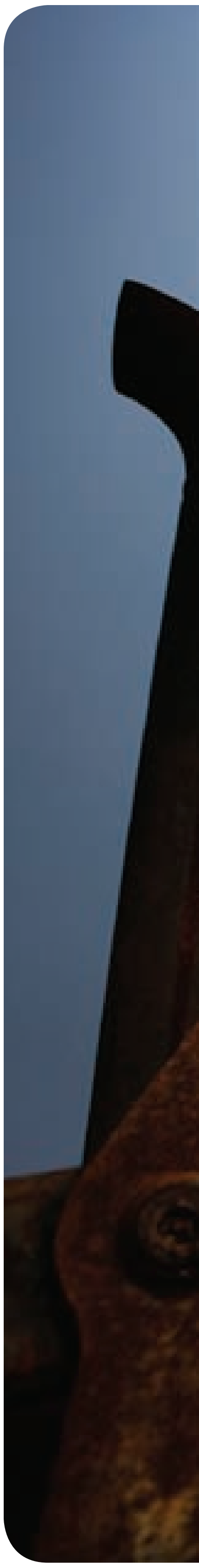
CWB
The Canadian Wheat Board

WE'RE EVOLVING

2005-06 REPORT TO PRODUCERS

FINANCIAL HIGHLIGHTS

	2005-06	2004-05	2003-04	2002-03	2001-02
Combined pool operating results ($ millions)					
Revenue	**$3,498.3**	$3,739.3	$4,136.2	$3,339.9	$4,379.2
Direct costs	**458.3**	417.2	369.7	318.7	384.5
Net revenue from operations	**3,040.0**	3,322.1	3,766.5	3,021.2	3,994.7
Other income	**149.3**	163.4	161.1	132.7	188.5
Net interest earnings	**36.1**	53.4	56.1	54.8	91.6
Administrative expenses	**(69.8)**	(69.2)	(67.6)	(54.1)	(50.4)
Grain industry organizations	**(2.1)**	(1.6)	(1.8)	(1.8)	(1.7)
Earnings for distribution	**$3,153.5**	**$3,468.1**	**$3,914.3**	**$3,152.8**	**$4,222.7**
Receipts from producers (000's tonnes)					
Wheat	**11 971.2**	13 296.3	12 376.0	8 696.0	13 331.0
Durum	**4 308.9**	3 824.0	3 079.7	3 804.0	3 246.0
Designated barley	**1 464.7**	1 752.5	2 138.4	891.0	2 205.0
Feed barley (pool A)	**915.8**	29.0	–	–	–
Feed barley (pool B)	**127.5**	468.7	–	–	–
Barley	**–**	–	844.0	40.0	54.0
Total	**18 788.1**	**19 370.5**	**18 438.1**	**13 431.0**	**18 836.0**



WE'RE EVOLVING...

Farming has evolved through a vital process of adaptation. When the CWB began more than 70 years ago, farmers faced physical and environmental hardship. Today, farmers have the benefit of technological advancements in the machinery and technology they use, but they face challenges in the marketplace.

Today, the global market is increasingly consolidated, controlled by a handful of very powerful multinationals and distorted by foreign government subsidies. On the surface, the odds seem firmly stacked against Canadian farmers.

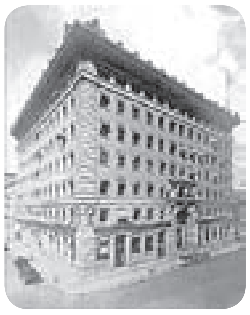
Scratch that surface, however, and you will find out why western Canadian farmers continue to persevere. They are employing innovation, ingenuity and dogged determination to overcome the odds.

Inside these pages, you'll find the stories of farmers who have adopted approaches that ensure the survival of their farms. In many cases, their trials and triumphs have affected their families, their communities and their industry.

It is their stories that have inspired the CWB's approach to its business.

- **1935** • The CWB is created and offices are established in Winnipeg, Calgary, Vancouver and Montreal, and London, England.
- **1949** • Parliament amends *The Canadian Wheat Board Act* to extend the CWB's marketing responsibility to encompass oats and barley.
- **1955** • The CWB opens an office in Rotterdam (Netherlands) for seven years.
- **1961** • The CWB makes its first long-term sales agreement with China.
  • The CWB opens an office in Tokyo, Japan, to better serve this important market.
- **1963** • The CWB signs a three-year agreement with the Soviet Union.
- **1972** • The Canadian International Grains Institute (CIGI) is created to promote the Canadian grain industry through educational programming and technical activities. The onsite pilot bakery and mill become important support tools for customers of Canadian wheat.
- **1975** • Members of the CWB's Farmer Advisory Committee become elected rather than appointed.
- **1989** • Oats are removed from the marketing authority of the CWB, leaving it responsible for the marketing of western Canadian wheat and barley for export and domestic human consumption.
- **1993** • A Continental Barley Market is created through a federal ministerial decision. The action was challenged and reversed by a federal court ruling. The experiment lasts just six weeks – from August 1 to September 10.
- **1994** • The CWB opens an office in Beijing, China.
- **1995** • The first shipment of "Warburtons" wheat, grown under the CWB's Identity Preserved Contract Program (IPCP), sails from Thunder Bay.

1935



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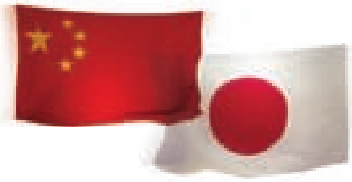
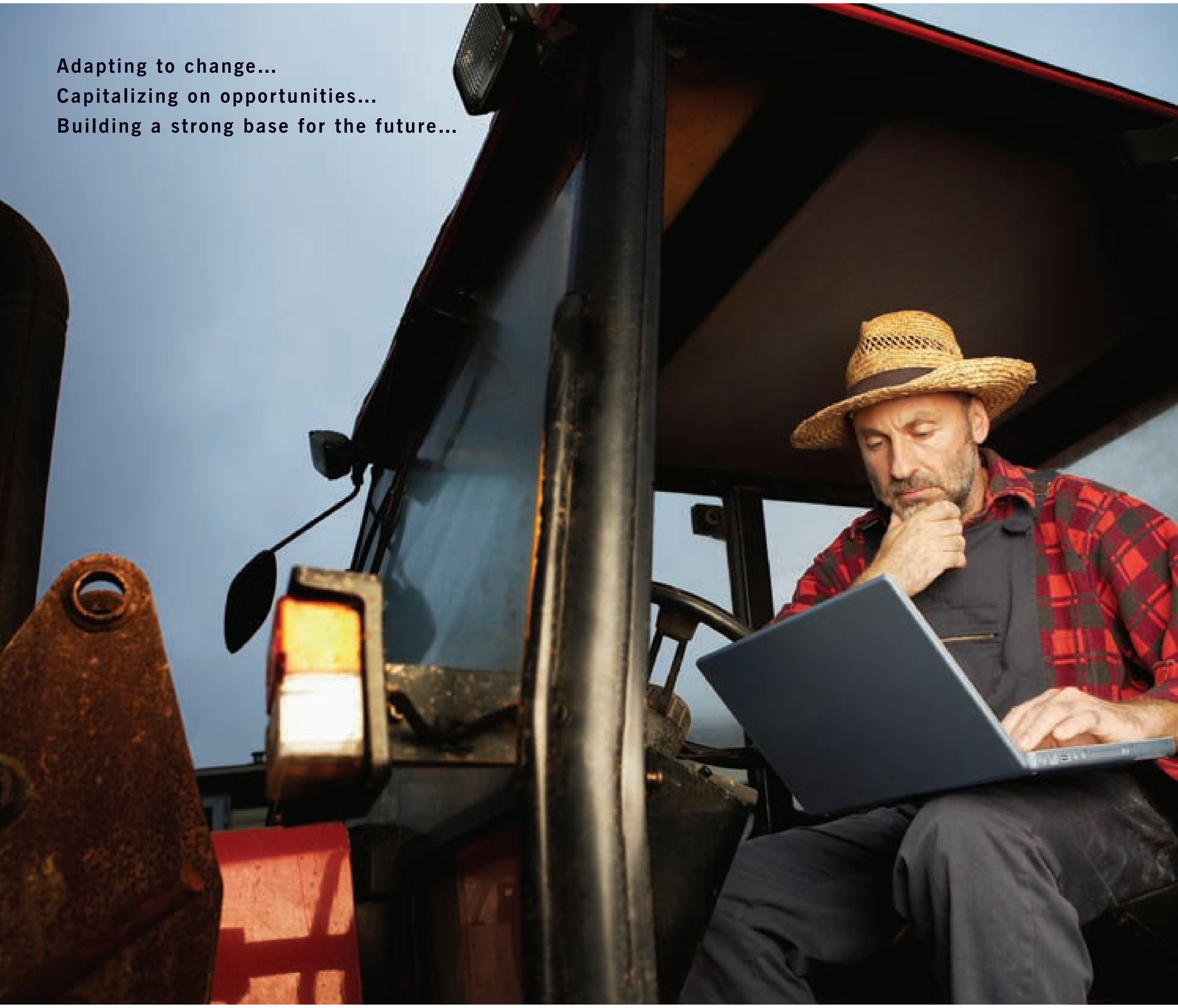


Adapting to change...
Capitalizing on opportunities...
Building a strong base for the future...



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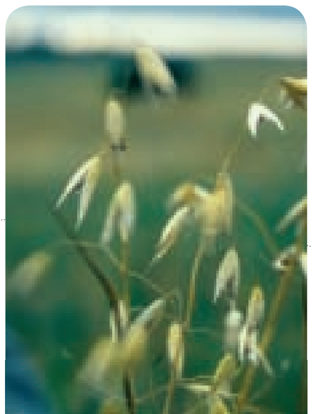

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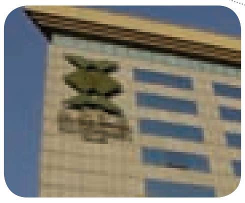

1995

Warburtons

FINDING STRENGTH IN ADVERSITY...

The story of Red Coat Road and Rail

Viceroy, Saskatchewan is a town that's clearly seen better times. Its old and abandoned buildings have even earned it a place on a Web site listing Canada's ghost towns.

But this community is not dead.

Its lifeline is a stretch of railway that extends 114 kilometres, from Pangman to Assiniboia. In 1997, this stretch of track was one of hundreds of kilometres of branch line targeted for abandonment by CP Rail. The railway argued that traffic on this "rarely used" line was so light, it simply wasn't feasible to run and maintain it any more.

Historically, having an active rail service had been an economic necessity for the small Prairie towns around it. As service disappeared, so too had some of the towns. But before the line could be officially laid to rest, federal legislation dictated that it first had to be offered to short line operators who were interested in purchasing it. The legislation provided an opening and a clear call to action for the people in the eight communities dotting the 114-kilometre-long line.

"We knew that once the rail line went, so would the communities," recalls Kevin Klemenz, one of four farmers who founded the producer-owned short line now known as Red Coat Road and Rail (RCRR). "We felt abandoned – like they were just leaving us to fold up. I personally thought, 'Let's not do it.'"

It wasn't easy. The group had to raise $1.1 million and come up with a plan for how it would maintain the track – and make it profitable. In the meantime, grain companies were pulling up stakes. The iconic wooden grain elevators that once dotted the Prairie landscape were being abandoned in favour of regional, concrete monoliths.

"We were told we were going in the wrong direction – that trucking grain to these huge terminals was the way to go," Klemenz recalls. "We were actually told by one finance company that we were going against the wave of the future."

The odds seemed insurmountable. Still, the people here forged ahead, and worked together to raise the money needed to purchase the line. Four farmers – Ed Howse, Loni McKague, Roger Dahl and Klemenz – went above and beyond what might have been expected. These farmers personally signed loans for more than $500,000 to raise the capital needed to cement the deal.

Now, less than 10 years later, it would be hard to question the group's decision. Each year, more and more producer cars are loaded here – 584 last year, compared to 144 in their first year of operation. Loading producer cars has saved farmers thousands of dollars in trucking, handling and elevation charges. That money is being reinvested in producer car facilities all along the line – even within a stone's throw of the region's main high-throughput terminal.

When Klemenz reflects on the story of the RCRR, he likens it to the CWB's own beginnings – innovation rooted in farmers' need to deal with an imbalance of power and have some clout in an industry dominated by companies responsible to shareholders, not farmers.

"FARMERS WERE GETTING RAKED OVER THE COALS. IN BOTH CASES, WE HAD TO DO SOMETHING."

Klemenz says the CWB plays a key role in the success of short line and producer car groups like RCRR – not only because of its role in administering the cars, but also because it is an advocate for western Canadian farmers.

"As farmers, we knew we would be looked after through the CWB and that we had a strong voice to deal with the railways and grain companies," he said. "We actually feel that the loss of the CWB would mean the loss of our rail line. What grain company would want to unload producer cars?"

Today, Klemenz stands in the tiny rural municipality building that doubles as Viceroy's credit union and points to pictures on the wall that mark the day the line was officially turned over to the group. The ability to overcome adversity is a strong part of farming history, he says; it is something rooted in the unbreakable spirits of those who call the Prairies home.

"If you believe in your communities – and you're willing to fight for them – something can be done. If people pull together, this is what can happen."

1997
- The CWB signs a three-year, 1.2-million-tonne supply agreement with Grupo Altex – one of the largest flour milling companies in Mexico and the primary flour supplier to Grupo BIMBO (Latin America's largest baking company).
- An external Performance Evaluation of The Canadian Wheat Board, authored by Drs. Kraft, Furtan, and Tyrchniewicz, concludes that the single desk adds nearly $246 million each year to farmers' pockets.

1998
- The CWB's governance passes into the hands of farmers. Ten farmers are democratically elected by their peers to steer the organization.

1999
- The CWB and Canadian Pacific Railway (CPR) reach an out-of-court settlement in a level of service complaint. The $15 million settlement is returned to Prairie-farmers through the CWB. On the same claim, the CWB reaches a commercial settlement with Canadian National Railway Co. (CN) outside the courts.
- The CWB begins market development projects for AC Metcalfe – a new barley variety that shows improved agronomic properties for farmers. By 2002, it overtakes Harrington as the leading two-row malting barley variety grown in Western Canada.

2000
- The CWB introduces its first Producer Payment Option (PPO). Today, there are four different PPOs – the Daily Price Contract, Basis Price Contract, Early Payment Option and Fixed Price Contract.
- The Canadian Malting Barley Technical Centre (CMBTC) is opened to provide technical support for customers that purchase western Canadian malting barley.
- CIGI introduces a pilot pasta plant that enables it to provide expanded customer support and applied research to durum customers.

2001
- A U.S. International Trade Commission (ITC) report concludes that Canadian durum was sold into the U.S. at prices equal to or higher than U.S. durum in all but one of 60 months examined.

BECOMING STRONGER OVER TIME…

The Tebbs' philosophy on research and development

Over the years, a lot has changed on the Tebbs' farm near Airdrie, Alberta. At one time, you could barely see the city from their fields of wheat and barley. Now, new business districts and housing developments are nearly touching the farm's edges. Fuelled by Alberta's booming oil and gas industry, it's been almost impossible to contain the growth of places like Airdrie. Like so many other bedroom communities in Alberta, it's straining at the seams and eating up the countryside.

Today, the land that four generations of Tebbs have caringly cultivated for more than 87 years has new value. It's become a lucrative commodity – not for its ability to grow the crops that feed the population, but because it can feed a city's insatiable need for expansion.

This year, the Tebbs planted and harvested their last crop on this land. Soon, most of their fields will be engulfed by urban development. It seems only appropriate that, as they prepare to bid farewell to the family homestead and move to a new farm near Olds, Alberta, their family's land has yielded a crop that will be marketed as premium-quality western Canadian malting barley.

It has been a good year – thanks in part to Mother Nature, but also because the Tebbs have access to the tools they need to get the job done. For them, it has meant having the right variety of seed that will not only grow in Western Canada, but thrive in a climate of extremes.

As fourth-generation farmers, the Tebbs have seen a lot of change in the industry – not all of it good. They know that being competitive means having access to new and better varieties that boast better yields and have higher disease resistance characteristics.

The father-son team say being a part of the CWB's Identity Preserved Contract Program (IPCP) is important to their business. This year, the Tebbs chose to grow the AC Metcalfe and CDC Copeland varieties of barley. These varieties, which are promoted through the CWB's IPCP, have all but replaced older varieties that were more susceptible to disease.

WHENEVER THE OPPORTUNITY HAS COME UP TO HELP DEVELOP NEW VARIETIES THROUGH AN IPCP, THE TEBBS HAVE TAKEN ADVANTAGE OF IT.

"We're looking for a variety that weighs up good and yields well; more importantly, we want a variety that someone wants," muses Wayne Tebb, Barry's father. "The bottom line is finding a variety you can make money on."

Michael Brophy, the CWB's malting barley technical expert, says varieties such as CDC Copeland emerged from a well-coordinated breeding and registration system. It's a system that ensures growers are provided with improved agronomic characteristics on yield and disease, while end-use customers – like brewers and maltsters – get a better quality product.

"Maltsters are definitely cautious – they don't want to make any changes in their recipe until they are sure it will not impact quality," Brophy says. "The most important thing to brewers is that customers don't taste a difference."

Brophy says that is why the CWB invests considerable resources in the customer testing of these new varieties and continues to provide technical support for expanding the markets for new varieties.

Throughout the two-year introduction of CDC Copeland, the CWB's team of product development specialists worked closely with researchers at the Canadian Malting Barley Technical Centre (CMBTC) to ensure customers, like those at China's Tsingtao beer, were happy with the changes. Bottled by China's largest brewery, Tsingtao is exported to more than 40 countries and accounts for 80 per cent of the total Chinese beer exports.

"Tsingtao representatives came over to Canada for a month to work hands-on with CDC Copeland in the CMBTC pilot breweries," Brophy recalls. "After their wide-scale testing, they were convinced it wouldn't impact smell, taste or overall quality."

Back on the Tebbs' farm near Airdrie, Barry says this type of product development demonstrates how the CWB adds value for farmers.

"We have to stay on top of these things in order to be able to compete with other countries like Australia and the United States," he says. "There is no point in growing it, unless there is a market for it."

1998

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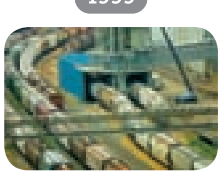

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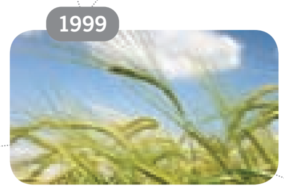

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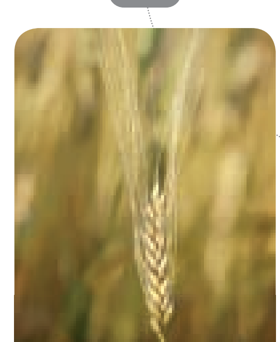


ADAPTING TO YOUR ENVIRONMENT...

The story of Elkwater Hutterite Colony

In many ways, a visit to Elkwater Hutterite Colony yields the things you might expect. Its 95 members share a deep sense of faith, communal values and a single-minded work ethic.

At this colony, not far from Medicine Hat, Alberta, purpose is rooted in the religious philosophy that all members are provided for and nothing is kept for personal gain.

Making it work means each man, woman and child plays a specific role. Learning that everyone has something to contribute is a value children are taught early in life. Chores at the greenhouse are a regular part of their after-school routine. The women are tasked with all domestic activities, including cooking, cleaning and caring for the children; each man is assigned a job in the colony's highly diversified farming operation.

When it comes to business on the colony, you might be surprised by its obvious embrace of technology. This farm operation is nothing short of state-of-the-art – from the dairy and hog barns to the fleet of farm machinery used to care for the crops.

In fact, every piece of equipment here is fitted with Global Positioning Satellite (GPS) technology, to ensure complete precision during seeding, fertilizer application and harvest.

You couldn't do it any other way, says the colony's manager, John Hofer. Being precise means saving money – something Hofer says is critical when you're operating on razor-thin margins.

IN THIS ENVIRONMENT, USING EVERY TECHNOLOGICAL TOOL AVAILABLE IS A NECESSITY, NOT A LUXURY, HE ADDS.

"We're as efficient as we can get," Hofer notes.

When Hofer talks about advances in farming, he talks about the need for maximizing flexibility and applying it to the business. That's where the CWB's Producer Payment Options (PPOs) come in, he says.

"I think they're a very good tool," Hofer says. "We like to use these programs to help our cash flow right after harvest. There are always bills to pay then and this helps."

These days, managing the farm means closely checking commodity prices and taking advantage of the PPOs when it makes sense. The Basis Price Contract (BPC) has helped the colony manage cash flow at these critical times, while the Fixed Price Contract (FPC) has helped them cash in on market rallies.

It was farmers' desire for greater flexibility over individual pricing and payments that prompted the CWB to introduce the PPOs more than five years ago. The PPOs were designed to mimic the open market environment, while preserving the security and benefits of the single desk and price pooling. The PPOs continue to be a way for farmers to manage their own price risk without affecting pool accounts.

For Hofer, managing risk is what it's all about when you're trying to keep a farm viable and support 95 people.

Whether it's a family farm, a corporate farm or a colony farm, Hofer says there's one more element that every operation needs to be successful.

"It's good communication among everyone. Everybody has to know the target and what the goal is. That's really the key."

2002
- The CWB sells its first tonne of Canada Western Hard White Spring (CWHWS) wheat.
- Canada's Auditor General releases the results of a special audit examining the CWB's financial accounting. The report concludes that the financial accounting and reporting systems of the CWB are well-managed, economic and efficient.
- The U.S. launches its 13th trade challenge against Prairie farmers. This one seeks anti-dumping and countervailing duties on imports of durum and hard red spring wheat from Canada.

2004
- Monsanto opts to shelve plans to introduce its Roundup Ready genetically-modified wheat after the CWB and other industry organizations voice their objections on behalf of farmers.
- A World Trade Organization (WTO) dispute settlement panel designates the CWB as a fair trader.

2005
- Two feed barley pools per crop year are created in order to give farmers better price signals and to improve the CWB's ability to attract deliveries when sales opportunities are favourable.
- The Canadian Wheat Board Centre for Grain Storage Research at the University of Manitoba opens.

2005
- The Value-added Incentive Program (VIP) is created to promote the direct delivery of wheat, durum and malting barley to mills and malting plants in Western Canada.
- The CWB signs a Memorandum of Agreement with China for the sale of one million tonnes of milling wheat in 2005-06.

2006
- The CWB unveils its vision for the future of the organization – *Harvesting Opportunity*. It builds on the competitive advantage of the single desk and outlines a plan to transform the CWB into a non-profit, non-share capital corporation that operates completely independently of government.
- Western Canadian wheat begins to flow into the U.S. following a ruling by the U.S. International Trade Commission (ITC) to reverse a previous injury ruling. Anti-dumping and countervailing duties previously applied to Canadian hard red spring wheat imports are lifted.
- The CWB unveils a flexible grain delivery system that will enable farmers in a select region to trade delivery periods among themselves. The Delivery Exchange Contract (DEC) pilot program launches in the 2006-07 crop year.
- Western Canadian producers use 11,000 producer rail cars – the highest number in 15 years.

2002

2002

2004

SHAPING YOUR OWN DESTINY...

The story of CWB's board of directors

Standing in a field on Ken Ritter's farm near Kindersley, Saskatchewan, you couldn't feel farther away from the complicated – and often cutthroat – world of international trade.

But Ritter – a farmer-elected director for the CWB – has been immersed in that world since he was elected to the CWB's board of directors in 1998. Between U.S. trade challenges and World Trade Organization (WTO) negotiations, rarely a day has passed – even during the busy times of seeding and harvesting – that doesn't see Ritter dealing with a trade issue that affects western Canadian farmers.

Ritter was one of 10 producers who formed the very first farmer-controlled board of directors at the CWB in 1998, following a change in *The Canadian Wheat Board Act* that put farmers in charge of the organization. For those directors, and the ones who followed, life has changed dramatically.

"There's no doubt it impacts the development of the farm, because it takes your time away when you're travelling to Geneva for WTO talks and then you're off to Winnipeg for board business," he says. "But I think it's important to the board and the board is important to farmers."

Ritter says the 1998 governance changes were a milestone in the board's history. It marked the beginning of a new era – one where the board shed its status as a government-controlled agent of the Crown, and emerged as a farmer-controlled marketing powerhouse. The changes made the organization directly accountable to farmers, by acknowledging that the people who paid for the organization should also sit as a majority around its board table.

There was no shortage of commitment, but the learning curve was steep.

"We showed up in Winnipeg and had no code of conduct, no bylaws, nothing," Ritter says, remembering that first board meeting. "We had a clean slate. Most of us had never met. It was a huge period of growth for everybody."

Still, it wasn't long before Ritter faced his first U.S. trade challenge as the chair of the CWB's board of directors. Since 1998, the CWB's board of directors has seen eight trade challenges launched, fought and won. Over the past 16 years, there have been 14 American-led trade challenges in total; in each and every case, the CWB was ultimately exonerated as a free and fair trader.

Ritter says making western Canadian farmers the main voice at the CWB's board table has been an important part of winning these challenges. Farmers are being heard at meetings with high-level trade officials, giving them the opportunity to clear up myths and personalize the message.

"I think it's a lot easier to deliver a message coming from Canadian grain producers if it's a farmer who delivers it," he says.

Farmers, by necessity, are cut from a hardy cloth, and Ritter says the same dogged determination that's kept him in the business of farming has also formed the backbone of his negotiating philosophy.

"I'VE BEEN IN A LOT OF SITUATIONS WHERE PEOPLE PUSH AND YOU HAVE TO PUSH BACK," HE SAYS. "THE WORLD OF TRADE IS NOT A NEAT, IDEALISTIC PLACE AND YOU DON'T GET VERY FAR BY BEING A PUSHOVER."

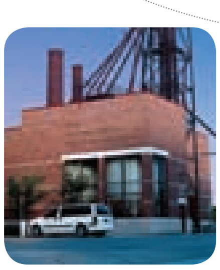
Perhaps it was that dogged attitude that helped clinch another major trade victory for western Canadian farmers. On Friday, February 24, 2006, U.S. Customs headquarters in Washington, D.C. notified American ports of entry that imports of Canadian hard red spring wheat were no longer subject to any duties. The notification cemented a major North American Free Trade Agreement (NAFTA) win for western Canadian farmers and meant that Canada Western Red Spring (CWRS) wheat could again freely enter the lucrative American market.

The victory marked the end of a two-and-half year chapter of trade battles with American protectionist interests. Although the CWB has been exonerated in each trade challenge, Ritter knows the harassment isn't likely to end. Recognizing that the CWB gives western Canadian farmers clout in the global marketplace, American wheat growers have lobbied their lawmakers to adopt a multi-faceted, long-term plan of attack.

Having western Canadian farmers like Ritter on the CWB's board ensures that the determination to fight won't fizzle on this side of the border. Too much is at stake.

"You fight for what is right. You don't give up just because the Americans don't like it," Ritter says. "The future of my farm, and my neighbour's farm, depends on it."

2005



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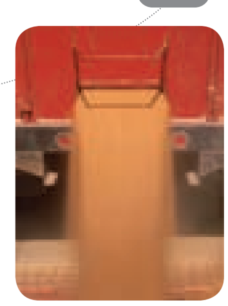


2006

FACTORS THAT SHAPED THE 2005-06 BUSINESS CONDITIONS

1. World production

Wheat

The International Grains Council (IGC) estimates that world wheat production in 2005-06 declined 11 million tonnes from a record of 629 million tonnes in 2004-05.

The 618-million-tonne crop of 2005-06 was still the second-largest world wheat crop on record. Although overall wheat supply remained extremely high, relatively tight supplies of higher quality, higher-protein wheat kept prices in that market segment stable-to-slightly stronger for the first part of the crop year. Prices of higher quality hard wheat began to strengthen in the winter of 2005-06, in response to production problems in the U.S. hard red winter wheat crop. Conversely, the lower-protein, medium-quality and low-quality segments of the wheat market were priced very aggressively well into the summer of 2006.

The 2005 western Canadian spring wheat crop produced record yields, but protein was almost a full percentage point below the five-year average. Harvest conditions in Western Canada were difficult and the wheat grade pattern, although better than 2004, was one of the poorest on record. As a result, much of the Canadian export supply was competing in the mid- and lower quality segments of the market where competition was very aggressive during 2005-06.

Durum wheat

The size of the 2005-06 global durum crop was down significantly from the previous year at 36 million tonnes, but high carry-in stock levels in the European Union-25 (EU-25) and North America kept the overall world supply at burdensome levels. The price structure remained under pressure until the summer of 2006, when it became clear that the U.S. durum crop was being severely impacted by drought. In 2005, western Canadian durum production reached near record levels, with an output of 5.9 million tonnes. Growing conditions were generally good, although late season rains affected the quality of the crop, resulting in a lower proportion than usual of higher grade durum.

Barley

Global barley production in 2005-06 dipped 14 million tonnes, from 154 million tonnes in 2004-05 to 140 million tonnes. The world supply-demand balance was positive for offshore feed barley prices, which were high enough to draw significant volumes of western Canadian feed barley into export and away from the Canadian domestic market channels.

The world supply-demand situation was quite different for malting barley. Prices were kept in check early in the year by large supplies in the EU and then put under additional pressure for the balance of 2005-06 by Australia, which harvested its second-largest barley crop on record. The prices generally available from malting barley customers stayed relatively weak throughout the crop year.

2. Poor quality crop

Weather again presented western Canadian farmers with many challenges in the 2005-06 crop year. Increased production and record (or near-record) yields for wheat, durum and barley were marred by a second consecutive year of poor harvest conditions. The quality of the crops was damaged by the cool, wet conditions experienced in August and September, which delayed harvest and resulted in downgrading due to mildew, sprouting and bleaching and a lower-than-average grade pattern. As the yields indicate, the 2005 growing season was very good on the Prairies, with the exception of parts of Manitoba, which suffered from excess moisture. Wheat production reached 24.8 million tonnes in Western Canada, with spring wheat comprising 18.4 million tonnes of the total. Durum and barley production reached 5.9 million tonnes and 11.7 million tonnes respectively in 2005. Overall, the quality of the 2005-06 wheat, durum and barley crops was better than 2004-05; however, crop quality still remained significantly below average.

THE 618-MILLION-TONNE CROP OF 2005-06 WAS STILL THE SECOND-LARGEST WORLD WHEAT CROP ON RECORD.

3. Commodity markets

U.S. wheat futures prices trended higher from April 2005 through to July 2006, driven largely by supply concerns in North America and the European region. At times, strong global wheat demand, in addition to unprecedented activity from investment funds in the commodity markets, further intensified the rise in wheat prices. In April 2005, wheat futures on the U.S. exchanges traded at lows of $3.10 in Minneapolis, $3.09 in Kansas and $3.03 in Chicago per bushel. By the end of July 2006, nearby futures levels had reached peak levels of $5.42 in Minneapolis, $5.27 in Kansas and $4.17 in Chicago per bushel.

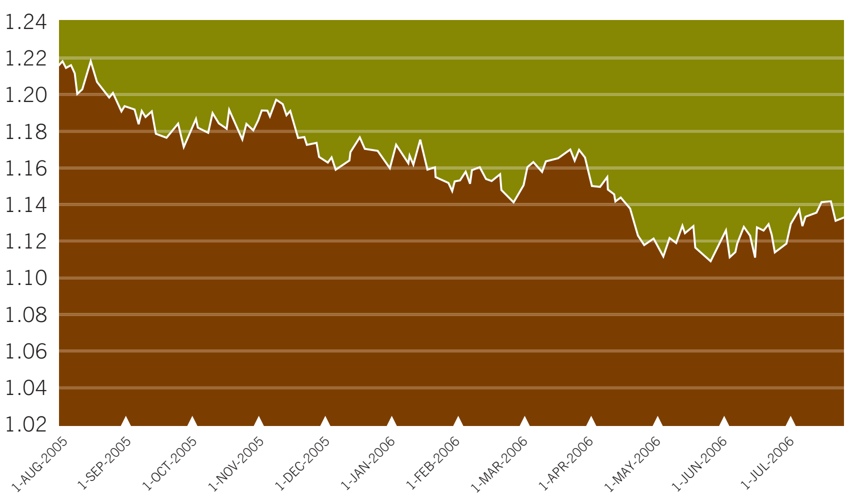
4. Strong Canadian dollar

The U.S. dollar continued its depreciation against all major currencies in 2005-06, including the Canadian dollar. Record commodity prices and a cooling U.S. economy coupled with a strong Canadian economy pushed the Canadian dollar to 25-year highs against the U.S. dollar, as we moved into 2006. Merger and acquisition activity also ensured that demand for the Canadian dollar remained high.

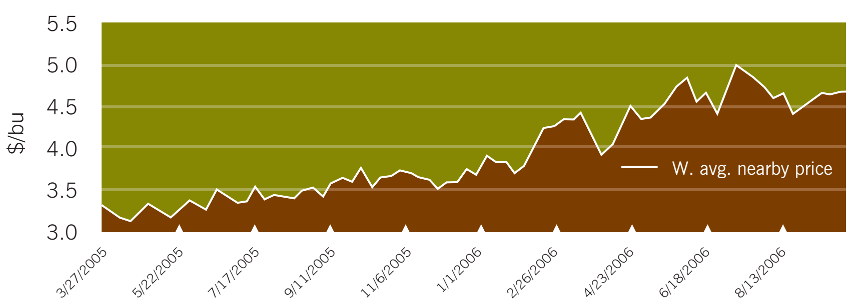
5. U.S. trade case victory

On December 12, 2005, a North American Free Trade Agreement (NAFTA) panel ruled that Canada Western Red Spring (CWRS) wheat should no longer be subject to U.S. import duties. Effective January 2, 2006, U.S. customs was ordered to allow CWRS wheat to flow into the U.S. without duty or liability. The U.S. market is a high-grade destination, so the limited availability of high-quality crops for the past two years has mitigated the damage of the U.S. 11.4-per-cent tariff. However, in high-quality years, the U.S. has been an attractive market for CWRS. With historical sales to the U.S. ranging between 1 and 1.2 million tonnes, the U.S. is a valuable destination for wheat grown on the eastern Prairies.

Bank of Canada USD/CAD noon rate



U.S. wheat futures (nearby Minneapolis, Kansas, Chicago)



OPERATIONAL EFFECTIVENESS

In September 2006, the CWB's board approved the corporate performance measures (CPM) results for 2005-06. Operational effectiveness measures, one subset of the 2005-06 CPM, include: percentage of grain marketed; sales price comparison; contribution from other revenue sources; and net demurrage/despatch. Each operational effectiveness target is based upon consultations with staff, an analysis of historical trends, consideration of future trends and input from senior management. It also undergoes a review by the board of directors. The individual 2005-06 operational effectiveness targets and the Corporation's performance are summarized here:

Measure	Target for 2005-06	Result for 2005-06
Percentage of grain marketed	Wheat – 100 per cent Durum – 65 per cent Designated barley – 100 per cent Feed barley – 100 per cent	Wheat – 96.6 per cent Durum – 70.1 per cent Designated barley – 100 per cent Feed barley – 100 per cent
Sales price comparison (Net price spread realized by the CWB compared to competitors' values for wheat, durum and barley sales.)	Wheat – $5.65 Durum – $4.75 Designated barley – $5.00	Wheat – $8.66 Durum – $5.98 Designated barley – $7.77
Contribution from other revenue sources (Includes items such as net interest earnings from rescheduled receivables, discretionary commodity and foreign-exchange transactions, transportation earnings from tendering and railway terminal agreements.)	Total – $62.7 million	Total – $83.5 million
Net demurrage/despatch	Net zero	Net despatch – $4.6 million

THE WHEAT POOL

	2005-06	2004-05
Receipts (tonnes)	**11 971 249**	**13 296 295**
Revenue (per tonne)	**$ 186.94**	$ 190.55
Direct costs	**22.05**	20.08
Net revenue from operations	**164.89**	170.47
Other income	**8.05**	8.29
Net interest earnings	**2.14**	2.95
Administrative expenses	**(3.73)**	(3.57)
Grain industry organizations	**(0.11)**	(0.08)
Earnings for distribution	**$ 171.24**	$ 178.06

The strategy

The CWB manages marketing risk and price volatility by pricing grain throughout the year, while matching logistical capacity 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 the CWB to take advantage of market opportunities that arise over the course of the year.

The customer mix of the CWB is structured to maximize revenue, subject to logistical, market and crop conditions. As 2005-06 represented the second consecutive year where grade pattern and average protein content were well below normal, carry-in stocks available for blending with new crop production were also of lower-than-average quality, limiting the volume of high-grade, high-protein milling wheat available for sale in 2005-06. Complicating matters was the fact that global competition in the lower grade, lower protein segment of the milling wheat market was intense throughout most of the year, pressuring returns.

The limited supplies of high-grade, high-protein wheat were targeted to premium markets to maintain market share and maximize revenue. Sales to a number of customers that purchase higher protein milling wheat were curtailed, due to the tightness of our high-protein supplies. As was the case in 2004-05, and considering the limited supplies of higher grade, high-protein milling wheat produced, customers were shifted towards lower grade, lower protein wheat to the extent possible and as overall quality permitted.

The deliveries

Delivery opportunities for wheat varied depending on the contract series, grade and class. All Series A wheat was accepted at 80 per cent, with the exception of Canada Prairie Spring White (CPSW) wheat, Canada Western Extra Strong (CWES) wheat and Canada Western Feed (CWFW) wheat, which were accepted at 100 per cent. All Series B wheat was accepted at 100 per cent, with the exception of No. 1 and No. 2 Canada Western Red Spring (CWRS) wheat (13.4-per-cent-protein and lower) and No. 3 CWRS, which were accepted at 50 per cent. One hundred per cent of Series C contracts were accepted, with the exception of No. 3 CWRS wheat, of which zero per cent was accepted.

By mid-November, at least 40 per cent of Series A CWRS contracts were called for delivery. These calls were generally followed by contract terminations, in an effort to encourage CWRS deliveries into the system throughout the year. By late February, all high-protein No. 1 and No. 2 CWRS was called for delivery. All No. 3 CWRS was called by the end of March, while lower protein No. 1 and No. 2 CWRS was not fully called until the beginning of May. Later delivery calls were also seen for Canada Western Red Winter (CWRW) wheat. Slower movement for lower quality wheat reflected large supplies relative to demand and aggressive competition from sellers of low-quality wheat in international markets early on in the crop year.

Early delivery opportunities were seen for CWES and CPSW, with 100 per cent of Series A contracts called by early November to acquire sufficient quantities at port for sale. By the end of November, 100 per cent of Series A CWFW contracts had been called. Further deliveries of CWFW were secured through seven Guaranteed Delivery Contracts (GDCs). All Series A Canada Prairie Spring Red (CPSR) wheat was called by mid-February to meet spring sales commitments.

As usual, calls for Canada Western Soft White Spring (CWSWS) wheat deliveries were spread throughout the year, reflecting the pace of domestic demand.

Deliveries of all non-durum wheat totalled 12 million tonnes, a decrease from 13.3 million tonnes the previous year. Deliveries were accepted into the wheat pool up until October 6, 2006.

The results

The domestic market represented the CWB's single largest market in 2005-06, accounting for 2.15 million tonnes of sales. A total of 9.83 million tonnes of wheat was marketed to offshore markets in 2005-06, compared to 10.61 million tonnes in 2004-05. The CWB's second largest wheat customer was Japan, purchasing 1.14 million tonnes of wheat compared to 856 000 tonnes in 2004-05, maintaining its steady demand for high-quality Canadian milling wheat. The sales volume to Sri Lanka increased dramatically in 2005-06 to 1.04 million tonnes, due in large part to the significant volume of lower grade, lower protein milling wheat available for export. Sales to Mexico accounted for 969 000 tonnes of total sales in 2005-06, representing an increase in sales volume of 305 000 tonnes, versus 2004-05 at 664 000 tonnes. Indonesian purchases were relatively steady in 2005-06 compared to 2004-05 (824 000 tonnes).

Total revenue in the wheat pool was $2.24 billion on 11.97 million tonnes of receipts. This represented an average gross revenue of $186.94 per tonne, down from the average of $190.55 per tonne the previous year. The substantial strengthening of the Canadian dollar versus the U.S. dollar over the course of the year (which reduced the Canadian dollar value of sales), combined with the limited availability of high-grade and high-protein wheat due to poor harvest weather, were the two major factors that contributed to the decline in average returns versus 2004-05. The final pool return for No. 1 CWRS with 13.5-per-cent protein (net of all costs) was $195.14 per tonne in store Vancouver/St. Lawrence, compared to $205 per tonne a year ago. The protein spread between 11.5 per cent and 13.5 per cent was $15.50 per tonne, compared to $15 per tonne the previous year, due to the very limited supplies of high-grade, high-protein North American milling wheat. Given abundant supplies of lower grade milling wheat supplies globally and intense competition in that segment of the market for almost the entire marketing year, final pool returns for No. 3 CWRS and No. 2 CPSR were $152.79 and $137.01 per tonne respectively, compared to $166 and $157 per tonne respectively, in 2004-05.

Direct costs

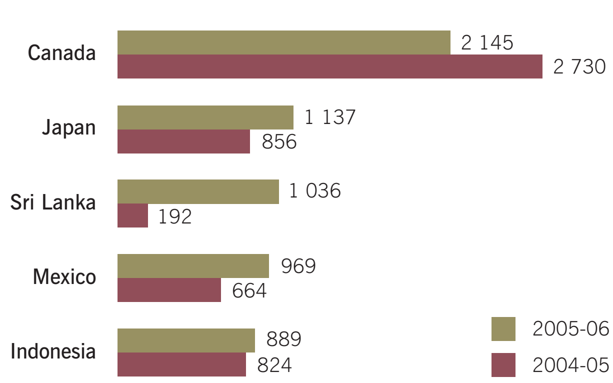
Direct costs increased $1.97 per tonne to $22.05, primarily due to increases in freight and terminal handling, offset by a reduction in other direct expenses. More specifically:

- Ocean-freight costs were significantly higher as a result of increased Cost, Insurance & Freight (CIF) sales volume through the ports, despite slightly lower ocean rates on a per-tonne basis. This was offset by overall lower U.S./Gulf-freight expense, due to a stronger Canadian dollar and an almost non-existent Mexico rail-shipping program (a result of major freight rate increases).

THE DOMESTIC MARKET REPRESENTED THE CWB'S SINGLE LARGEST MARKET IN 2005-06, ACCOUNTING FOR 2.15 MILLION TONNES OF SALES.

Largest volume wheat customers

(2005-06 and 2004-05 sales in 000's tonnes)



- Terminal handling was impacted by much higher fobbing charges. This was a result of the higher sales volume on CIF and fobbing contracts, despite a slight decrease in the average fobbing per-tonne rate due to an increased volume of shipments to the eastern ports. Artificial drying increased dramatically, the result of the large amount of poor-quality and damp crop that had to be artificially dried to meet No. 2 and No. 3 CWRS sales commitments.
- A net demotion of wheat stocks was reported 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 CWRS.
- There was a decrease in other direct expenses due to lower demurrage resulting from the ability to better match grain needs with shipment periods and decreased per-tonne premiums paid in varietal seed programs in 2005-06.

Other income

The net decrease is primarily due to a reduction in the freight-adjustment factor recovery, resulting from a decline in tonnes moving through the Thunder Bay catchment and the smaller pool size, as well as the fact that there was no PPO program allocation in 2005-06.

Distribution of earnings

The average sales proceeds available for distribution decreased four per cent or $6.82 per tonne, to $171.24. Of the amounts returned to pool participants, 90 per cent was distributed by April 18, 2006 in the form of initial and adjustment payments. A further five per cent, or $8 per tonne, was recommended as an interim payment and is pending approval by the Minister.

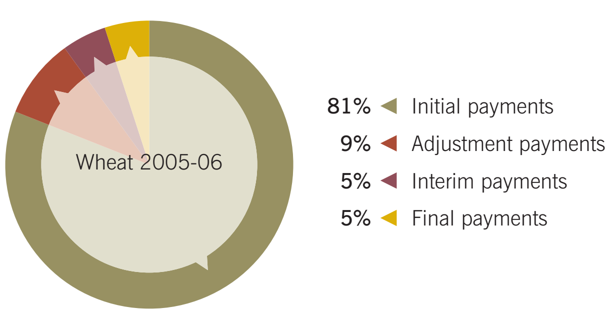
PPOs, like FPCs and BPCs, are designed to operate independently of the pool and therefore do not impact the pool's net results. Just under $117 million of sales returns were paid from the wheat pool to the PPO program, representing the return on the specific grades and classes of wheat delivered under FPCs and BPCs. The PPO program in turn paid farmers at the respective contracted price.

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006		2005	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	11 971 249		13 296 295	
Revenue	**$ 2,237,944**	**$ 186.94**	**$ 2,533,640**	**$ 190.55**
Direct costs				
Freight	108,496	9.06	106,536	8.01
Terminal handling	102,106	8.53	83,784	6.30
Inventory storage	38,452	3.21	40,763	3.07
Country inventory financing	4,649	0.39	3,649	0.27
Inventory adjustments	(18,740)	(1.57)	(8,683)	(0.65)
Other grain purchases	11,488	0.96	10,800	0.81
Other direct expenses	17,570	1.47	30,254	2.27
Total direct costs	**264,021**	**22.05**	**267,103**	**20.08**
Net revenue from operations	**1,973,923**	**164.89**	**2,266,537**	**170.47**
Other income	96,404	8.05	110,338	8.29
Net interest earnings	25,578	2.14	39,211	2.95
Administrative expenses	(44,625)	(3.73)	(47,508)	(3.57)
Grain industry organizations	(1,319)	(0.11)	(1,076)	(0.08)
Earnings for distribution	**$ 2,049,961**	**$ 171.24**	**$ 2,367,502**	**$ 178.06**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
Earnings distributed to pool participants				
Receipts (tonnes)	11 282 096		12 125 384	
Initial payments on delivery	$ 1,577,033	$ 139.78	$ 1,690,743	$ 139.44
Adjustment payments	171,981	15.24	178,271	14.70
Interim payment	90,256	8.00	127,387	10.51
Final payment	94,094	8.34	146,115	12.05
Total earnings distributed to pool participants	1,933,364	171.36	2,142,516	176.70
Non-pool Producer Payment Options program				
Receipts (tonnes)	689 153		1 170 911	
Sales returns paid to payment program	116,597	169.19	224,986	192.15
Total distribution	**$ 2,049,961**	**$ 171.24**	**$ 2,367,502**	**$ 178.06**

Earnings distributed to farmers



THE DURUM POOL

	2005-06		2004-05	
Receipts (tonnes)		4 308 906		3 823 967
Revenue (per tonne)	$	**200.56**	$	216.37
Direct costs		**33.76**		28.33
Net revenue from operations		**166.80**		188.04
Other income		**5.02**		4.23
Net interest earnings		**1.31**		1.97
Administrative expenses		**(3.73)**		(3.57)
Grain industry organizations		**(0.11)**		(0.08)
Earnings for distribution	$	**169.29**	$	190.59

The strategy

Durum yields were well above-average, thanks to good growing conditions. However, as was the case with wheat, conditions during the durum harvest were poor, resulting in a below-average grade pattern. Durum production reached 5.92 million tonnes in 2005-06, compared to the record level of 6.04 million tonnes set in 1998-99. The large crop, combined with durum carry-in, resulted in a record supply of durum in Western Canada. Maximizing market share in both traditional and non-traditional durum markets was imperative if carry-out stocks were to be reduced to manageable levels. The large volume of lower grade durum presented a marketing challenge, with only limited demand for this quality of grain from traditional durum customers. The CWB strategy was to target both existing and new customers to maximize movement opportunities and use Guaranteed Delivery Contracts (GDCs) to link the farm supplies of this quality of durum to those sales opportunities.

The deliveries

Durum acceptance varied by contract series and market potential. Fifty per cent of all grades of Canada Western Amber Durum (CWAD) wheat signed up under Series A contracts were accepted. Adequate supplies and limited customer demand did not warrant further acceptance of any CWAD under Series B contracts. However, stronger demand later in the crop year presented additional marketing opportunities, requiring a 25-per-cent acceptance on Series C durum contracts.

Generally, delivery opportunities for most CWAD grades were evenly spaced throughout the crop year, with the exception of Nos. 4 and 5 CWAD, which were fully called by late January. Additional supplies of Nos. 4 and 5 CWAD were secured through eight GDCs. Total deliveries to the durum pool were 4.3 million tonnes, reflecting a record export program of 4.2 million tonnes. Pool deliveries were up from 3.8 million tonnes the previous year. In total, the CWB accepted 70.1 per cent of the total durum offered by farmers. The last delivery accepted into the durum pool was on October 6, 2006.

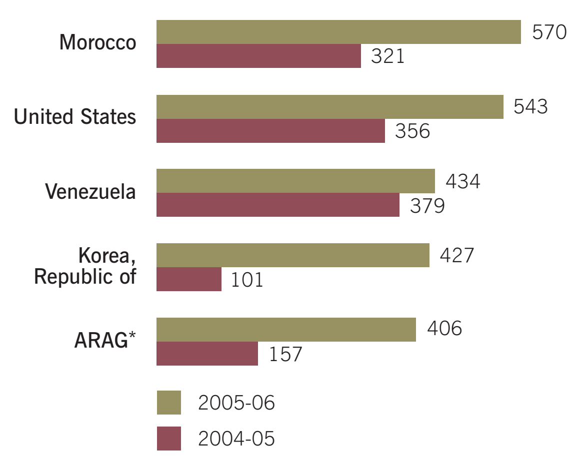
The results

Offshore markets accounted for 4.06 million tonnes of durum sales this year, compared to 3.56 million tonnes in 2004-05. Sales opportunities were aggressively pursued and initial volume targets were exceeded in a number of key durum markets. Morocco was the largest CWB market for durum, as sales increased to 570 000 tonnes in 2005-06, due in part to reduced domestic production on account of drought. U.S. demand for Canadian durum was also stronger, due partially to limited availability of U.S. durum later in the marketing year; sales rose to 543 000 tonnes, versus 356 000 tonnes in 2004-05. Venezuelan demand for Canadian durum was stronger in 2005-06, accounting for 434 000 tonnes of sales. Sales to Korea were 427 000 tonnes, as the CWB maximized sales of lower grade durum to this non-traditional durum market. Sales to Amsterdam, Rotterdam, Antwerp and Ghent (ARAG) increased to 406 000 tonnes, versus 157 000 in 2004-05. Durum quality problems in Europe were partly responsible for the stronger demand for high-quality milling durum. The stronger Canadian dollar versus its U.S. counterpart was the main driver behind reduced average per-tonne returns, compared to the previous year.

Gross revenues in the durum pool amounted to $864.2 million on 4.31 million tonnes of receipts for an average of $200.56 per tonne, down from the average of $216.37 per tonne in 2004-05.

Largest volume durum customers

(2005-06 and 2004-05 sales in 000's tonnes)



* Amsterdam, Rotterdam, Antwerp, Ghent

The stronger Canadian dollar versus the U.S. dollar (compared to 2004-05) meant that the average price per tonne in Canadian dollars was pressured lower. Global durum market fundamentals were not as strong as they were in 2004-05 for most of the year, also impacting returns. Final pool returns for No. 1 CWAD with 13-per-cent protein fell from $214 per tonne in store Vancouver/ St. Lawrence to $193.33 per tonne. As western Canadian durum protein content levels were well-below average, the protein spread between 11.5 per cent and 13 per cent remained wide at $13.92 per tonne, compared to $13 per tonne a year ago. The final pool return for No. 3 CWAD was $152.72 per tonne, versus $176 per tonne in 2004-05.

Direct costs

Direct costs increased by $5.43 per tonne to $33.76, due primarily to higher freight charges and grain purchases, offset by a decrease in inventory demotions and inventory storage.

More specifically:

- Freight charges increased, due to higher sales volumes both into the U.S. and through the eastern ports, combined with an increased average freight rate per tonne.
- Higher levels of grain purchases were made for the 2005-06 crop year, again the result of the large volume of producer receipts received subsequent to the 2004-05 crop year's end date and accepted in 2005-06.
- Reported demotion of durum stocks decreased during the year compared to 2004-05. Grade demotions were reported predominantly on No. 1 CWAD.
- Inventory storage declined from 2004-05; the result of no on-farm storage for the 2005-06 durum Identity Preserved Contract Program (IPCP).

Other income

The net increase is primarily due to increased sourcing from country and additional tonnes moving through the U.S., offset by no Producer Payment Options (PPO) program allocation in 2005-06.

Distribution of earnings

The average sales proceeds available for distribution decreased 11 per cent (or $21.30 per tonne) to $169.29. Of the amounts returned to pool participants, 92 per cent was distributed by August 9, 2006 in the form of initial and adjustment payments. A further six per cent, or $10 per tonne, was recommended as an interim payment and is pending approval by the Minister.

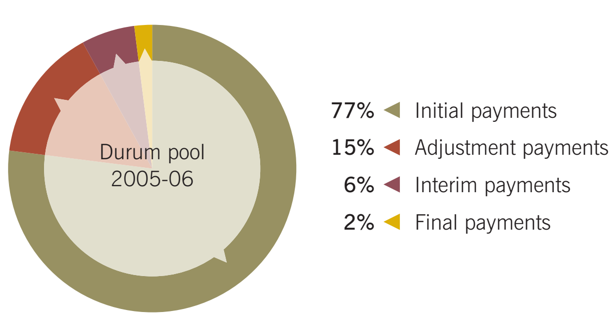
FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006		2005	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**4 308 906**		**3 823 967**	
Revenue	**$ 864,199**	**$ 200.56**	**$ 827,390**	**$ 216.37**
Direct costs				
Freight	81,824	18.99	60,621	15.85
Terminal handling	28,811	6.69	23,978	6.27
Inventory storage	14,896	3.46	17,676	4.62
Country inventory financing	1,365	0.32	1,113	0.29
Inventory adjustments	(1,980)	(0.47)	(10,361)	(2.71)
Other grain purchases	14,717	3.42	10,596	2.77
Other direct expenses	5,816	1.35	4,804	1.24
Total direct costs	**145,449**	**33.76**	**108,427**	**28.33**
Net revenue from operations	**718,750**	**166.80**	**718,963**	**188.04**
Other income	21,620	5.02	16,187	4.23
Net interest earnings	5,622	1.31	7,576	1.97
Administrative expenses	(16,062)	(3.73)	(13,663)	(3.57)
Grain industry organizations	(475)	(0.11)	(309)	(0.08)
Earnings for distribution	**$ 729,455**	**$ 169.29**	**$ 728,754**	**$ 190.59**

* Excludes operation of Producer Payment Options program

	2006		2005	
	Total	Per tonne	Total	Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**4 306 248**		**3 823 579**	
Initial payments on delivery	$ 559,368	$ 129.90	$ 540,979	$ 141.48
Adjustment payments	113,643	26.39	88,275	23.09
Interim payment	43,062	10.00	54,223	14.18
Final payment	12,948	3.01	45,192	11.82
Total earnings distributed to pool participants	729,021	169.30	728,669	190.57
Non-pool Producer Payment Options program				
Receipts (tonnes)	**2 658**		**388**	
Sales returns paid to payment program	434	163.38	85	217.99
Total distribution	**$ 729,455**	**$ 169.29**	**$ 728,754**	**$ 190.59**

For producer receipts delivered under the Fixed Price Contract (FPC) program, $434 million 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



THE DESIGNATED BARLEY POOL

		2005-06		2004-05
Receipts (tonnes)		1 464 682		1 752 501
Revenue (per tonne)	$	**169.57**	$	177.30
Direct costs		**24.82**		20.57
Net revenue from operations		**144.75**		156.73
Other income		**21.05**		20.02
Net interest earnings		**0.91**		1.05
Administrative expenses		**(3.73)**		(3.57)
Grain industry organizations		**(0.16)**		(0.13)
Earnings for distribution	$	**162.82**	$	174.10

The strategy

Western Canadian malting barley quality was below-average for the second consecutive year, limiting the volume of barley that met malting standards. The CWB strategy was to maximize malting barley sales early on in the marketing program for two reasons. First, given the quality problems in the malting barley crop, priority was given to early movement to the extent it was possible in order to avoid the possibility of malting barley going out of condition. Second, sales were maximized early, prior to the availability of new crop Australian malting barley supplies, which were expected to pressure international malting barley prices.

The deliveries

The wet harvest conditions significantly reduced the amount of selectable two-row and six-row barley, as much of the barley crop had considerable staining and varying degrees of pre-germination.

The majority of two-row delivery opportunities took place near the beginning of the crop year. The Australian crop was well above average and of good quality, which resulted in reduced marketing opportunities for western Canadian farmers in the second half of the crop year. Total receipts were 1.46 million tonnes, down from 1.75 million tonnes the year before. The reduction was primarily due to falling germinations later in the year. Deliveries were accepted into the designated barley pool up until September 15, 2006.

The results

Malting barley sold to the domestic market amounted to 749 000 tonnes, compared to 839 000 tonnes in 2004-05, as production problems with the Canadian crop limited the supply of selectable malting barley. China remained the single largest export market for malting barley, although sales declined from 678 000 tonnes to 404 000 tonnes; the export program was limited later in the year in part due to aggressive Australian competition, plentiful Australian supplies and quality concerns on the part of buyers. Sales volume to the Caribbean region increased to 97 000 tonnes due to stronger demand for Canadian export malt. Sales volume to the U.S. remained low at 67 000 tonnes, as six-row malting barley supplies were limited due to poor harvest weather and U.S. end-user stocks were relatively abundant.

Gross returns in the designated barley pool were $248.36 million on 1.46 million tonnes of receipts, translating into an average gross revenue of $169.57 per tonne versus $177.30 per tonne in 2004-05. The strength of the Canadian dollar versus the U.S. dollar, as well as increased global availability of malting barley supplies (particularly in Australia) versus 2004-05 impacted returns. The final pool return for Special Select two-row barley in store Vancouver/St. Lawrence was $168.45 per tonne, compared to $179 per tonne a year ago. The final pool return for Special Select six-row barley was $160.87 per tonne, compared to $166 per tonne in 2004-05. The No. 1 Canada Western Feed barley versus Special Select two-row barley spread increased from $48 per tonne in 2004-05, to $52.03 per tonne.

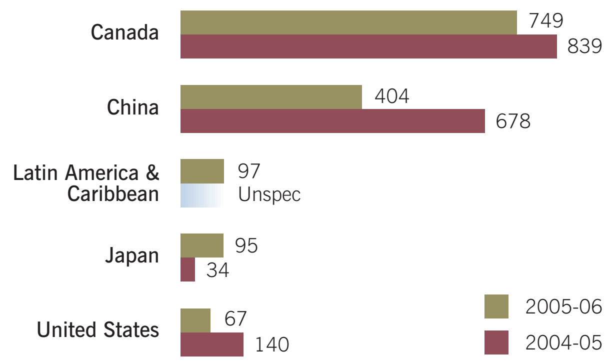
Direct costs

Direct costs increased $4.25 per tonne to $24.82, primarily due to higher freight costs and increased grain purchases, offset by a slight reduction in inventory storage. More specifically:

- Despite a reduction in ocean rates per tonne, ocean- freight costs remain high, as a significant proportion of the pool was exported and the CWB was responsible for ocean freight payment.
- Significantly higher levels of late receipts were accepted in the 2005-06 year, due to contractual commitments, compared to the 2004-05 crop year.
- Inventory storage declined from last year, due to a reduction in average country inventory levels offset slightly by an increase in storage rate.

Largest volume designated barley customers

(2005-06 and 2004-05 sales in 000's tonnes)



FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	1 464 682		1 752 501	
Revenue	**$ 248,361**	**$ 169.57**	**$ 310,711**	**$ 177.30**
Direct costs				
Freight	13,823	9.44	13,753	7.85
Terminal handling	4,723	3.22	5,136	2.93
Inventory storage	11,640	7.95	14,676	8.37
Country inventory financing	518	0.35	684	0.39
Inventory adjustments	(189)	(0.13)	196	0.11
Other grain purchases	6,208	4.24	2,458	1.40
Other direct expenses	(373)	(0.25)	(830)	(0.48)
Total direct costs	**36,350**	**24.82**	**36,073**	**20.57**
Net revenue from operations	**212,011**	**144.75**	**274,638**	**156.73**
Other income	30,834	21.05	35,095	20.02
Net interest earnings	1,331	0.91	1,848	1.05
Administrative expenses	(5,460)	(3.73)	(6,262)	(3.57)
Grain industry organizations	(241)	(0.16)	(222)	(0.13)
Earnings for distribution	**$ 238,475**	**$ 162.82**	**$ 305,097**	**$ 174.10**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	1 463 476		1 752 455	
Initial payments on delivery	$ 193,088	$ 131.94	$ 245,659	$ 140.18
Adjustment payments	34,998	23.91	35,953	20.52
Interim payment	7,317	5.00	–	–
Final payment	2,873	1.96	23,477	13.40
Total earnings distributed to pool participants	238,276	162.81	305,089	174.10
Non-pool Producer Payment Options program				
Receipts (tonnes)	1 206		46	
Sales returns paid to payment program	199	165.18	8	174.57
Total distribution	**$ 238,475**	**$ 162.82**	**$ 305,097**	**$ 174.10**

Other income

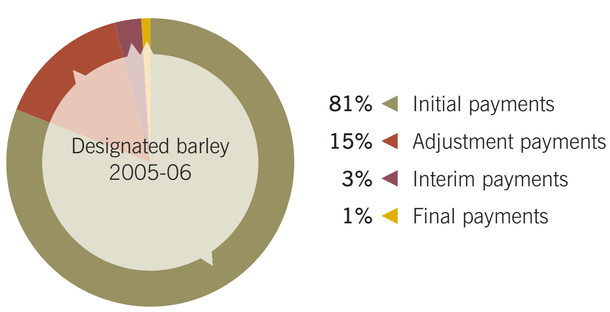
The increase in other income is primarily attributed to a greater percentage of grain sourced from country position, which resulted in lower rail-freight clawback income. Maltsters were able to source grain this year closer to their processing plants.

Distribution of earnings

The average sales proceeds available for distribution decreased six per cent, or $11.28 per tonne, to $162.82. Of the amounts returned to pool participants, 96 per cent was distributed by August 9, 2006, in the form of initial and adjustment payments. A further three per cent, or $5 per tonne, was recommended as an interim payment and is pending approval by the Minister.

Just a little over $199,000 of sales returns were paid from the designated barley pool to the PPO program, representing the return on the specific grades and classes of barley delivered under the FPC and BPC. The PPO program in turn, paid farmers at the respective contracted price.

Earnings distributed to farmers



WESTERN CANADIAN MALTING BARLEY QUALITY WAS BELOW-AVERAGE FOR THE SECOND CONSECUTIVE YEAR, LIMITING THE VOLUME OF BARLEY THAT MET MALTING STANDARDS.

THE FEED BARLEY POOL A

		2005-06		2004-05
Receipts (tonnes)		**915 783**		**29 022**
Revenue (per tonne)	**$**	**138.84**	$	153.31
Direct costs		**9.08**		89.60
Net revenue from operations		**129.76**		63.71
Other income		**0.32**		20.76
Net interest earnings		**2.46**		85.55
Administrative expenses		**(3.52)**		(3.57)
Grain industry organizations		**(0.09)**		(0.09)
Earnings for distribution		**128.93**		166.36
Transferred to Contingency fund		**–**		51.15
Earnings distributed to pool participants	**$**	**128.93**	$	115.21

The strategy

Opportunities for the CWB to market significant volumes of feed barley for export presented themselves throughout the duration of pool A, given positive global feed barley market fundamentals and sustained farmer interest in marketing feed barley through the CWB. The CWB strategy was to take advantage of each and every window of opportunity to move feed barley, until farmers' interest in delivering to the feed barley pool was satisfied. Exclusive use of Guaranteed Delivery Contracts (GDCs), in combination with tendering through the grain companies, successfully facilitated precise matching of farmer interest to buyer demand and ensured timely loading and sales execution.

THE CWB STRATEGY WAS TO TAKE ADVANTAGE OF EACH AND EVERY WINDOW OF OPPORTUNITY TO MOVE FEED BARLEY, UNTIL FARMERS' INTEREST IN DELIVERING TO THE FEED BARLEY POOL WAS SATISFIED.

The deliveries

Farmer interest in marketing feed barley through the CWB was sustained throughout the duration of pool A, as returns in the export market were relatively more attractive than the domestic market. GDCs were also an important factor in creating farmer interest in marketing feed barley through the CWB, given greater certainty surrounding cash flow and timing of delivery. Higher-than-normal barley yields in Western Canada for 2005-06, and a general abundance of feed grains in the domestic market due to adverse weather conditions during harvest were also factors that influenced farmers' feed barley marketing decisions and resulted in total feed barley receipts for pool A of 915 783 tonnes. The last delivery accepted into pool A was on February 17, 2006.

The results

A combination of factors contributed to the large size of pool A, namely production problems with key exporters, timely demand from importers in relation to export availability from competitors, low ocean-freight rates and sustained farmer interest in marketing feed barley for export through the CWB.

Sales to Middle East destinations represented 663 000 tonnes of total Feed Barley exports of pool A, while Japan represented 260 000 tonnes of sales.

In total, feed barley pool A returned $127.15 million in gross revenues on 915 783 tonnes of receipts, or an average of $138.84 per tonne. Final pool returns for No. 1 Canada Western Feed barley in store Vancouver/St. Lawrence yielded $130.20 per tonne, compared to $116.72 the previous year.

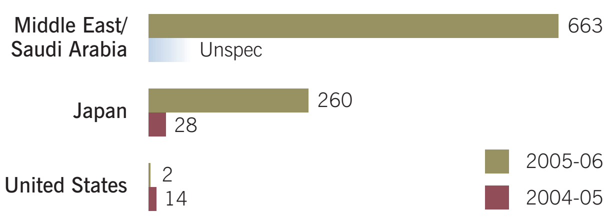
Direct costs

The change in pool size of the 2005-06 pool A caused greater volatility in the per-tonne rate calculated compared to 2004-05 pool A. As such, direct costs reflect a decreased per-tonne cost of $80.52, which is primarily due to:

- Terminal handling costs. These costs are reasonable relative to the volume shipped, but costs on a per-tonne basis dramatically decreased due to the significantly larger pool size;

Largest volume feed barley pool A customers

(2005-06 and 2004-05 sales in 000's tonnes)



FOR THE CROP YEAR ENDED JANUARY 31 (dollar amounts in 000's)	2006				2005			
		Total		Per tonne		Total		Per tonne
STATEMENT OF POOL OPERATIONS*								
Receipts (tonnes)		**915 783**				**29 022**		
Revenue	**$**	**127,152**	**$**	**138.84**	**$**	**4,449**	**$**	**153.31**
Direct costs								
Freight		47		0.05		(21)		(0.73)
Terminal handling		4,118		4.50		342		11.79
Inventory storage		936		1.02		199		6.86
Country inventory financing		55		0.06		10		0.34
Inventory adjustments		235		0.26		23		0.79
Other grain purchases		2,300		2.51		1,552		53.46
Other direct expenses		623		0.68		495		17.09
Total direct costs		**8,314**		**9.08**		**2,600**		**89.60**
Net revenue from operations		**118,838**		**129.76**		**1,849**		**63.71**
Other income		291		0.32		602		20.76
Net interest earnings		2,256		2.46		2,483		85.55
Administrative expenses		(3,222)		(3.52)		(104)		(3.57)
Grain industry organizations		(82)		(0.09)		(2)		(0.09)
Earnings for distribution	**$**	**118,081**	**$**	**128.93**	**$**	**4,828**	**$**	**166.36**
STATEMENT OF DISTRIBUTION								
Earnings distributed to pool participants								
Receipts (tonnes)		**915 440**				**28 913**		
Initial payments on delivery	$	79,946	$	87.33	$	2,385	$	82.46
Adjustment payments		15,094		16.48		–		–
Interim payment		9,154		10.00		578		20.00
Final payment		13,842		15.12		368		12.75
Total earnings distributed to pool participants		118,036		128.93		3,331		115.21
Transferred to Contingency fund								
Undistributed earnings		–		–		1,484		51.15
Non-pool Producer Payment Options program								
Receipts (tonnes)		**343**				**109**		
Sales returns paid to payment program		45		129.87		13		116.72
Total distribution	**$**	**118,081**	**$**	**128.93**	**$**	**4,828**	**$**	**166.36**

* Excludes operation of Producer Payment Options program

- Other grain purchases consisting of overages and late receipts on which calculated per-tonne costs dramatically decreased due to significantly larger pool size (net margin return realized on these purchased tonnes were all distributed to the pool A participants);
- Other direct expenses, which reflect collective impact of accrual differences in 2004-05.

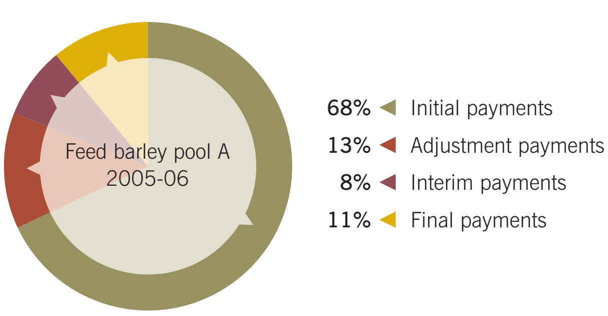
Other income

The net decrease is primarily attributed to increased sales to the Middle East and the resulting decline in the rail-freight clawback.

Distribution of earnings

The average sales proceeds available for distribution were $128.93 per tonne. Of the amounts returned to pool participants, 81 per cent was distributed in the form of initial payments. A further eight per cent, or $10 per tonne, was distributed as an interim payment on May 9, 2006.

Earnings distributed to farmers



DURING THE SPRING AND SUMMER MONTHS OF 2005, GLOBAL FEED BARLEY MARKET FUNDAMENTALS STRENGTHENED, AS EXPORTABLE SUPPLIES OF OUR KEY COMPETITORS TIGHTENED DUE PRIMARILY TO CROP PRODUCTION PROBLEMS.

THE FEED BARLEY POOL B

	2005-06	2004-05
Receipts (tonnes)	127 464	468 736
Revenue (per tonne)	$ 162.26	$ 134.73
Direct costs	32.57	6.50
Net revenue from operations	129.69	128.23
Other income	0.98	2.59
Net interest earnings	10.60	4.83
Administrative expenses	(3.73)	(3.57)
Grain industry organizations	(0.11)	(0.08)
Earnings for distribution	137.43	132.00
Transferred to Contingency fund	6.19	1.69
Earnings distributed to pool participants	$ 131.24	$ 130.31

The strategy

Similar to the previous year (though not to the same extent) global feed barley market fundamentals in 2005 strengthened during the spring and summer months, as exportable supplies of our key competitors tightened due primarily to crop production problems. This development provided an opportunity for the CWB to achieve incrementally higher net returns during the course of feed barley pool B. As the positive developments in the feed barley price outlook unfolded, farmer interest in marketing feed barley supplies through the CWB increased.

The CWB feed barley marketing strategy was to fully exploit feed barley marketing opportunities as they arose, to the extent farmer feed barley commitments provided, ensuring efficient origination and execution through the use of GDCs and tendering.

The deliveries

Total feed barley receipts for pool B were 127 464 tonnes. Following an upsurge in ocean-freight rates and the Australian harvest in December of a near record barley harvest, opportunities to export feed barley at good free on board (FOB) values diminished significantly.

The pool B Pool Return Outlook (PRO) was attractive to producers primarily in the Peace River. Limited sales were made to Japan. Deliveries into pool B were accepted up until September 15, 2006.

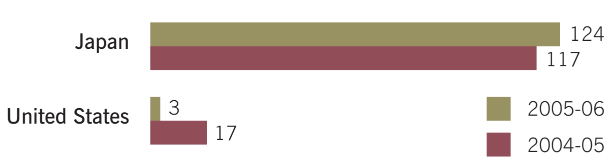
The results

Feed barley sales to Japan amounted to 124 000 tonnes, as marketing opportunities arose due to limited competition from Australia and the United States. Marketing opportunities to the Middle East were limited, compared to 2004-05. Feed barley marketing was focused on Japan, where higher average returns could be achieved.

Gross revenue in feed barley pool B was $20.68 million on 127 464 tonnes of receipts, representing an average of $162.26 per tonne, versus $134.73 per tonne in the previous year. The final pool return for No. 1 Canada Western feed barley in store Vancouver/St. Lawrence was $131.68 per tonne, unchanged from 2004-05.

Largest volume feed barley pool B customers

(2005-06 and 2004-05 sales in 000's tonnes)



Direct costs

The small pool size of the 2005-06 pool B caused greater volatility in the per-tonne rate calculated. As such, direct costs reflect an increased per tonne cost of $26.07, which is primarily due to:

- Terminal handling costs (which have not changed significantly); however, costs on a per-tonne basis dramatically increased due to the small pool size fluctuation;
- Other grain purchases consisting of overages and late receipts on which calculated per-tonne costs dramatically increased due to pool size fluctuation (net margin return realized on these purchased tonnes were all distributed to the pool B participants).
- Other direct expenses that include accrual differences, which are offset by a proportionate allocation of interest earnings prior to any net interest transfer to the Contingency fund.

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006		2005	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	127 464		468 736	
Revenue	**$ 20,682**	**$ 162.26**	**$ 63,153**	**$ 134.73**
Direct costs				
Freight	168	1.31	312	0.66
Terminal handling	1,503	11.79	1,383	2.95
Inventory storage	243	1.91	784	1.67
Country inventory financing	31	0.24	33	0.07
Inventory adjustments	16	0.13	7	0.02
Other grain purchases	1,111	8.72	197	0.42
Other direct expenses	1,080	8.47	335	0.71
Total direct costs	**4,152**	**32.57**	**3,051**	**6.50**
Net revenue from operations	**16,530**	**129.69**	**60,102**	**128.23**
Other income	125	0.98	1,219	2.59
Net interest earnings	1,351	10.60	2,266	4.83
Administrative expenses	(475)	(3.73)	(1,675)	(3.57)
Grain industry organizations	(14)	(0.11)	(38)	(0.08)
Earnings for distribution	**$ 17,517**	**$ 137.43**	**$ 61,874**	**$ 132.00**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	127 464		468 736	
Initial payments on delivery	$ 9,113	$ 71.49	$ 34,033	$ 72.61
Adjustment payments	–	–	–	–
Interim payment	5,863	46.00	18,759	40.02
Final payment	1,752	13.75	8,288	17.68
Total earnings distributed to pool participants	16,728	131.24	61,080	130.31
Transferred to Contingency fund				
Undistributed earnings	789	6.19	794	1.69
Total distribution	**$ 17,517**	**$ 137.43**	**$ 61,874**	**$ 132.00**

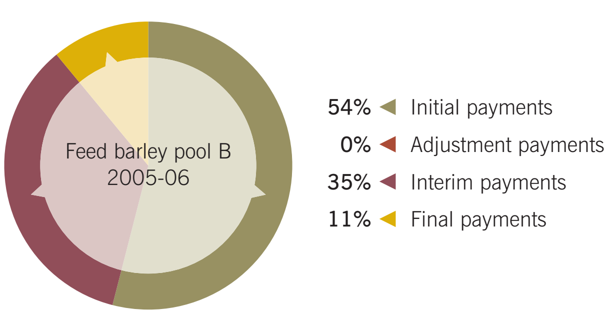
Other income

The net decrease is primarily attributed to decreased sales to the U.S. and the resulting decline in the rail-freight clawback.

Distribution of earnings

The average sales proceeds available for distribution were $137.43 per tonne. Of the amounts returned to pool participants, 54 per cent was distributed in the form of initial payments. A further 35 per cent, or $46 per tonne, was recommended as an interim payment and is pending approval by the Minister.

Earnings distributed to farmers



INDIRECT INCOME AND EXPENSES

Net interest earnings

(Dollars amounts in 000's)		2005-06		2004-05
Interest on credit sales				
Revenue on credit sales receivable	**$**	**152,041**	$	150,628
Expense on borrowings used to finance credit sales receivables		**119,975**		106,821
Net interest on credit sales		**32,066**		43,807
Interest revenue (expense) on pool account balances		**(1,267)**		5,609
Other interest				
Revenue		**7,558**		5,870
Expense		**2,219**		1,902
Net other interest revenue		**5,339**		3,968
Total net interest earnings	**$**	**36,138**	$	53,384

Administrative expenses

Administrative expenses increased $1.9 million or three per cent from the previous crop year, to $71.9 million.

This increase is mainly due to the write down of a system development project and related computer equipment. During the year, the Corporation initiated a comprehensive three-year systems development project to improve the efficiency of its supply chain. The Supply Chain Transformation (SCT) project replaced some previous systems development projects that were in progress. Seventy per cent of the prior systems development project-in-progress capitalized costs were transferred to the SCT project, with the remaining 30 per cent, or $2.4 million, being written down during the year.

The cost of salaries and benefits decreased slightly during the year, with the savings from staff reductions related to outsourcing being offset by a four-per-cent increase in remaining salaries. This was the first full year of our Information & Technology (I&T) outsourcing agreement, and the I&T salary savings, coupled with lower computer- services costs and I&T-related management-consulting costs, offset the increase outsourced costs.

Grain industry organizations

The CWB continued to provide support for organizations that benefit, both directly and indirectly, western Canadian grain farmers. During 2005-06, the CWB contributed $2.1 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 strategies, by providing technical information and educational programs to customers.

Net interest earnings of $36.1 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 terms between the receivable and the related borrowing. With the rates increasing during the year, the spread margin narrowed compared to 2004-05, as a result of timing differences between the change in CWB's borrowing interest rates and the date when the rescheduled lending rates were reset.

Net interest revenue has decreased in 2005-06, primarily as a result of these narrowing spreads and a significant decrease in outstanding balances partly offset by increasing interest rates. The reduced outstanding balances were due to sizable repayments from Algeria, Iraq, Poland and Russia during the year.

The interest on the pool account balances has decreased as a result of the net equity position in wheat being less 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. The increase is driven by higher average monthly balances on cash margin accounts, as a result of greater Fixed Price Contract (FPC) sign-up. Expenses, primarily from financing costs such as treasury fees and bank charges, make up the main portion of other interest expense.

THE CWB CONTINUED TO PROVIDE SUPPORT FOR ORGANIZATIONS THAT BENEFIT, BOTH DIRECTLY AND INDIRECTLY, WESTERN CANADIAN GRAIN FARMERS.

STATEMENT OF ADMINISTRATIVE EXPENSES

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2006		2005
Human resources	$	37,326	$	38,208
Office services		3,497		3,459
Professional fees		12,192		10,181
Computer services		1,634		2,549
Facilities		1,905		1,745
Travel		2,600		2,262
Advertising & promotion		1,639		1,928
Other		1,028		838
Training		819		546
Depreciation		9,104		10,239
Write down of system development and computer equipment asset		2,436		–
Recoveries		(2,252)		(1,965)
Total administrative expenses	**$**	**71,928**	**$**	**69,990**

PRODUCER PAYMENT OPTIONS (PPOS)

FINANCIAL RESULTS

1) Fixed Price Contract (FPC) Basis Price Contract (BPC) Daily Price Contract (DPC)

In 2005-06, there were 693 360 tonnes delivered to the FPC/BPC/DPC programs. This is a 478 094 tonne decline compared to 2004-05, and it primarily occurred in the wheat program. In 2004-05, prices early in the program were very attractive and significant sign-up occurred. Deliveries made under these programs are outside the pool accounts, with all returns (initial, interim and final payments) that otherwise would have been paid to farmers, being paid instead to these programs. This amounted to $117 million for wheat, $0.4 million for durum, $0.2 million for designated barley and $0.04 million for barley. When other revenues, like liquated damages and program expenses (including net hedging results, interest and administration expenses) are accounted for, the programs generated a net loss of $6.9 million. This loss is primarily attributable to wheat. This is in contrast to the previous year, where 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 significant gains.

The DPC is a new contract introduced in 2005-06. It offers producers an opportunity to capture daily cash prices, based on the U.S. market. A total of 73 904 tonnes was delivered to the program. Pool returns paid to this program were $12.8 million. After accounting for net hedging gains and liquated damages (offset by contracted values, interest and administrative expense), the program had a net deficit of $0.9 million.

2) Early Payment Options (EPO)

In the 2005-06 crop year, the EPO was expanded to include a 100-per-cent EPO for durum and designated barley. This is in addition to wheat and feed barley, which was introduced in 2004-05.

Tonnes delivered to EPO were similar in 2005-06 at 2 658 147 tonnes, compared 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 million. After accounting for liquated damages charged for no-delivery, net interest expense and net hedging results, a net surplus of $0.1 million was generated.

Effective 2005-06, the administration expense includes the full cost of running the programs, whereas previously it reflected only incremental costs and administration expenses being applied to the EPO programs. These changes were made to ensure consistency with the principle that these programs operate outside the pool account and are self-sufficient. The cost is recovered from program participants through the program discount. To the extent that the per-tonne cost included in the program discount differs from the actual charge, the Contingency fund will absorb the difference. This change was approved by the board of directors.

3) Pre-delivery Top-up (PDT)

Wheat growers who have taken a fall cash advance can apply for an additional $30 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. Repayments are received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. PDT payments of $5.9 million were issued to 323 farmers (compared to $0.7 million distributed to 67 farmers in 2004-05).

THE DPC IS A NEW CONTRACT INTRODUCED IN 2005-06. IT OFFERS PRODUCERS AN OPPORTUNITY TO CAPTURE DAILY CASH PRICES, BASED ON THE U.S. MARKET.

STATEMENT OF PRODUCER PAYMENT OPTIONS PROGRAM OPERATIONS

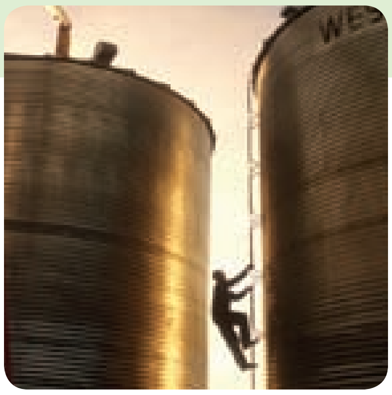
FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2006		2005
WHEAT PROGRAMS				
FIXED / BASIS / DAILY PRICE CONTRACT				
Receipts (tonnes)		**689 153**		**1 170 911**
Revenue				
Sales returns paid to program	$	116,597	$	224,986
Net hedging activity		–		57,249
Liquidated damages		917		1,185
Net interest		–		43
		117,514		283,463
Expense				
Contracted amounts paid to producers		123,234		246,327
Net hedging activity		170		–
Net interest		228		–
Administrative expense		729		299
		124,361		246,626
Surplus on program operations		**(6,847)**		**36,837**
Hedging gain distribution		**–**		**(5,060)**
Net surplus (deficit) on program operations	**$**	**(6,847)**	**$**	**31,777**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**1 080 124**		**1 854 711**
Revenue				
Program discount	$	1,544	$	3,219
Liquidated damages		73		110
		1,617		3,329
Expense				
Pool returns less than contracted price		647		299
Net hedging activity		579		305
Net interest		102		205
Administrative expense		400		–
		1,728		809
Net surplus (deficit) on program operations	**$**	**(111)**	**$**	**2,520**
Transfer to pool participants		**–**		**(7,354)**
TOTAL WHEAT PROGRAMS	**$**	**(6,958)**	**$**	**26,943**

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2006		2005
DURUM PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**2 658**		**388**
Revenue				
Sales returns paid to program	$	434	$	85
Net hedging activity		–		3
Liquidated damages		2		5
		436		93
Expense				
Contracted amounts paid to producers		429		77
Net hedging activity		37		–
Administrative expense		3		–
		469		77
Net surplus (deficit) on program operations	**$**	**(33)**	**$**	**16**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**402 084**		**531 306**
Revenue				
Program discount	$	532	$	379
Liquidated damages		48		23
		580		402
Expense				
Pool returns less than contracted price		29		–
Net hedging activity		228		123
Net interest		25		16
Administrative expense		149		–
		431		139
Net surplus on program operations	**$**	**149**	**$**	**263**
Transfer to pool participants		**–**		**(60)**
TOTAL DURUM PROGRAMS	**$**	**116**	**$**	**219**

STATEMENT OF PRODUCER PAYMENT OPTIONS PROGRAM OPERATIONS

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2006		2005
DESIGNATED BARLEY PROGRAMS				
FIXED PRICE CONTRACTS				
Receipts (tonnes)		**1 206**		**46**
Revenue				
Sales returns paid to program	$	199	$	8
Net hedging activity		17		–
Liquidated damages		7		–
		223		8
Expense				
Contracted amounts paid to producers		201		8
Net interest		2		–
Administrative expense		1		–
		204		8
Net surplus on program operations	**$**	**19**	**$**	**–**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**295 244**		**255 682**
Revenue				
Program discount	$	317	$	185
Net hedging activity		–		34
Liquidated damages		13		9
		330		228
Expense				
Pool returns less than contracted price		66		–
Net hedging activity		9		–
Net interest		25		9
Administrative expense		109		–
		209		9
Net surplus on program operations	**$**	**121**	**$**	**219**
Transfer to pool participants		**–**		**(47)**
TOTAL DESIGNATED BARLEY PROGRAMS	**$**	**140**	**$**	**172**

FOR THE SIX MONTHS ENDED JANUARY 31 (dollar amounts in 000's)		2006		2005
BARLEY POOL A PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**343**		**109**
Revenue				
Sales returns paid to program	$	45	$	13
		45		13
Expense				
Contracted amounts paid to producers		43		13
		43		13
Net surplus on program operations	**$**	**2**	**$**	**–**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**780 894**		**11 811**
Revenue				
Program discount	$	497	$	20
Net hedging activity		–		50
Liquidated damages		10		–
Net interest		–		17
		507		87
Expense				
Net hedging activity		27		–
Liquidated damages		–		2
Net interest		55		–
Administrative expense		289		–
		371		2
Net surplus on program operations	**$**	**136**	**$**	**85**
TOTAL BARLEY POOL A PROGRAMS	**$**	**138**	**$**	**85**



STATEMENT OF PRODUCER PAYMENT OPTIONS PROGRAM OPERATIONS

FOR THE SIX MONTHS ENDED JULY 31 (dollar amounts in 000's)	2006	2005
BARLEY POOL B PROGRAMS		
FIXED PRICE CONTRACT		
Receipts (tonnes)	–	–
Revenue		
Net hedging activity	$ 1	$ –
	1	–
Expense		
	–	–
Net surplus on program operations	**$ 1**	**$ –**
EARLY PAYMENT OPTION		
Receipts (tonnes)	99 801	428 010
Revenue		
Program discount	$ 66	$ 177
Net hedging activity	1	–
Liquidated damages	6	3
Net interest	–	17
	73	197
Expense		
Pool returns less than contracted price	187	–
Net hedging activity	–	15
Net interest	12	–
Administrative expense	37	–
	236	15
Net surplus (deficit) on program operations	**$ (163)**	**$ 182**
Transfer to pool participants	**–**	**(39)**
TOTAL BARLEY POOL B PROGRAMS	**$ (162)**	**$ 143**

CONTINGENCY FUND

The 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 PPO programs or other sources of revenue received in the course of operations. One of the purposes of the fund is to cover deficits or retain surpluses that may occur as a result of the operation of the PPO programs. *The Act* also requires that all revenue generated, less the cost of operations, be distributed through the pool accounts. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $50 million. During 2005-06, the Minister increased the limit to $60 million through an Order in Council (OIC) approval.

During the year, a $6.7 million net deficit was transferred to the Contingency fund as a result of the PPO programs. In addition, interest earnings on feed barley totalling $789,207 were transferred to the fund. 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 Price 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. In 2005-06, a Daily Price Contract (DPC) was introduced for wheat. It operates similar to an FPC contract, however, the sign-up period ends July 31, and the pricing point is U.S. elevator spot prices.

The Early Payment Option (EPO) provides producers with a greater portion of their expected final pool price at time of delivery, while still allowing them to remain eligible to participate in price gains if pool returns exceed EPO values.

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. In 2005-06, the PDT program included discounts totalling $172 and financing costs of $136.

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

Other

As provided for under *The Canadian Wheat Board Act*, excess 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.

THE EARLY PAYMENT OPTION (EPO) PROVIDES PRODUCERS WITH A GREATER PORTION OF THEIR EXPECTED FINAL POOL PRICE AT TIME OF DELIVERY.

The Contingency fund balance at July 31, 2006 is detailed as follows:

	Producer Payment Options program						**2006**	2005
	Wheat	Durum	Des. barley	Barley	PDT	Other	**Total**	Total
Opening surplus, beginning of year	$ 30,738	$ 404	$ 557	$ 1,698	$ 4	$ 15,211	**$ 48,612**	$ 18,453
Transferred from pool accounts	–	–	–	–	–	789	**789**	2,278
Surplus (deficit) from PPO program	(6,958)	116	140	(24)	36	–	**(6,690)**	27,566
Interest earned	1,010	13	18	60	–	500	**1,601**	315
Closing surplus, end of year	$ 24,790	$ 533	$ 715	$ 1,734	$ 40	$ 16,500	**$ 44,312**	$ 48,612

OUTLOOK

OVERALL, WESTERN CANADA EXPERIENCED AN EXCEPTIONAL HARVEST WITH WARM, DRY TEMPERATURES OVER MOST OF THE GROWING AREA.

The 2006-07 growing season was warmer and drier than that of 2005-06. The season started off with excellent sub-soil moisture for farmers to plant the crop. The majority of the western Canadian growing region experienced slightly below-average rainfall during the growing season. Above-average temperatures on the Prairies helped advance the crop two weeks ahead of normal. Overall, Western Canada experienced an exceptional harvest with warm, dry temperatures over most of the growing area. The result was a good quality crop – the best since 2003.

Looking ahead to the coming marketing year, there are several reasons for optimism. Overall market conditions are expected to be good for wheat, durum and barley. Supply-and-demand developments in several key regions of the world are likely to result in strong demand and prices for grain marketed through the CWB. Two factors could temper the benefits for western Canadian farmers, however: a high Canadian dollar, which would diminish returns, and the inability of Canadian railways to provide the capacity required to move this year's crop.

Milling wheat markets are expected to be strong for most of the 2006-07 marketing year. Global supply-and-demand balance sheets are the tightest in a decade. Supplies have been reduced due to production problems in Argentina, Ukraine, Russia, U.S., EU-25 and Australia. At the same time, wheat demand has been bolstered by strong imports from India, which has a population of more than one billion people. These supply-and-demand fundamentals are expected to bode well for wheat prices in the coming season.

The 2006-07 durum market is poised for improvement after several years of oversupply. Smaller crops in North America, combined with a record CWB durum export program in 2005-06, have tightened the global balance sheet. Durum acres in the U.S. reached their lowest level since 1961. Durum production increased in both Europe and North Africa, which is projected to result in slightly lower global durum imports in the coming year. Overall, demand is expected to exceed production, leading to lower global durum stocks and improved prices.

The barley market environment is anticipated to improve over last year. Global barley production is expected to remain near last year's level, which was five million tonnes below average. Smaller barley crops were harvested in both Canada and the United States. The U.S. is expected to produce the smallest barley crop since 1936. In addition, Australia experienced a drought that dramatically reduced its barley crop. Global crop reductions were tempered by larger barley crops in both Ukraine and Russia. On balance, market conditions look promising for both feed and malting barley in the coming season.

FORWARD-LOOKING STATEMENTS

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 World Trade Organization (WTO) negotiations with regard to the Minister of Finance's guarantee on the CWB 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. Additionally, the Government of Canada announced it will hold a barley plebiscite early in 2007. The outcome of the plebiscite and its impact on the CWB's marketing mandate is unknown at the time of writing this report. The Government of Canada has indicated there will be no changes before the 2008-09 crop year to the CWB's mandate to market wheat.