging gains ($57 million for wheat). Ordinarily, these funds would be placed in the CWB's contingency fund.

During the 2004-05 crop year, many western Canadian farmers faced significant losses due to frost and poor harvest conditions. At its September 2004 meeting, the CWB's farmer-controlled board of directors voted to return gains to farmers who were unable to fulfil their contracts.

By returning hedging gains on FPCs and BPCs, the CWB hoped to assist those farmers hardest hit by the year's exceptional circumstances. The one-time-only policy decision enabled farmers to benefit from any futures gains, net of basis change, that they may have achieved on their FPC or BPC. Hedging gain payments of $5,059,642 were issued to 1,347 farmers.

Another factor impacting the wheat FPC/BPC results was the basis levels which cannot be hedged. Basis levels increased dramatically after the rain downgraded much of the North American harvest. This change in basis levels occurred after much of the 2004-05 program was priced by producers, creating gains of approximately $35 million net in the wheat FPC/BPC program.

2. EPO

Tonnes delivered to EPO contracts continued to increase in 2004-05 from 2 652 369 tonnes in 2003-04 to 3 081 520 tonnes in 2004-05. The EPO discount, charged to farmers for risk, time value of money and program administration costs, was $3,980,567. After accounting for liquidated damages charged for non-delivery, net interest expense and net hedging results, a surplus of $3,269,402 was generated.

Outlook

Overall, the quality of the 2005-06 wheat, durum, and barley crops was better than 2004-05.

The 2005-06 growing season was warmer than 2004-05, which was one of the coldest on record. However, weather again presented western Canadian farmers with many challenges. Extreme spring moisture in the eastern Prairies and parts of southern Alberta prevented some farmers from seeding their crop. The growing season was above average, with good yield prospects throughout the Prairies. The quality of the wheat and barley crops was hurt by the cool, wet conditions experienced in August and September, which delayed harvest and resulted in downgrading due to mildew, sprouting and bleaching. Overall, the quality of the 2005-06 wheat, durum, and barley crops was better than 2004-05; however, crop quality still remains significantly below average.

Looking ahead to the coming marketing year, there are indications that world wheat market conditions are improving. World wheat production is projected to decline to 605 million tonnes (the third largest on record) from the 2004-05 record crop of 620 million tonnes. Much of the decline in wheat production is projected to occur in the EU-25 and Argentina. Canada and the U.S. are expected to produce crops similar in size to 2004-05. Australia is the only major exporter that is expected to see a rise in wheat production.

Prices for higher-quality milling wheat are expected to stay firm in the upcoming season. For the second year in a row, production problems were experienced in the U.S. and Canada. The U.S. Northern Plains experienced a severe Fusarium Head Blight outbreak on a significant portion of its crop in 2005-06. In addition, Canada experienced wet and cool harvest conditions through much of the growing region.

Any improvement in the price environment for lower-to medium-quality wheat is anticipated to be limited by export competition from the European Union (EU) and the Commonwealth of Independent States (CIS). The 2005-06 wheat crop was nine per cent larger in Russia, Ukraine and Kazakhstan, compared to 2004-05. In addition, the EU is still trying to work through burdensome wheat stocks amounting to almost double last year's level.

The 2005-06 global durum crop is projected to decline over five million tonnes to 34.3 million tonnes. Smaller crops in the key importing regions of North Africa and Europe are expected to improve global durum demand. Positive market developments in North Africa and Europe are expected to be tempered by large EU stocks. In addition, larger crops in North America are expected, with total production forecast at eight million tonnes. Overall, an extremely competitive global durum market is expected in the coming year, which will limit both price appreciation and sales.

The barley market environment is anticipated to improve over last year. Global barley production is expected to decline 16 million tonnes to 134 million tonnes in 2005-06. Smaller barley crops are expected in both Europe and the CIS. The U.S. is expected to produce the smallest barley crop since 1936. A drought in Spain and feed barley production problems in both Ukraine and Russia have reduced global feed barley supplies and are expected to create opportunities for Canadian feed barley. A healthy sign for the malting barley market is the forecasted growth in Chinese demand (2.1 million tonnes) for the second consecutive year. With Australia projected to harvest a significantly larger barley crop in 2005-06, demand for both feed and malting barley could be negatively impacted.

Forward-looking information

Certain forward-looking information contained in this annual report is subject to risk and uncertainty because of the reliance on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed. They include, but are not limited to: weather; changes in government policy and regulations; world agriculture commodity prices and markets; shifts in currency values; the nature of the transportation environment, especially for rail within North America and by ocean vessel internationally; and changes in competitive forces and global political/economic conditions, including continuing WTO negotiations with regard to the Minister of Finance's guarantee on the CWB's debt and on the government's commitment to guarantee initial payments to farmers. In addition, the long-term real return bond rates continued to decline over the past year to new levels, resulting in significant pressures on pension plan solvency valuations.